

2002 Third Quarterly Report 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 the 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 a 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.

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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 (the "Directors") of LINEFAN TECHNOLOGY HOLDINGS LIMITED (the "Company") 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 (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.

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HIGHLIGHTS

Turnover for the three months and nine months ended 30 September 2002 was approximately HK\$12,501,000 and HK\$34,885,000 respectively.

Profit attributable to shareholders amounted to approximately HK\$4,300,000 and HK\$12,688,000 respectively for the three months and nine months ended 30 September 2002.

To retain cash flow for future development. The board of directors (the "Board") of the Company does not recommend the payment of an interim dividend for the nine months ended 30 September 2002.



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UNAUDITED CONSOLIDATED QUARTERLY RESULTS

The Board would like to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2002 together with the comparative figures for the unaudited corresponding period in 2001 which have been reviewed by the audit committee of the Company.

CONSOLIDATED RESULTS

		(Unaudited)		(Unaudited)		
		For the three months		For the nine months		
		ended 30 S	eptember	ended 30 September		
		2002	2001	2002	2001	
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	2	12,501	6,096	34,885	15,090	
Cost of sales	_	(1,150)	(434)	(3,457)	(914)	
Gross profit		11,351	5,662	31,428	14,176	
Other income		17	141	155	165	
Selling expenses		(311)	(267)	(601)	(336)	
Administrative expenses		(5,838)	(1,796)	(17,602)	(5,475)	
PROFIT FROM OPERATIONS		5,219	3,740	13,380	8,530	
Amortization of goodwill Finance costs		(137)	(47) (4)	(369) (7)	(278) (11)	
Share of results of associates		(110)	(+)	(158)	(11)	
Loss on disposal of a subsidiary		(983)	_	(983)		
PROFIT BEFORE TAXATION Taxation	3	3,989 —	3,689 —	11,863 —	8,241 —	
				1		
Profit/(Loss) after taxation but before minority interests		3,989	3,689	11,863	8,241	
Minority interests		311	(9)	825	(205)	
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		4,300	3,680	12,688	8,036	
Earnings per share						
— Basic (in HK cents)	4	0.46	0.52	1.51	1.13	

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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 the 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 GEM, the Company became the holding company of the Group formed after the completion of the Group Reorganisation on 24 January 2002. Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 28 January 2002 (the "Prospectus").

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, these consolidated results of the Group for the three months and nine months ended 30 September 2002 have been prepared on the basis as if the Company had always been the holding company of the Group. The results of the Group for the three months and nine months ended 30 September 2001 have 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 shares of the Company were listed on the GEM on 5 February 2002.

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 principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

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 has no assessable profit in Hong Kong for the nine months ended 30 September 2002.

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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 exemption for income tax for its first two profitable years of operations and is entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding three years. In addition, one of the subsidiaries was officially awarded as Beijing Hi-Tech Enterprise by the Beijing Municipal Government in May 1999, and is eligible to receive preferential treatment which entitles it to charge at the rate of 15%. Moreover, it is also entitled to a 50% relief on the income tax that would otherwise be charged for succeeding three years. The Group's PRC subsidiaries have either tax losses available or are exempt from income taxes as they are in their first two profitable years of operations.

4. Earnings per share

The calculation of basic earnings per share for the three months and nine months ended 30 September 2002 is based on the respective unaudited consolidated profit attributable to shareholders for the period of approximately HK4,300,000 and HK\$12,688,000 respectively (2001: approximately HK\$3,680,000 and HK\$8,036,000 respectively) and the weighted average number of approximately 929,090,000 and 840,821,361 respectively (2001: approximately 709,090,000 and 709,090,000 respectively) shares in issue during the three months and nine months ended 30 September 2002.

The weighted average number of 709,090,000 shares for the corresponding period in 2001 is determined on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 200,000,000 shares of the Company had been effective since 1 January 2001.

No diluted earnings per share has been presented for the three months and nine months ended 30 September 2002 as there is no dilution event in existence during such periods.



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5. Reserves

		PRC						
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 31 December 2001	521	2,810	3,970	_	1,488	55	17,230	26,074
Arising from Group Reorganisation Issue of new shares by way of	(514)	(2,810)	-	3,324	-	_	-	-
capitalisation Issue of shares under	7,084	(7,084)	-	_	-	-	-	-
the placing	2,200	50,600	_	_	_	_	_	52,800
Share issue expenses	_	(15,077)	_	_	_	_	_	(15,077)
Exchange adjustment	_	_	_	_	_	148	_	148
Profit for the period				_			12,688	12,688
At 30 September 2002	9,291	28,439	3,970	3,324	1,488	203	29,918	76,633

The capital reserve of the Group represents contributions from shareholders of the PRC subsidiaries.

The contributed surplus of the Company arose from a Group Reorganisation on 24 January 2002. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' fund of Chineseroad Incorporated.

PRC statutory reserve are reserves required by the relevant PRC law applicable to the Groups PRC subsidiaries.

DIVIDEND

The Board does not recommend the payment of interim dividend for the nine months ended 30 September 2002 (2001: Nil).

FINANCIAL REVIEW

The Group has achieved a satisfactory growth in the operational results of the third quarter of year 2002. For the nine months ended 30 September 2002, the Group has accomplished a revenue of approximately HK\$34,885,000. This representing a growth of approximately 2.3 times as compared to the corresponding period in the previous year. It was attributable to

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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%.

Administrative expenses for the nine months under review increased to approximately HK\$17,602,000 from approximately HK\$5,475,000 for the corresponding period in the previous year. Such increase was mainly due to the additional of routine but mandatory expenses after the shares of the Company were listed on the GEM of the Stock Exchange in February 2002 and an increase in payroll. For cost reduction purposes, the Company made certain efforts to streamline its operations in Hong Kong, including re-allocation of seconded staff back to China and disposed its 55% interest in Affluential Resources Limited, previously a subsidiary of the Company in Hong Kong, while all its business functions had been taken up by other subsidiaries of the Company in China.

Selling expenses for the nine months under review increased to approximately HK\$601,000 from approximately HK\$336,000 for the corresponding period in the previous year, which were primarily comprised of advertising and promotional expenses, and travelling expenses supporting the increased turnover.

Due to net effect of the above, the profit attributable to shareholders for the nine months under review increased to approximately HK12,688,000 from approximate HK\$8,036,000 for the same period in the previous year, representing a growth of approximately 57.9%.

The Company was listed on the GEM of the Stock Exchange through a placement of 220,000,000 shares on 5 February 2002. The net proceeds from the placement, after the deductions for relevant expenses, were approximately HK\$39,000,000. The Group is applying 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 30 September 2002, the Group had shareholders' fund amounted to approximately HK\$76,633,000, including cash and bank balances of approximately HK\$37,379,000 and had no any outstanding bank debts. 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. The Group further achieved approximately 80% accuracy in these two kinds of technology in Chinese information systems in general terms and approximately 90% accuracy in specialized industries. Based on the improved technology, the Group not only enhanced the standard of the products but

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also provided better coverage and effective total solutions to the customers in different aspects. Amongst, the Group developed educational management systems and public affairs information management systems based on its know-how for the customers in the fields of education and public affairs.

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 develops new KM systems and KM related network application systems. The Group will also focus on development of KM total solutions. The Group targets to expand its market presence over the Mainland China to tap for growth in volume and better margins.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN EQUITY OR DEBT SECURITIES

As at 30 September 2002, the interests of the directors and chief executives 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:

Interest in the Company

		No. of shares held				
	Personal	Family	Corporate	0ther		
Name of director	Interests	Interests	Interests	Interests		
Mr. Zhu Zhaofa (note)		_	196,054,943	_		

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

Save as disclosed above, as at 30 September 2002, none of the directors and chief executives of the Company or their associates had any personal, family, corporate or other interests in the shares of the Company or any 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.

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

As at 30 September 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 debts securities, including benefits by means of the acquisition of shares in, or debts 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 30 September 2002, the Company had the following substantial shareholders' interests, being 10% or more of the Company's issued shareholder capital:

Number of shares	Approximate percentage of shareholding
196,054,943	21.10%
196,054,943	21.10%
168,830,952	18.17%
168,830,952	18.17%
125,620,780	13.52%
	196,054,943 196,054,943 196,054,943 168,830,952

Note:

- 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.
- 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 Share 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.
- OGTCL is a wholly-owned subsidiary of OGHL, a company listed on the Main Board of the Stock Exchange.
- 4. The shares are registered in the name of OGTCL. OGHL is interest 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.

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Oak Field Developments Limited disposed all its shares on 16 October 2002 and was no longer a substantial shareholder of the Company since then.

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 30 September 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 had purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2002.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 30 September 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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures since the listing of its shares on GEM on 5 February 2002.

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AUDIT COMMITTEE

The Company established an audit committee (the "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 Committee currently comprises Mr. Chan, Peter Yat-Tung and Mr. Hu Wei, who are the independent non-executive Directors. The Group's unaudited quarterly results for the three months and nine months ended 30 September 2002 have been reviewed by the Committee, who was of the opinion that such results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and the adequate disclosure had been made.

Mr. Chan, Peter Yat-Tung was appointed as an independent non-executive Director and chairman of the Committee by the Board with effect from 4 November 2002. As at the date of this report, the Company has not made a separate announcement in respect of the appointment of Mr. Chan, Peter Yat-Tung as the Company is still processing the filing of relevant documents to the Stock Exchange in complying with rules 5.01 to 5.07 of the GEM Listing Rules. With reference to the Company's announcement made on 7 November 2002, the Company has applied for a waiver from strict compliance with rules 5.05 and 5.23 of the GEM Listing Rules. Upon the completion of the such filing procedures in complying with rules 5.01 to 5.07 of the GEM Listing Rules, the Company will made further announcement in respect of the appointment of Mr. Chan, Peter Yat-Tung and the result of the abovementioned wayier in due course.

By Order of the Board **Zhu Zhaofa** *Chairman*

Hong Kong, 12 November 2002

