



**LINEFAN** Technology Holdings Limited

藍帆科技控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

\* for identification purpose only

2003

**3<sup>rd</sup>**

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.**

**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 announcement, 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 announcement.*

*This report, for which the directors (the “Directors”) of Linefan Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (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.*

## HIGHLIGHTS

### Financial Highlights

Unaudited turnover decreased to approximately HK\$17,458,000 for the nine months ended 30 September 2003 representing a decrease of approximately 49.96% as compared to the corresponding period in 2002.

Unaudited net loss attributable to shareholders amounted to approximately HK\$16,793,000 for the nine months ended 30 September 2003 as compared to unaudited net profit attributable to shareholders amounted to approximately HK\$12,688,000 of the corresponding period in 2002.

## UNAUDITED CONSOLIDATED QUARTERLY RESULTS

The board of directors (the “Board”) of the Linefan Technology Holdings Limited (the “Company”) 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 2003 together with the comparative figures for the corresponding period in 2002.

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 September,		For the nine months ended 30 September,	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2	6,075	12,501	17,458	34,885
Cost of sales		(3,208)	(1,150)	(5,342)	(3,457)
Gross profit		2,867	11,351	12,116	31,428
Other income		48	17	444	155
Selling expenses		(1,438)	(311)	(1,822)	(601)
Administrative expenses		(8,639)	(5,838)	(26,289)	(17,602)
<b>Profit/(loss) from operations</b>		<b>(7,162)</b>	5,219	<b>(15,551)</b>	13,380
Amortization of goodwill		(277)	(137)	(762)	(369)
Finance costs		(37)	–	(65)	(7)
Share results of associates		(197)	(110)	(565)	(158)
Share results of jointly controlled entity		(176)	–	(176)	–
Loss on disposal of a subsidiary		–	(983)	–	(983)
<b>Profit/(loss) before taxation</b>		<b>(7,849)</b>	3,989	<b>(17,119)</b>	11,863
Taxation	3	–	–	–	–
Profit/(loss) after taxation but before minority interests		(7,849)	3,989	(17,119)	11,863
Minority interests		75	311	326	825
<b>Profit/(loss) attributable to shareholders</b>		<b>(7,774)</b>	4,300	<b>(16,793)</b>	12,688
Earnings/(loss) per share					
– Basic (in HK cents)	5	(0.84)	0.46	(1.81)	1.51
– Diluted (in HK cents)	5	N/A	N/A	N/A	N/A

Notes:

## 1. Principal accounting policies and basis of preparation

The unaudited quarterly financial statements of the Group have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") 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 accounting policies and basis of preparation adopted for the presentation of the quarterly financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2002.

## 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 People's Republic of China ("PRC"), Beijing Linefan Silver-Soft Technology Company Limited ("Beijing Linefan"), one of the Group's operating subsidiaries in the PRC, 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 Linefan 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 Company's Hong Kong subsidiary companies have no assessable profit for the nine months ended 30 September 2003.

## 4. Interim dividend

The board does not recommend the payment of an interim dividend for the nine months ended 30 September 2003 (2002: Nil).

## 5. Earnings/(loss) per share

The calculation of basic loss per share for the three months and nine months ended 30 September 2003 is based on the respective unaudited consolidated loss attributable to shareholders for the period of approximately HK\$7,774,000 and HK\$16,793,000 respectively (2002: profit attributable to shareholders approximately HK\$4,300,000 and HK\$12,688,000 respectively) and the weighted average number of approximately 929,090,000 and 929,090,000 respectively (2002: approximately 929,090,000 and 840,821,361 respectively) shares in issue during the three months and nine months ended 30 September 2003.

Diluted loss per share for the three months and nine months ended 30 September 2003 is not presented as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for the nine months ended 30 September 2003.

## 6. Consolidated statement of changes in equity (unaudited)

	Share capital	Share premium	Capital reserve	Contributed surplus	PRC		Accumulated profits	Total
					statutory reserve	Exchanged reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	-	-	-	-
Issued of new shares by the way of capital	7,084	(7,084)	-	-	-	-	-	-
Issued of shares under 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
At 1 January 2003	9,291	28,408	3,970	3,324	11,623	228	23,449	80,293
Exchange adjustment	-	-	-	-	-	(284)	-	(284)
Loss for the period	-	-	-	-	-	-	(16,793)	(16,793)
At 30 September 2003	9,291	28,408	3,970	3,324	11,623	(56)	6,656	63,216

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

The Group continues to develop both knowledge acquisition technology and natural language processing technology applied in Knowledge Management Systems. Having an always attention on the development of applications and project implementation of information construction for government, the Group starts to focus on the development and implementation of information construction vertically for the petrochemical industry.

During the period under review, the Group faced an unexpected negative business environment resulted at the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in the PRC especially in Beijing which are the core business locations of the Group. The negative impact from SARS has been slacked up slowly and the business environment has been recovered gradually. The Group has adjusted the market strategic properly from the beginning of this year to accommodate the business environment by alliance with the industry leaders. This makes the Group can strength its market in local governments and large scaled companies while assuring the development of business in government clients that directly under the central government of PRC. Besides a joint venture has been established with Sinopec Zhenhai Refining and Chemical Company Limited (“Zhenhai”), the Group has palavered with other authority organizations for the strategic alliance to explore the vertical industry market.

### Financial review

For the nine months ended 30 September, 2003, the Group’s turnover amounted to HK\$17,458,000 (2002: HK\$34,885,000) representing a decrease of approximately 49.96% when compared to the corresponding period in 2002. The net loss amounted to HK\$16,793,000 as compared to profit approximately HK\$12,688,000 of the corresponding period in 2002.

For the quarter under review, the Group was still in the recovery period resulted from SARS in PRC. The demand for Knowledge Management Systems and e-Government projects have not yet been all recovered. As a result, the performance of the Company for the nine months ended 30 September 2003 experienced regress when compared to the respective period of the previous year.

Administrative expenses for the nine months under review increase to approximately HK\$26,289,000 from approximately HK\$17,602,000 for the corresponding period in the previous year. Such increase was mainly due to the provisions for bad and doubtful debts under the adverse impact brought out by SARS in the last quarter.

Selling expenses, comprising of advertising, promotional and travelling expenses, for the three months under review increased to approximately HK\$1,438,000 from approximately HK\$311,000 for the corresponding period in the pervious year. Such increase was mainly attributable to the Group's strategies to speed up the process of e-Government business development, as well as strengthening its sales network and expanding its market.

As at 30 September 2003, the Group had cash and cash equivalents of approximately HK\$17,107,000 and bank borrowings of approximately HK\$1,686,000.

## **Outlook**

As described in the announcement of the Company dated 20 October 2003, the Group entered into a joint venture agreement with Zhenhai to establish a joint venture company ("JV Company") in PRC. The Board believes that an investment in JV Company will provide the Group with an excellent opportunity to expand its customer base in the promising petrochemical industry in PRC.

Following the fading out of the adverse effect brought out by SARS, the Group believes that the general business environments in both PRC and Hong Kong will be recovered very soon. Remain its focus in government clients, the Group strength its business in applied technology and products of Knowledge Management in petrochemical industry, as well as application software and implementation of Enterprise Resource Planning for petrochemical industry. The Group will take charge of entire information construction projects for Zhenhai, and provide total solutions of information technology construction for small to medium size enterprises.

The group believes that with the influence of Zhenhai in the petrochemical industry, its advanced concept and technology of content integration and knowledge management will spread into the petrochemical industry easily and quickly. This helps the Group to establish a solid and sticky customer base and enlarge the market share in a low cost and efficient way.

## **DIRECTORS' INTEREST IN SHARES**

As at 30 September 2003, the interests of the directors in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under



such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the directors were as follows:

### Interest in the Company

Name of director	No. of shares held			
	Personal Interests	Family Interests	Corporate Interests	Other Interests
Mr. Zhu Zhaofa ( <i>Note</i> )	–	–	10,210,000	–

*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. Accordingly, 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 2003, none of the directors had any interests or short positions in any shares, underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As at 30 September 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

As at 30 September 2003, the following persons had an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of other members of the Group.

Name	Number of shares	Percentage of shareholding
Success Element Holdings Limited ( <i>Note 1</i> )	185,844,943	20.00%
Mr. Li Hui ( <i>Notes 1 and 2</i> )	185,844,943	20.00%
Tradeweb Associates Limited ( <i>Note 3</i> )	81,740,178	8.80%
Ms. Chen Xuemu ( <i>Notes 3 and 4</i> )	81,740,178	8.80%

### Notes:

1. Success Element Holdings Limited is 100% beneficially-owned by Mr. Li Hui.
2. The shares are registered in the name of Success Element Holdings Limited, Mr. Li Hui is an independent third party and is not connected with any of the directors, chief executives, initial management shareholders or substantial shareholders of the Company or any of their respective associates as defined in the GEM Listing Rules.
3. Tradeweb Associates Limited is 100% beneficially-owned by Ms. Chen Xuemu.
4. The shares are registered in the name of Tradeweb Associates Limited, Ms. Chen Xuemu is an independent third party and is not connected with any of the directors, chief executives, initial management shareholders or substantial shareholders of the Company or any of their respective associates as defined in the GEM Listing Rules.

## Share options 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. During the nine months ended 30 September 2003, no options were granted. As at the date of this report, options in respect of a total 92,900,000 shares

were granted since the adoption of the Share Option Scheme which were all made to various employees and the option outstanding as at 30 September 2003 were as follows:

	Date of grant	No. of options granted	Exercise price	Exercisable period	No. of options held as at 1 January 2003	No. of options exercised during the nine months ended 30 September 2003	No. of options lapsed during the nine months ended 30 September 2003	No. of options held as at 30 September 2003
Selected Employees (In aggregate)	15/11/2002	92,900,000	HK\$0.183	15/11/2002– 14/11/2005	92,900,000	–	–	92,900,000

\* *The closing price of the shares of the Company on 14 November 2002 immediately before the date on which the option 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 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 nine months ended 30 September 2003.

## **SPONSOR'S INTERESTS**

As updated and notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 30 September 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 Wei, who are the independent non-executive directors of the Company. The Group's unaudited interim results for the nine months ended 30 September 2003 had 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, 11 November 2003