



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

2003

* 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 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.

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 (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 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 no 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.



SUMMARY

Financial Highlights

Unaudited turnover decreased to approximately HK\$10,105,000 for the three months ended 31 March 2003 representing a decrease of approximately 7.27% as compared to the corresponding period in 2002.

Unaudited profit attributable to shareholders amounted to approximately HK\$1,180,000 for the three months ended 31 March 2003 representing a drop of approximately 75.43% as compared to the corresponding period in 2002.

Business Development

The Group started to focus in expanding the sales of its KM products which to be applied in various governmental projects in the PRC as compared to general commercial customers in the last corresponding period.

Sales of KM products to governmental projects in the PRC required longer time in product development and verification and security testing which explained the reduced turnover during the period under review.

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 three months ended 31 March 2003.

**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 ended 31 March 2003 together with the comparative figures for the corresponding period in 2002.

CONSOLIDATED RESULTS

	<i>Notes</i>	(Unaudited)	
		For the three months ended 31 March	
		2003	2002
		HK\$'000	HK\$'000
Turnover	2	10,105	10,897
Cost of sales		(1,152)	(1,033)
Gross profit		8,953	9,864
Other income		47	77
Selling expenses		(72)	(115)
Administrative expenses		(7,340)	(5,130)
PROFIT FROM OPERATIONS		1,588	4,696
Amortization of goodwill		(119)	(116)
Finance costs		(1)	(7)
Share of results of associates		(378)	–
PROFIT BEFORE TAXATION		1,090	4,573
Taxation	3	–	–
Profit/(Loss) after taxation but before minority interests		1,090	4,573
Minority interests		90	230
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		1,180	4,803
Earnings per share			
– Basic (in HK cents)	4	0.13	0.73
– Diluted (in HK cents)		0.13	N/A



Notes:

1. Principal accounting policies and basis of preparation

The unaudited financial statements of the Group have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have also complied with the applicable disclosure provisions of GEM Listing Rules. The measurement basis used in the preparation of the financial statements is historical cost.

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.

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

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 is entitled to 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 and the charge for the provision on PRC income tax on the assessable profit of Beijing Linefan will be provided at 7.5%. Beijing Linefan did not have assessable profit for the period under review. In addition, Beijing Linefan Silver-Soft Technology Company Limited ("Beijing Silver-Soft"), another PRC operating subsidiary of the Group, was officially awarded as Beijing Hi-Tech Enterprise by the Beijing Municipal Government in May 2002, and is eligible to receive preferential treatment which entitles it to charge at the rate of 15%. Moreover, it is also eligible for exemption for income tax for its first three years of operations and is entitled to a 50% relief on the income tax that would otherwise be charged for succeeding three years. No provision for income tax on the assessment profit of Beijing Silver-Soft is required for the period as it is under the tax exemption period. For the other PRC subsidiaries of the Group, they have either incurred a loss or have sufficient tax losses brought forward to set off against current years assessable profit and no provision for PRC income tax is required for the period.

No provision for Hong Kong Profits Tax has been made as the Group companies operating in Hong Kong have no assessable profit for the three months ended 31 March 2003.



4. Earnings per share

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

	(Unaudited)	
	For the three months	
	ended 31 March	
	2003	2002
	HK\$'000	HK\$'000
Profit for the period and earnings for the purpose of the basic earnings per share	1,180	4,803
Weighted average number of ordinary shares for the purpose of basic earnings per share	929,090,000	662,322,558
Effect of dilutive potential ordinary shares on options	1,209,368	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	930,299,368	N/A



5. Reserves

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	PRC statutory reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accu- mulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	9,291	28,408	3,970	3,324	11,623	228	23,449	80,293
Exchange adjustment	-	-	-	-	-	41	-	41
Profit for the period	-	-	-	-	-	-	1,180	1,180
At 31 March 2003	9,291	28,408	3,970	3,324	11,623	269	24,629	81,514
At 1 January 2002	521	2,810	3,970	-	1,488	55	17,230	26,074
Arising from Group Reorganisation	(514)	(2,810)	-	3,324	-	-	-	-
Issue of new shares by way of capitalisation	7,084	(7,084)	-	-	-	-	-	-
Issue of shares under the placing	2,200	50,600	-	-	-	-	-	52,800
Share issue expenses	-	(15,108)	-	-	-	-	-	(15,108)
Exchange adjustment	-	-	-	-	-	241	-	241
Profit for the period	-	-	-	-	-	-	4,803	4,803
At 31 March 2002	9,291	28,408	3,970	3,324	1,488	296	22,033	68,810

6. Comparative figures

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



Interim Dividend

The board of directors of the Company does not recommend the payment of an interim dividend for the three months ended 31 March 2003.

Financial Review

During the three months under review, turnover decreased by 7.27% to approximately HK\$10,105,000 from approximately HK\$10,897,000 for the corresponding period in the previous year due to the decrease in sales of knowledge management (“KM”) products, which the Group started to focus in expanding the sales of its KM products which to be applied in various governmental projects which required a longer time in conclusion of the sales.

Administrative expenses for the three months under review increased to approximately HK\$7,340,000 from approximately HK\$5,130,000 for the corresponding period in the previous year. Such increases were mainly due to two factors. One was the increase in expenses in routine but mandatory expenses after the listing of the Company on the GEM of The Stock Exchange in February 2002 and in payroll and research and development. The other was the provision for doubtful debts of approximately HK\$2,621,000 made under a tightened credit policy in view of the possible negative impact resulted at the recent outbreak of Severe Acute Respiratory Syndrome (“SARS”) in the PRC especially in Beijing. Selling expenses for the three months under review decreased to approximately HK\$72,000 from approximately HK\$115,000 for the corresponding period in the previous year, which primarily comprised of product promotion expenses and traveling expenses.

Due to the net effect of the above, the profit attributable to shareholders for the three months ended 31 March 2003 decreased to approximately HK\$1,180,000 from approximately HK\$4,803,000 for the corresponding period in the previous year.

As at 31 March 2003, the Group had cash and cash equivalents of approximately HK\$24,275,000. The Group currently has no any bank borrowings. The Group may consider to develop new banking relationship with banks by accepting general banking facilities to replace the previous HK\$200,000 overdraft banking facility for future growth.



Business Review

The Group started to focus in expanding the sales of its KM products which to be applied in various governmental projects in the PRC during the three months under review as compared to general commercial customers in the corresponding period in the previous year. More efforts were made including research and development and product modifications to adopt the requirements of the governmental projects in the PRC. Though these kinds of sales required longer time in product development, verification and security testing and negotiation which explained the decreased turnover, the Group believed that these could build up a more rigid base in terms of business performance and customers' quality.

Outlook

The Group believes that the focus in governmental projects in the PRC will secure the business development in medium to long run for the Group. Though longer time and more efforts are required to penetrate deeper into this market segment, its comparative larger market potential to general commercial customers will bring up more business opportunities for the Group. At the same time, the Group will continue to strengthen its research and development of KM technology to tap for the existing customers' requirements and new emerging business areas such as e-Government and digital library in the PRC.

Possible Negative Impact

In view of the recent outbreak of SARS in the PRC especially in Beijing, the Group's normal business operations, such as normal business meetings in Beijing and business trips of the management traveling around the PRC, have been affect. However, the degree of the possible negative impact on the Group is difficult to ascertain as at the date of this report. The Group is currently reviewing its operations and adopting a tightened credit policy.



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

As at 31 March 2003, 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

Name of director	Personal Interests	No. of shares held			Other Interests
		Family Interests	Corporate Interests		
Mr. Zhu Zhaofa (<i>Note</i>)	–	–	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 31 March 2003, 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.

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

As at 31 March 2003, 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 if 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 executives 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 2003, the Company had the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name	Number of shares	Approximate percentage of shareholdings
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>Notes 3 and 4</i>)	168,830,952	18.17%

Notes:

- 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 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.
- OGTCL is a wholly-owned subsidiary of OGHL, a company listed on the Main Board of the Stock Exchange.
- 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

On 24 January 2002, a share option scheme was approved pursuant to the written resolutions of the then shareholders of the Company (the "Share Option Scheme"). The principal terms of which are set out in the section headed "Share Option Scheme" in the prospectus issued by the Company dated 28 January 2002. During the three months ended 31 March 2003, no options were granted. As at the date of this report, options in respect of a total of 92,900,000 shares were granted since the adoption of the Share Option Scheme which were all made to various employees and the options outstanding as at 31 March 2003 were as follows:

	Date of grant	No. of options granted	Exercise price	Exercisable period	No. of options exercised	No. of options lapsed	No. of options held as at
					during the three months ended 31 March 2003	during the three months ended 31 March 2003	31 March 2003
Selected Employees (In aggregate)	15/11/2002	92,900,000	HK\$0.183	15/11/2002 – 14/11/2005	–	–	92,900,000

* *The closing price of the shares of the Company on 14 November 2002 immediately before the date on which the options were granted was HK\$0.181.*

No directors of the Company were being granted the options pursuant to the Share Option Scheme. As the 10% general limit on the grant of options of the Share Option Scheme is almost fully utilized, a refreshment of the 10% general limit was approved at the 2002 annual general meeting of the Company held on 23 April 2003, so that the total number of shares which may be issued upon the exercise of all options granted under the Share Option Scheme and any other share option schemes of the Company shall be re-set at 10% of the shares of the Company in issue as at the date of approval of the "refreshed" limit.



The directors are of the view that the value of the theoretical value of the options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors of the Company believed that any calculation of the value of the options will not be meaningful and may be misleading to shareholders in the circumstances.

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 three months ended 31 March 2003.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 31 March 2003, 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.

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 Dr. Chan, Peter Yat-Tung and Mr. Hu Wai, who are the independent non-executive Directors. The Group’s unaudited quarterly results for the three months ended 31 March 2003 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.

By Order of the Board
Zhu Zhaofa
Executive Director

Hong Kong, 13 May 2003