



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

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2002

\* for identification purpose only

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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, 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 bases and assumptions that are fair and reasonable.



## HIGHLIGHTS

Turnover for the three months ended 31 March 2002 was approximately HK\$10,897,000.

Net profit from ordinary activities attributable to shareholders amounted to approximately HK\$4,803,000 for the period under review.

To retain cash flow for future development. The Board of Linefan Technology Holdings Limited does not recommend the payment of an interim dividend for the three months ended 31 March 2002.



## UNAUDITED QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2002

The board of directors (the "Board") of Linefan Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2002 together with the unaudited comparative figures for the corresponding period in 2001 as follows:

	Notes	For the three months ended 31 March	
		2002 HK\$'000	2001 HK\$'000
Turnover	2	<b>10,897</b>	1,953
Cost of sales		<b>(1,033)</b>	(187)
Gross profit		<b>9,864</b>	1,766
Other income		<b>77</b>	—
Selling expenses		<b>(115)</b>	(37)
Administrative expenses		<b>(5,130)</b>	(1,674)
Profit from operations		<b>4,696</b>	55
Amortisation of goodwill		<b>(116)</b>	(116)
Finance costs		<b>(7)</b>	(8)
Profit/(Loss) before taxation		<b>4,573</b>	(69)
Taxation	3	<b>—</b>	—
Profit/(Loss) after taxation but before minority interests		<b>4,573</b>	(69)
Minority interests		<b>230</b>	83
Net profit attributable to shareholders		<b>4,803</b>	14
Earnings per share	4		
— Basic		<b>HK0.7252 cents</b>	HK0.0021 cents



Notes:

## **1. GROUP REORGANISATION AND BASIS OF PREPARATION**

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 of The Stock Exchange of Hong Kong Limited ("GEM"), the Company became the holding company of the Group upon completion of the Group Reorganisation on 24 January 2002. Further details of the Group Reorganisation are set out in the Company's prospectus dated 28 January 2002 (the "Prospectus"). The Company's shares were listed on GEM on 5 February 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated results of the Group for the three months ended 31 March 2002 have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. The results of the Group for the three months ended 31 March 2001 has been prepared as if the Group Reorganisation had been effective since 1 January 2001. The directors consider that this basis provides meaningful information for shareholders as regards the historical performance of the companies now comprising the Group.

The unaudited consolidated results of the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principle generally accepted in Hong Kong, the disclosure requirement of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules").

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

## **2. TURNOVER**

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

## **3. TAXATION**

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period under review and the corresponding period in 2001.



No provision for the People's Republic of China ("PRC") income tax has been made. In accordance with the applicable enterprise income tax law of the PRC, one of the Group's operating subsidiaries in the PRC is entitled to enjoy the exemption from income tax for its first two profitable years of operations which commenced in year 2001, and is entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding three years thereafter. In addition, one of the Group's subsidiaries was officially awarded as Beijing Hi-Tech Enterprise by the Beijing Municipal Government in May 1999, and is eligible to receive preferential treatment to be charged the income tax at the rate of 15%. Moreover, under the aforesaid PRC's enterprise income tax law, it is also entitled to enjoy the exemption from income tax for its first three profitable years of operations which will commence in year 2002, and is entitled to a 50% relief on the income tax that would otherwise be charged for succeeding three years thereafter.

#### **4. EARNINGS PER SHARE**

The calculation of basic earnings per share for the three months ended 31 March 2002 is based on the Group's unaudited consolidated net profit attributable to the shareholders of approximately HK\$4,803,000 (2001: approximately HK\$14,000) and the weighted average number of 662,322,558 (2001: 662,322,558) in issue during the period.

The weighted average number of 662,322,558 shares for the corresponding period in 2001 is determined on the assumption that the Group Reorganisation and the subsequent capitalisation issue of the Company had been effective during corresponding period in 2001.

There is no dilutive potential shares in issue during the periods ended 31 March 2002 and 2001.

#### **5. COMPARATIVE FIGURES**

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



## INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2002 (three months ended 31 March 2001: Nil).

## RESERVES

	Share premium	Capital reserve	PRC		Accumulated profits	Total
			Statutory reserve	Exchange reserve		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2002	2,809,908	3,970,203	1,488,029	55,067	17,229,702	25,552,909
Issue of new shares and capitalisation issue	28,651,000	—	—	—	—	28,651,000
Exchange adjustments	—	—	—	241,235	—	241,235
Profit for the period	—	—	—	—	4,803,000	4,803,000
At 31 March 2002	31,460,908	3,970,203	1,488,029	296,302	22,032,702	59,248,144
At 1 January 2001	2,809,908	3,970,203	—	(130,553)	3,560,343	10,209,901
Exchange adjustments	—	—	—	209,406	—	209,406
Profit for the period	—	—	—	—	14,000	14,000
At 31 March 2001	2,809,908	3,970,203	—	78,853	3,574,343	10,433,307

At 31 March 2002, the net balance of share premium has increased by approximately HK\$28,651,000 after deduction of placing and listing expenses. An increase in share premium was a result of placing of its shares on GEM and capitalisation issue upon Group Reorganisation.



## FINANCIAL REVIEW

The Group has achieved a satisfactory growth in the operational results of the first quarter of year 2002. For the three months ended 31 March 2002, the Group has accomplished a revenue of approximately HK\$10,897,000 and a net profit of approximately HK\$4,803,000. This represented a substantial growth of approximately 4.58 times in revenue as compared to the corresponding period in the previous year. It was attributable to the successful results of the Group's Knowledge Management (the "KM") products launched continuously starting mainly from the second quarter of the year 2001. Gross profit margin remained at the level of approximately 90%.

During the period under review, the administrative and selling expenses accounted for the majorities of the operational expenses. The administrative expenses comprised primarily of directors' and staff remuneration which increased to approximately HK\$5,130,000 due to the employment of additional staff in line with the increased revenue compared to approximately HK\$1,674,000 in the corresponding period in the previous year. The selling expenses amounted to approximately HK\$115,000 as compared to approximately HK\$37,000 in the corresponding period in the previous year, which were primarily comprised of advertising and promotional expenses, and traveling expenses.

The Company was listed on GEM through a placement of 220,000,000 shares on 5 February 2002. The net proceeds from the placement, after the deductions for relevant expenses, was approximately HK\$39,000,000. The Group intends to apply these proceeds in the manner disclosed in the Prospectus. For the period under review, the Group financed its operations with its own working capital and an overdraft facility for a limit of HK\$200,000 extended by a bank to its subsidiary in Hong Kong. As of 31 March 2002, the Group had total assets of approximately HK\$74,000,000, including cash and bank balances of approximately HK\$32,000,000. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.





## **BUSINESS REVIEW**

The Group continues to develop both knowledge acquisition technology and natural language processing technology applied in KM systems. Amongst, the Group achieved approximately 70% accuracy in these two kinds of technology in Chinese information systems in general terms and approximately 80% accuracy in specialised industries. Based on the improved technology, the Group not only enhanced the standard of the products but also provided better coverage and effective total solutions to its customers.

During the period under review, in addition to the existing KM products launched, the Group completed the development of the Linefan knowledge management platform 1.0, and had supplied to several customers. This 1.0 version can primarily be categorised into three core modules for stand alone user, cross platform communicating, and enquiry management uses. The basic infrastructural design for the 2.0 beta version was also fixed, which will cover identity verification systems, work flow management and customer base management. Besides, the Group also developed other products such as Linefan i-Office and Linefan contents management systems.

## **OUTLOOK**

The Group will continue to strengthen its research and development of knowledge acquisition technology and natural language processing technology. As such, the Group will continue to enhance its products and develop new KM systems and KM related network application systems. The Group will also focus on development of KM total solutions, currently, an information investigation system is under development. This is a powerful system in the aspects of information search, recording and analysing designed for higher level customers which require accurate and timely information.



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

As at 31 March 2002, the interests of the directors and chief executive of the Company in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### I. Interest in the Company

<b>Name of director</b>	<b>No. of shares held</b>			
	<b>Personal Interests</b>	<b>Family Interests</b>	<b>Corporate Interests</b>	<b>Other Interests</b>
Mr. Zhu Zhaofa ( <i>note</i> )	—	—	196,054,943	—

*Note:* There shares are registered in the name of Capital Shares Group Limited. Mr. Zhu Zhaofa is the owners of 83.85% of the issued share capital of Capital Shares Group Limited. Under the SDI Ordinance, Mr. Zhu is deemed to be interested in all the shares registered in the name of Capital Shares Group Limited.

### 2. Interest in the associated corporations

<b>Name of director</b>	<b>No. of shares held</b>			
	<b>Personal Interests</b>	<b>Family Interests</b>	<b>Corporate Interests</b>	<b>Other Interests</b>
Mr. Tam Yiu Wing	450*	—	—	—
Mr. Tam Yiu Wing	—	—	100 <sup>#</sup>	—



Notes:

\* Name of associated corporation: Affluent Resources Limited

These shares are registered in Mr. Tam's own name. The remaining 55% interest in Affluent Resources Limited is registered in the name of Chineseroad Incorporated.

# Name of associated corporation: Karson Consultants Limited

These shares are registered in the name of Affluent Resources Limited. Mr. Tam is the owner of 45% of the issued share capital of Affluent Resources Limited. Under the SDI Ordinance, Mr. Tam is deemed to be interested in all the shares registered in the Affluent Resources Limited. Since Karson Consultants Limited is a wholly-owned subsidiary of Affluent Resources Limited, Mr. Tam is also deemed to be interested in all shares in Karson Consultants Limited registered in the name of Affluent Resources Limited.

Save as disclosed above, as at 31 March 2002, none of the directors and chief executive of the Company or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As at 31 March 2002, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.



## SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed herein in respect of the directors and chief executive of the Company or their respective associates, the register of substantial shareholders maintained under the Section 16(1) of the SDI Ordinance shows that as at 31 March 2002, the Company had the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of shareholding</b>
Capital Shares Group Limited ( <i>Note 1</i> )	196,054,943	21.10%
Mr. Zhu Zhaofa ( <i>Note 2</i> )	196,054,943	21.10%
Ocean Grand Technology Company Limited ("OGTCL") ( <i>Note 3</i> )	168,830,952	18.17%
Ocean Grand Holdings Limited ("OGHL") ( <i>Note 3 and 4</i> )	168,830,952	18.17%

Notes:

1. Capital Shares Group Limited is beneficially-owned by Mr. Zhu Zhaofa and Ms. Xue Wanjuan (spouse of Mr. Zhu), as to 83.85% and 16.15% respectively.
2. The shares are registered in the name of Capital Shares Group Limited, Mr. Zhu is interest in 83.85% of the issued share capital of Capital Shares Group Limited and is deemed to be interested in all the shares registered in the name of Capital Shares Group Limited under the SDI Ordinance.
3. OGTCL is a wholly-owned subsidiary of OGHL, a company listed on the main board of The Stock Exchange of Hong Kong Limited.
4. The shares are registered in the name of OGTCL. OGHL is interested in the entire issued share capital of OGTCL and is deemed to be interested in all the share registered in the name of OGTCL under the SDI Ordinance.



## **SHARE OPTION SCHEME**

Pursuant to a written resolution passed at the special general meeting of the Company on 24 January 2002, the Company conditionally adopted the share option scheme, the principal terms of which are set out in the section headed “Share Option Scheme” in appendix V to the Prospectus. Up to 31 March 2002, no option has been granted by the Company pursuant to such share option scheme.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The shares of the Company commenced trading on GEM on 5 February 2002. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2002.

## **SPONSOR'S INTEREST**

As updated and notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the “Sponsor”), as at 31 March 2002, neither of the Sponsor, nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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



## COMPETING INTERESTS

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

## AUDIT COMMITTEE

The Company established an audit committee on 31 July, 2001 with written terms of reference in compliance with rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee currently comprises Dr. Yu Xiao Jun and Mr. Lee Kwan Ho, Vincent Marshall, who are the independent non-executive Directors of the Company. The Group's unaudited quarterly results for the three months ended 31 March 2002 have been reviewed by the audit committee, who was of the opinion that such results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

By Order of the Board

**Zhu Zhaofa**

*Chairman*

Hong Kong, 10 May 2002