



**藍帆科技控股有限公司\***

**LINEFAN TECHNOLOGY HOLDINGS LIMITED**

(Continued into Bermuda with limited liability)

Stock Code: 8166

◀ **Interim Report 2008** ▶

\* 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 (“Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (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 revenue increased to approximately HK\$1,685,000 for the six months ended 30 June 2008, representing an increase of approximately 222% as compared to the corresponding period in 2007.

Unaudited loss attributable to equity holders of the Company amounted to HK\$2,642,000 for the six months ended 30 June 2008.

The board of Directors (the "Board") does not recommend the payment of any interim dividend for the six months ended 30 June 2008.

## 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 2008 together with the comparative figures for the corresponding period in 2007.

## CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June,		For the six months ended 30 June,	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Revenue	3	866	174	1,685	523
Cost of sales		(421)	(324)	(769)	(801)
Gross profit/(loss)		445	(150)	916	(278)
Other operating income		75	50	202	98
Distribution costs		(1)	(3)	(1)	(13)
Administrative expenses		(1,422)	(3,528)	(3,021)	(4,980)
<b>Loss from operations</b>	5	<b>(903)</b>	(3,631)	<b>(1,904)</b>	(5,173)
Finance costs	6	(373)	–	(738)	–
<b>Loss before income tax</b>		<b>(1,276)</b>	(3,631)	<b>(2,642)</b>	(5,173)
Income tax	7	–	–	–	–
Loss for the period attributable to equity holders of the Company		<b>(1,276)</b>	(3,631)	<b>(2,642)</b>	(5,173)
Loss per share	9				
– Basic (in HK cents)		<b>(1.65)</b>	(15.41)	<b>(3.42)</b>	(21.96)
– Diluted (in HK cents)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## CONSOLIDATED BALANCE SHEET

		At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
	Notes		
<b>Non-current assets</b>			
Property, plant and equipment		2,047	3,080
Goodwill	10	11,147	9,542
Available-for-sale investment		2,833	2,666
		<b>16,027</b>	15,288
<b>Current assets</b>			
Trade receivables	11	910	651
Other receivables, deposits and prepayments		475	439
Cash and cash equivalents		21,575	23,695
		<b>22,960</b>	24,785
<b>Current liabilities</b>			
Trade payables	12	1,634	848
Other payables and accruals		1,152	2,028
Unsecured loans	13	3,000	4,000
		<b>5,786</b>	6,876
<b>Net current assets</b>		<b>17,174</b>	17,909
<b>Total assets less current liabilities</b>		<b>33,201</b>	33,197
<b>Non-current liabilities</b>			
Convertible preference shares	15	15,483	14,745
<b>Total net assets</b>		<b>17,718</b>	18,452
<b>Capital and reserves</b>			
Share capital	14	7,726	7,726
Reserves		9,992	10,726
<b>Total equity</b>		<b>17,718</b>	18,452

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Net cash used in operating activities	(1,127)	(3,381)
Net cash used in investing activities	(2)	(8)
Net cash (used in)/generated from financing activities	(1,000)	2,000
Net decrease in cash and cash equivalents	(2,129)	(1,389)
Cash and cash equivalents at the beginning of period	23,695	833
Effect of exchange rate changes	9	1,609
Cash and cash equivalents at the end of period	21,575	1,053
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	1,575	1,053
Short-term bank deposits	20,000	–
	21,575	1,053

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the Company									
	Equity component of convertible							Foreign currency translation reserve	Accumulated losses	Total
	Share capital	Share premium	Capital reserve	preference shares	Special reserve	PRC statutory reserve				
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
<b>Balance as at 1 January 2007</b>	23,560	54,459	3,970	-	3,324	3,029	(127)	(59,978)	28,237	
<b>Net expense recognised directly in equity -</b>										
exchange difference arising on translation of PRC operations	-	-	-	-	-	-	(712)	-	(712)	
Loss for the period	-	-	-	-	-	-	-	(5,173)	(5,173)	
<b>Balance at 30 June 2007</b>	23,560	54,459	3,970	-	3,324	3,029	(839)	(65,151)	22,352	
<b>Balance as at 1 January 2008</b>	7,726	-	3,970	4,121	6,026	3,029	3,164	(9,584)	18,452	
<b>Net expense recognised directly in equity -</b>										
exchange difference arising on translation of PRC operations	-	-	-	-	-	-	1,908	-	1,908	
Loss for the period	-	-	-	-	-	-	-	(2,642)	(2,642)	
<b>Balance at 30 June 2008</b>	<b>7,726</b>	<b>-</b>	<b>3,970</b>	<b>4,121</b>	<b>6,026</b>	<b>3,029</b>	<b>5,072</b>	<b>(12,226)</b>	<b>17,718</b>	

## NOTES:

**1. Organisation**

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. The shares of the Company have been listed on GEM since 5 February, 2002. The Company was continued into Bermuda with limited liability with effect from 29 October, 2007 after the proposed change of domicile was approved by the shareholders of the Company on 15 October, 2007.

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. Principal Accounting Policies and Basis of Preparation**

The Group's unaudited consolidated results have been prepared under the historical convention, as modified for the revaluation of financial instruments which have been measured at fair value and in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by HKICPA, accounting principles generally accepted in Hong Kong. They comply with the applicable disclosure provisions of GEM Listing Rules.

The accounting policies and bases of preparation adopted for the presentation of the unaudited interim consolidated results are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December, 2007.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective in the consolidated financial statement.

HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKFRS 3 (Revised)	Business combinations
HKFRS 8	Operating segments
HK (IFRIC) – Int. 13	Customer loyalty programmes

HKAS 1, HKAS 23 and HKFRS 8 shall be applied for annual periods beginning on or after 1 January, 2009. HK(IFRIC) – Int 13 and HKFRS 3 shall be applied for annual periods beginning on or after 1 July, 2008 and 1 July 2009 respectively.

The Group expects that the adoption of the above new or revised HKFRSs is unlikely to have a significant impact on the Group's financial statements for the period of initial application.



### 3. Revenue

Revenue represents invoice value less discounts and value added tax.

	For the three months ended 30 June, 2008		For the six months ended 30 June, 2008	
	(Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	(Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
* Mobile digital multimedia system and software related service relating to voice search engine portal	470	–	972	–
* Voice portal gateway facilities in communication and voice portal application software	150	174	245	523
* Provision for information service relating to voice search engine portal	246	–	468	–
	<b>866</b>	174	<b>1,685</b>	523

\* They are grouped under voice portal segment operated by a major subsidiary, Unlimited Business Opportunity Communications Technology Company Limited.

### 4. 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 comprises two primary business segments which are: (i) The KM system engage in the business of sale, development and implementation of new standard knowledge, integration system and KM related network application system and technology; (ii) The voice portal segment engages in the provision of voice search engine portal.

**Business Segments**

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

	For the six months ended 30 June					
	KM System		Voice portal		Consolidated	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Segment revenue:						
Revenue	-	-	1,685	523	1,685	523
Segment results	(1,045)	(1,538)	656	(913)	(389)	(2,451)
Interest income					35	-
Unallocated corporate expenses					(1,550)	(2,722)
Loss from operations					(1,904)	(5,173)
Finance costs					(738)	-
Loss for the period					(2,642)	(5,173)

**5. Loss from Operations**

Loss from operations has been arrived at after charging/(crediting) the following items:

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
After charging:–		
Directors' remuneration	62	37
Total staff costs (excluding directors' remuneration)	606	687
Depreciation	1,025	1,223
Amortisation of intangible assets	-	411
Auditors' remuneration	230	206
Impairment loss on goodwill	-	3,572
After crediting:–		
Exchange gain	-	1,961
Bank interest income	35	-

**6. Finance Costs**

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Effective interest on convertible preference shares	<b>738</b>	–

**7. Income Tax**

The Group's primary operations are carried out in the PRC. The tax rate for the period ended 30 June 2008 and 2007 respectively applicable to the Group is 25% and 33% respectively, except for Unlimited Business Opportunity Communications Technology Company Limited, a PRC operating subsidiary of the Group, which was officially recognized 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%. The PRC subsidiaries of the Group have incurred losses for the period and no provisions for PRC income tax are required. 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 and its subsidiary operated in Hong Kong have made no assessable profit for the period.

No deferred tax asset has been recognized due to the unpredictability of future profits streams.

**8. Dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: nil).

**9. Loss per Share**

The calculation of the Group's basic loss per share for the three months and six months ended 30 June 2008 and 2007 respectively is based on the respective unaudited consolidated loss attributable to equity holders of HK\$1,276,000 (2007: HK\$3,631,000) and HK\$2,642,000 (2007: HK\$5,173,000), and the weighted average of 77,259,969 (2007: restated 23,559,969) shares of HK\$0.1 each in issue during the three months and six months ended 30 June 2008 and 2007.

The comparative figures of basic loss per share for the three months and six months ended 30 June 2007 is restated to take into effect of share consolidation on the basis of every ten shares in issue being consolidated into a consolidated share, details of which are set out in the circular of the Company dated 21 September 2007.

No diluted loss per share for the three months and six months ended 30 June 2008 and 2007 respectively has been presented as the Company had no dilutive potential shares during the three months and six months ended 30 June 2008 and 2007 respectively.

**10. Goodwill**

HK\$'000

Cost:	
At 1 January 2007	22,847
Exchange adjustments	2,626
At 31 December 2007	25,473
Exchange adjustments	1,605
At 30 June 2008	27,078
Impairment:	
At 1 January 2007	-
Impairment loss recognised	15,931
At 31 December 2007	15,931
Impairment loss recognised	-
At 30 June 2008	15,931
Carrying Amounts:	
At 30 June 2008	11,147
At 31 December 2007	9,542

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill is allocated to the voice portal business segment.

**11. Trade Receivables**

The Group generally allows an average credit period ranging from 90 days to 183 days to its trade customers. The following is an aged analysis of trade receivables:

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
0 to 90 days	<b>651</b>	639
91 to 180 days	<b>123</b>	12
181 to 365 days	<b>136</b>	-
	<b>910</b>	651

**12. Trade payables**

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
0 to 60 days	<b>338</b>	29
61 to 120 days	<b>336</b>	22
121 to 365 days	<b>57</b>	73
Over 1 year	<b>903</b>	724
	<b>1,634</b>	848

**13. Related Party Transactions**

Unsecured loans represent loans from the following related parties:-

- i) Loan from Mr. Dai Fan, a substantial shareholder and also a director of the Company, decreased from \$3 million as at 31 December 2007 to \$2 million as at 30 June 2008; and
- ii) Loan from Ms. Lu Wen Bin, another shareholder of the Company, remained at \$1 million during the period.

The loans are unsecured, non-interest bearing and have no fixed repayment terms.

**14. Share Capital**

	<b>Nominal value per share HK\$</b>	<b>Number of shares</b>	<b>Amount HK\$'000</b>
<i>Authorised:</i>			
At 31 December 2005, 2006 and 1 January 2007	0.1	500,000,000	50,000
Creation of CP Shares (note (b))	0.1	(173,913,043)	(17,391)
At 31 December 2007 and 30 June 2008	0.1	326,086,957	32,609
<i>Issued and fully paid:</i>			
At 31 December 2005, 2006 and 1 January 2007	0.1	235,599,690	23,560
Effect of Share Consolidation (note (a)(i))		(212,039,721)	(21,204)
Issue of New Shares (note (c))	0.1	53,700,000	5,370
At 31 December 2007 and 30 June 2008	0.1	77,259,969	7,726

Note:

As announced by the Company on 30 August 2007, the Company proposed to effect a capital restructuring ("Capital Restructuring") and connected transactions in relation to subscription of New Shares ("New Shares Subscription") and Convertible Preference Shares ("CP Shares Subscription") by DaHua International (Group) Limited ("DaHua"). Details of the Capital Restructuring and share subscriptions are set out in the Circular.

At the extraordinary general meeting of the Company held on 15 October 2007,

- (a) Ordinary and special resolutions approving the Capital Restructuring were passed and the following capital reorganisation became effective on 29 October 2007:
  - (i) a share consolidation pursuant to which every ten ordinary shares of HK\$0.10 each in the issued share capital of the Company were consolidated into one consolidated share of HK\$1.00 each ("Share Consolidation");
  - (ii) a capital reduction of approximately HK\$21.2 million which involved a reduction of the nominal value of each consolidated share then in issue from HK\$1.00 to HK\$0.10 by cancelling the paid-up capital to the extent of HK\$0.90 on each of such consolidated share ("Capital Reduction");
  - (iii) the cancellation of the entire amount of approximately HK\$54.5 million standing to the credit of the share premium account ("Share Premium Cancellation");
  - (iv) the credit arising from the Capital Reduction and Share Premium Cancellation of the Company, which amounted to approximately HK\$75.7 million was transferred to the contributed surplus account of the Company to set off against the accumulated losses of the Company as at 30 June 2007; and
- (b) A special resolution was passed such that upon the Capital Reduction becoming effective, 173,913,043 new convertible preference shares ("CP Shares") of HK\$0.10 each be created in the capital of the Company such that the authorised share capital of the Company of HK\$50,000,000 shall comprise HK\$32,608,695.70 divided into 326,086,957 ordinary shares of HK\$0.10 each and HK\$17,391,304.30 divided into 173,913,043 CP Shares; and
- (c) An ordinary resolution was passed to approve the New Shares Subscription and allotment to DaHua of 53,700,000 new shares with par value of HK\$0.10 per share; and
- (d) An ordinary resolution was passed to approve the CP Shares Subscription by DaHua and the allotment to DaHua of 173,913,043 CP Shares.

**15. Convertible Preference Share:**

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$'000</i>
<i>Authorised:</i>		
At 6 November 2007, 31 December, 2007 and 30 June 2008	173,913,043	17,391
Issued on 6 November 2007 and balance at 31 December, 2007 and 30 June 2008	173,913,043	17,391

Pursuant to the passing of the ordinary resolution as set out in note 14(d) above, 173,913,043 CP Shares with nominal value of HK\$0.10 each were issued at a total cash consideration of HK\$20 million on 6 November 2007.

The principal terms of the CP Shares include the following:

**(i) Dividend**

No dividends shall accrue or be paid upon the CP Shares until 31 December 2007. An accrued dividend at the rate of 3% of par value will be paid annually.

**(ii) Capital**

On a return of capital on liquidation or otherwise (but not on conversion), the holders of the CP Shares ("CP Shareholders") shall have the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company up to an amount equal to the aggregate notional value of \$20 million (equivalent to approximately HK\$0.115 per CP Share).

**(iii) Redemption**

The Company shall redeem all of the CP Shares at par plus the accrued and unpaid dividends at the maturity date falling five years from the date of allotment and issue of CP Shares.

**(iv) Conversion rights**

Each CP Shareholder shall have the right to convert at any time any CP Share, which shall be deemed to have a value equal to the notional value thereof, into ordinary shares at the conversion price of HK\$0.115 per share, subject to adjustment provisions which are standard terms for convertible securities of similar type.

Each CP Shareholder shall exercise the conversion right attaching to the CP Shares only if it has been confirmed by the Company in writing that the allotment and issue of the ordinary shares to such CP Shareholder and the Company will only issue the ordinary shares pursuant to an exercise of such conversion right if such issue will not cause the Company to be in breach of the minimum public float requirement of not less than 25% as stipulated under Rule 11.23 of the GEM Listing Rules.

**(v) Transferability**

The CP Shares may be freely transferable subject to the provision of the Company's Bye-laws relating to the transfer of shares and share certificates and provided that no transfer of a CP Share shall be effected within a period of six months commencing on the date of issue of such CP Share.

**(vi) Voting**

The CP Shareholders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if passed would vary or abrogate the rights or privileges of the CP Shareholders.

The net proceeds received from the issue of the CP Shares contain two components:

- (a) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the effective interest rate of 10.27% per annum.
- (b) Equity component represents the difference between the proceeds of issue of the CP Shares and the fair value assigned to the liability component.

Movements of the CP Shares are as follows:

	<b>Liability Component</b> <i>HK\$'000</i>	<b>Equity Component</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
CP Shares on 6 November 2007	15,580	4,420	20,000
Expense on issue	(1,054)	(299)	(1,353)
Net proceeds	14,526	4,121	18,647
Interest charged for the period from 6 November to 31 December 2007	219	–	219
At 31 December 2007	14,745	4,121	18,866
Interest charged for the period from 1 January to 30 June 2008	738	–	738
At 30 June 2008	15,483	4,121	19,604

During the six months ended 30 June, 2008, none of the CP Shares was converted into ordinary shares.



**16. Operating Lease Commitments**

At 30 June, 2008, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>As at 30 June 2008 (Unaudited) HK\$'000</b>	As at 30 June 2007 (Unaudited) HK\$'000
Within one year	<b>361</b>	354
In the second to fifth year inclusive	<b>100</b>	136
	<b>461</b>	490

**17. Comparative Figures**

Certain comparative figures have been reclassified to conform with the current period's presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### ***Local collaboration and opening up of the application markets for industry***

In the first half of 2008, the Group continued its collaboration in value-added telecommunications business with Shandong Unicom, Beijing Unicom and Heilungkiang Unicom, all of which are subsidiaries of China Unicom. By capitalising on its capability in developing the mobile voice portal search technology, the Group has further expanded its market into the sectors related to voice portal application software technology, and thus strengthened the revenue of the Group.

### Financial Review

For the six months ended 30 June, 2008, the revenue of the Group was increased to approximately HK\$1,685,000 from HK\$523,000 for six months ended 30 June 2007, representing an increase in turnover of 222%. Such increase was mainly due to the change of the corporate's market strategy in exploring new market by taking its advantages of voice portal software technology.

Administrative expenses for the period under review decreased to approximately HK\$3,021,000 for 1st half year of 2008 from approximately HK\$4,980,000 for 1st half year of 2007 because of impairment loss on goodwill in respect of subsidiary and amortisation of intangible assets recognized in the last corresponding period.

In addition, the finance costs increased by HK\$738,000 (2007: Nil) which was attributable to the effective interest on convertible preference shares.

Accordingly, the Group recorded a loss attributable to equity holders of the Company for the amount of HK\$2,642,000 as compared to the loss attributable to equity holders of the Company approximately HK\$5,173,000 for the corresponding period last year.

## Outlook

Following endorsement of the proposals for the restructuring of telecom operators and the granting of the 3G licenses, the value-added telecommunications business is expected to benefit. The major reasons are: (1) SP value-added wireless services ("SP") will be able to launch the value-added telecommunications business with three operators, so that there will be wider range of products and more sales channels. At present, mobile networks is the major focus of SP's value-added telecommunications business. Prior to the restructuring, China Mobile and China Unicom were the only two mobile operators while there will be three mobile operators after the restructuring, leading to more opportunities for SP to explore more new businesses so as to increase income sources. (2) Additional mobile operators is likely to bring about competitions among the mobile operators. This will improve the complete passive status of SP in this sector. (3) Applying 3G in commercial business is the key of embracing great development opportunities for value-added telecommunications business, and the potential can be enormous. With the current constraints on the bandwidths of 2.5G network, and 2.75G network in some places, only value-added services with small amount of data transmission can be provided. Users can just obtain considerably limited value and experiences from usage. With the prompt data transmission offered by the 3G wireless network, the wireless LAN make it possible to deliver richer and more practical value-added telecommunications services, and that the value-added telecommunications business will become capable of capturing great business prospect. The impact of restructuring of operators on the value-added telecommunications business is expected to be shown in the beginning of 2009. We expect the Company's new collaborations will be commenced within one year from mid-2008.

We keep striving for improvements in the current business. At the same time, we have been active in searching for any possibility to establish collaborations with certain potential investors so as to create a better platform for the development of the Group.

## Segmental information

Details have been set out in Note 4 "Business and Geographical Segments" of the notes to the consolidated financial statements. During the period under review, the revenue of the Group represents the voice portal segment engage in the provision of voice search engines portal and all are generated from the PRC market.

**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 2008.

**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). 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**

The Group has a zero gearing ratio (2007: 0%) as calculated by net debts (i.e. total borrowings minus cash and cash equivalents) over total equity.

**Liquidity and Financial Resources**

The Group financed its business operations with internally generated cash flows, unsecured loans, issued new shares and convertible preference shares. During the period under review, the Group operated a prudent treasury measure to ensure that no unnecessary risks were taken with the Group's assets. No risky investments were made other than cash and placement of short-term bank deposits in a Hong Kong licensed bank. As at 30 June 2008, the cash and cash equivalents balance of the Group was approximately HK\$21,575,000 (31 December 2007: HK\$23,695,000).

As at 30 June 2008, current assets and current liabilities amounted to approximately HK\$22,960,000 (31 December 2007: HK\$24,785,000) and HK\$5,786,000 (31 December 2007: HK\$6,876,000) respectively. Total equity attributable to equity holders of the Company amounted to approximately HK\$17,718,000 as at 30 June 2008 as compared to HK\$18,452,000 as at 31 December 2007.

## Capital Structure

As at 30 June 2008, the issued share capital of the Company comprised HK\$7,725,997 divided into 77,259,969 ordinary shares of HK\$0.1 each and HK\$17,391,304 divided into 173,913,043 convertible preference shares of HK\$0.1 each. During the period under review, the existing capital structure had no changes and none of the CP Shares were converted into ordinary shares.

## Significant investments

As at 30 June 2008, the Group did not have any significant investments.

## Material acquisitions and disposals

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

## EMPLOYEES

As at 30 June 2008, the Group had 17 employees who were working on full-time basis. Staff costs, including directors' remuneration, of the Group for the six months ended 30 June 2008 totalled approximately HK\$668,000.

The Group decides the remuneration and compensation payable to its staff based on individual performance and expertise. Apart from 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.

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

Save as disclosed in this report, as at 30 June 2008, neither the Company nor any of its subsidiaries was party to any arrangement to enable the directors or chief executive 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 executive of the Company, 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 2008, the interest and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

<b>Name of director or chief executive</b>	<b>The Company/ name of associated corporation</b>	<b>Capacity/ nature of interest</b>	<b>Number of share <i>(Note 1)</i></b>	<b>Approximate percentage of interests</b>
Zhu Guang Bo	Company	Interest of controlled corporation	3,066,000 shares (L) (each a "Share") of HK\$0.1 each of the Company <i>(Note 2)</i>	3.97%
Dai Fan	Company	Beneficial owner	1,162,500 Shares (L)	1.50%
	Company	Interest of controlled corporation/ Interest of spouse	227,628,043 Shares (L) <i>(Notes 3 and 4)</i>	294.63%
	DaHua	Beneficial owner	1 share of US\$1 each (L)	50%
	DaHua	Interest of spouse	1 share of US\$1 each (L) <i>(Note 4)</i>	50%

*Notes:*

1. The letter "L" represents the interests in shares or underlying shares of the Company or its associated corporation.
2. These Shares were held by World Develop Limited, a company wholly-owned by Mr. Zhu Guang Bo, an executive Director.
3. These Shares comprise 53,715,000 Shares held by DaHua and 173,913,043 CP Shares that may be allotted and issued to DaHua upon conversion in full at an initial conversion price of HK\$0.115 per conversion share of the Company's unlisted CP Shares allotted and issued to DaHua pursuant to a subscription agreement entered into between the Company and DaHua on 23 August 2007 (as supplemented by an agreement dated 29 August 2007). The entire issued share capital of DaHua is equally owned by Mr. Dai Fan and his wife, Ms. Li Yijin.
4. Mr. Dai Fan is the spouse of Ms. Li Yijin and is therefore deemed to be interested in these shares held by Ms. Li Yijin.

Saved as disclosed above, as at 30 June 2008, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors.

### **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 anytime during the period.

### **CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS**

No contract of significance entered into between the Group and a controlling shareholder or any of its subsidiaries subsisted at end of the period or at any time during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, so far as was known to the directors of the Company, the following persons, other than the directors and chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

<b>Name of person</b>	<b>Capacity/ nature of interest</b>	<b>Number of share</b> <i>(Note 1)</i>	<b>Approximate percentage of interest</b>
Lu Wen Bin	Beneficial owner	4,439,391 Shares (L)	5.76%
DaHua	Beneficial owner	227,628,043 Shares (L) <i>(Note 2)</i>	294.63%

*Note:*

1. The letter "L" represents the interests in shares of HK\$0.1 each in the share capital of the Company or the underlying shares of the Company.
2. These Shares comprise 53,715,000 Shares held by DaHua and 173,913,043 CP Shares that may be allotted and issued upon conversion in full at an initial conversion price of HK\$0.115 per conversion Share of unlisted CP Shares allotted and issued to DaHua pursuant to a subscription agreement entered into between the Company and DaHua on 23 August 2007 (as supplemented by an agreement dated 29 August 2007). The entire issued share capital of DaHua is equally owned by Mr. Dai Fan and his wife, Ms. Li Yijin.

Other than as disclosed above, as at 30 June 2008, no other person had an interest or short position in the shares and underlying shares of the Company.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme on 24 January, 2002 (the "Share Option Scheme").

No share option granted under the Share Option Scheme remained outstanding as at 31 December, 2007 and 30 June, 2008. During the period under review, no share option had been granted by the Company under the Share Option Scheme.



## REPURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period under review, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## COMPETING INTERESTS

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or any of their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

## THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules ("**CG Code**") throughout the six months ended 30 June 2008, except the following deviations:

Under Code Provisions E.1.2, the chairman of the Board should attend the annual general meeting ("AGM") and arrange for the chairmen of the audit, remuneration and nomination committees as appropriate or in the absence of the chairmen of such committees, another member of the committee or failing this his duly appointed delegate, to be answered questions at the annual general meeting. The chairman of the board was not present at the 2008 AGM, which was held on 13 June 2008, due to business trips. He delegated to Mr. Dai Fan, an executive director and chief executive officer of the Company to chair that AGM and made arrangement to answer questions from shareholders on behalf of the committee chairmen at that AGM. Saved as disclosed above, the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules for the six months ended 30 June 2008.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Company was not aware of any non-compliance with the required standard as set out in such code of conduct regarding securities transactions by the directors throughout the six months ended 30 June 2008.

## AUDIT COMMITTEE

The Company established an audit committee on 31 July 2001. It has written terms of reference in compliance with the code provisions of the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently comprises Mr. Chan, Peter Yat Tung, Mr. Feng Jue Ming and Mr. Zhang Gong who are the independent non-executive directors of the Company. The chairman of the audit committee is Mr. Chan, Peter Yat Tung.

The unaudited consolidated results of the Group for the six months ended 30 June 2008 have been reviewed by the audit 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, 29 July 2008

As at the date of this report, the Board comprises of:

Mr. Wang Yong (*Chairman and Executive director*)

Mr. Dai Fan (*Chief Executive Officer and Executive director*)

Mr. Zhu Guang Bo (*Executive director*)

Mr. Chan, Peter Yat Tung (*Independent non-executive director*)

Mr. Feng Jue Min (*Independent non-executive director*)

Mr. Zhang Gong (*Independent non-executive director*)