

LINEFAN TECHNOLOGY HOLDINGS LIMITED

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

First 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.

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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 (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.

FINANCIAL HIGHLIGHTS

Unaudited turnover decreased to approximately HK\$853,000 for the three months ended 31 March 2004 representing a decrease of approximately 91.56% as compared to the corresponding period in 2003.

Unaudited loss attributable to shareholders amounted to HK\$3,188,000 for the three months ended 31 March 2004 as compared to unaudited profit attributable to shareholders amounted to approximately HK\$1,180,000 of the corresponding period in 2003.

UNAUDITED CONSOLIDATED QUARTERLY RESULTS

The board of directors (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 2004 together with the comparative figures for the corresponding period in 2003.

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		For the three months	
		ended 31 March	
		2004	2003
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2	853	10,105
Cost of sales		(82)	(1,152)
Gross profit		771	8,953
Other operating income		2	47
Distribution costs		(42)	(72)
Administrative expenses		(3,825)	(7,340)
Amortization of goodwill		3	(119)
(LOSS) PROFIT FROM OPERATIONS		(3,091)	1,469
Interest on bank borrowings		(15)	(1)
Share of result of an associate		(81)	(378)
Share of result of a jointly controlled entity		(1)	-
(LOSS) PROFIT BEFORE TAXATION		(3,188)	1,090
Income tax expenses	3	-	-
(Loss) profit before minority interests		(3,188)	1,090
Minority interests		-	90
(LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS		(3,188)	1,180
(Loss) earnings per share			
- Basic (in HK cents)	5	(0.3)	0.13
- Diluted (in HK cents)		N/A	0.13

*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 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 2003.

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. Income tax expenses

The Group's primary operations are carried out in the PRC. The general tax rate for corporation in the PRC is 33%. However, 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. No provision for PRC income tax has been made for the period as Beijing Linefan has incurred a loss. 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 entitle it to be charged 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 PRC income tax has been made for the period as Beijing Silver-Soft incurred a loss. For the other PRC subsidiaries of the Group, they have incurred losses and no provision for PRC income tax is required for the period.

No provision for Hong Kong Profits Tax has been made in the financial statements since the Company's Hong Kong subsidiary has made no assessable profit for the period.

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

4. Interim dividend

The board does not recommend the payment of an interim dividend for the three months ended 31 March 2004 (2003: Nil).

5. (Loss) earnings per share

On 13 February 2004, the Company allotted 185,810,000 new shares of the Company at HK\$0.031 per share to World Develop Limited ("World Develop") pursuant to a conditional subscription agreement dated 16 January 2004 with World Develop. During the current period, an aggregate of 92,909,000 options have been exercised by option holders and 92,909,000 new shares of the Company have been issued and allotted to them. As a result of above, the issued share capital of the Company was increased from HK\$9,290,900 to HK\$12,078,090 by the creation of an additional 278,719,000 shares of HK\$0.01 each.

The calculation of basic loss per share for the three months ended 31 March 2004 is based on the respective unaudited consolidated loss attributable to shareholders for the period of approximately HK\$3,188,000 (2003: profit attributable to shareholders approximately HK\$1,180,000) and the weighted average number of approximately 1,069,951,780 and 1,069,951,780 respectively (2003: approximately 929,090,000 and 930,299,368 respectively) shares in issue during the three months ended 31 March 2004.

The computation of diluted earnings per share for the three months ended 31 March 2004 does not assume the exercise of the Company's outstanding options as the exercise price of those options is higher than the average market price for shares.

6. Post balance sheet events

On 30 April 2004, an ordinary resolution in relation to the Company's acquisition of an interest in Unlimited Business Opportunity Communication Technology Co., Ltd. (北京無限商機通信技術有限公司) by the issue and allotment of 121,293,800 shares of the Company at HK\$0.14 per share and the assignment of certain trade receivables of a wholly-owned subsidiary of the Company amounted to RMB8,646,000 in accordance with the terms and conditions of a conditional acquisition agreement was duly passed at the special general meeting of the Company.

7. Consolidated statement of changes in equity (unaudited)

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	PRC statutory reserve HK\$'000	Exchanged reserve HK\$'000	Accumulated profits (loss) HK\$'000	Total HK\$'000
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	<u>9,291</u>	<u>28,408</u>	<u>3,970</u>	<u>3,324</u>	<u>11,623</u>	<u>269</u>	<u>24,629</u>	<u>81,514</u>
At 1 January 2004	9,291	28,408	3,970	3,324	11,623	18	(13,582)	43,052
Issue of shares under the placing	1,858	3,902	-	-	-	-	-	5,760
Issue of shares under the share option scheme	929	2,323	-	-	-	-	-	3,252
Share issue expenses	-	(241)	-	-	-	-	-	(241)
Exchange adjustment	-	-	-	-	-	3	-	3
Loss for the period	-	-	-	-	-	-	(3,188)	(3,188)
At 31 March 2004	<u>12,078</u>	<u>34,392</u>	<u>3,970</u>	<u>3,324</u>	<u>11,623</u>	<u>21</u>	<u>(16,770)</u>	<u>48,638</u>

FINANCIAL REVIEW

During the three months under review, the Group recorded a turnover of about HK\$853,000 representing a decrease of approximately 91.56% for the corresponding period in the previous year. The decrease was mainly due to a change in the Group's marketing strategy by exploring new markets and the overall budget-cutting for governmental departments in the PRC which were major customers of the Group.

Cost of sales for the three months under review decreased to approximately HK\$82,000 from approximately HK\$1,152,000 of the corresponding period. The decrease was mainly due to a decrease in subcontracting cost in line with the decrease in turnover under the adoption of cost control measurement during the period.

Under a cost control measure adopted by the Group, administrative expenses for the three months under review amounted to HK\$3,825,000, decreased by approximately HK\$3,515,000 compared with the corresponding period in the previous year.

Distribution cost for the period under review amounted to HK\$42,000 compared to HK\$72,000 of the corresponding period in the previous year. Such decrease was mainly due to a decrease in turnover of the Group.

As a result, the Group recorded a loss attributable to shareholders for the amount of approximately HK\$3,188,000 for the three months ended 31 March 2004 (2003: profit of approximately HK\$1,180,000).

BUSINESS OVERVIEW

During the three months under review, the Group has changed its marketing strategy by exploring new markets, as compared to its majority focus on promoting the Group's knowledge management products being used in PRC government projects. The reason is that the outbreak of SARS in 2003 had led to overall budget-cutting for governmental departments in the PRC, which were major customers of the Group which in turn resulted in significant reduction in the expenditure for information technology infrastructure. In 2004, as the first quarter is the planning stage for annual investment budget for the PRC government and the discussion and decision-making process normally takes a longer period to be finalized. Therefore, during the period under review, the Group can only secure a very limited number of orders from the PRC government which cast material negative effect on the Group's turnover. With regard to the newly-launched voice search business, it has yet to make contribution to the Group as it is still at the testing stage and the nationwide marketing campaign has just begun.

OUTLOOK

In order to cope with new market situation, the Group has changed its target market strategy to expand the knowledge management application – its technology development focus – into three major markets, so as to reach different layers of the market. The Group still rely on its original customer base and closely monitor the development trend of PRC government project in order to safeguard its mid-to-long term business development. The Group will also continue to capitalize on the influence of the joint venture jointly established by the Group and Sinopec Zhenhai Refining & Chemical Company Limited in its industry to develop knowledge management technology and products for application in petrochemical industry, as well as comprehensive information technology solution for small-and-medium-sized enterprises. On the other hand, the Group will target the mobile communications users in the PRC by enhancing its voice search technology business. By cooperating with leading mobile communications companies in the PRC, the Group will promote its voice search business throughout China so as to achieve healthy growth in terms of income and profit.

SHARE OPTIONS SCHEME

On 24 January, 2002, the share option scheme of the Company was approved pursuant to a written resolution of the Company (the "Share Option Scheme"). The principle terms of which are set out in the section headed "Share Option Scheme" in the prospectus. As at the date of this report, options in respect of a total 185,818,290 shares were granted since the adoption of the Share Option Scheme which were all made to various employees and an aggregate of 92,909,000 options have been exercised by option holders. Details of the options granted since the adoption of the Share Option Scheme up to this report date were as follows:

	Date of grant	No. of options granted	Exercise price	Exercisable period	No. of options exercised	No. of options lapsed
Selected Employees (in aggregate)	15/11/2002	92,900,000	HK\$0.183	15/11/2002- 14/11/2005	Nil	Nil
Wang Ya Hong	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Qin Chuanjun	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Li Na	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Wang Pu	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Zuo Na	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Shi Lei	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Li Jun	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Meng Qingshan	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Han Xu	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Zhang Wen Yan	27/1/2004	9,000,000	HK\$0.035	27/01/2004- 23/01/2011	9,000,000	Nil
Wang Ling	27/1/2004	2,909,000	HK\$0.035	27/01/2004- 23/01/2011	2,909,000	Nil

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

As at 31 March 2004, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the directors or chief executives 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 executives if the Company or 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 EXECUTIVES' INTERESTS IN SECURITIES

As at 31 March 2004, the interest of the directors and the chief executives of the Company in the shares, 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 Division 7 and 8 of Part XV of the SFO (including interests of 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 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the directors were as follows:

Name of director	Personal interests	No of shares held		Other interests
		Family interests	Corporate interests	
Mr. Zhu Zhaofa	-	-	10,210,000 (Note 1)	-
Mr. Zhu Guang Bo	-	-	204,400,000 (Note 2)	-

Notes:

- These shares are registered in the name of Capital Shares Group Limited which is beneficially-owned by Mr. Zhu Zhaofa and Ms. Xue Wanjuan (spouse of Mr. Zhu Zhaofa), as to 83.85% and 16.15% respectively. Therefore, Mr. Zhu Zhaofa is deemed to be interested in all the shares registered in the name of Capital Shares Group Limited.
- These shares are registered in the name of World Develop Limited which is wholly and beneficially-owned by Mr. Zhu Guang Bo.

Save as disclosed above, as at 31 March 2004, none of the directors and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests of 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, to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

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 during the time under review.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the following persons had an interest or short position in the shares and underlying share 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	Capacity	Number of Shares	Approximate percentage of holding
World Develop Limited (<i>Note 1</i>)	Beneficial owner	204,400,000	16.92%
Mr. Zhu Guang Bo	Held by controlled corporation	204,400,000	16.92%

Note:

1. World Develop Limited is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Zhu Guang Bo.

Save as disclosed above, as at 31 March 2004, no other persons had an interest or short position in the shares and underlying share of the Company or any of its associated corporations were directly or indirectly interested in 5% or more of the issued share capital of the Company.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 31 March 2004, neither 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 will receive a fee for acting as the Company's retained sponsor for the period from 5 February 2002 to 31 December 2004.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the three months ended 31 March 2004.

CONNECTED AND RELATED PARTY TRANSACTION

There were no transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

COMPETING INTERESTS

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

CORPORATE GOVERNANCE

The Company has complied with Rules 5.34 to 5.45 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 on 31 July 2001 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. 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 comprise Doctor Chan, Peter Yat Tung and Mr. Hu Wei, who are the independent non-executive directors of the Company. The Group's unaudited consolidated quarterly results for the three months ended 31 March 2004 have been reviewed by the 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

Ma Gui Fang

Executive Director

Hong Kong, 11 May 2004