

# 2004

Third Quarterly Report



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

(Incorporated in the Cayman Islands with limited liability)

## **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 risk 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 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.

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*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 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.*



## HIGHLIGHTS

### Financial Highlights

Unaudited turnover decreased to approximately HK\$5,139,000 for the nine months ended 30 September 2004 representing a decrease of approximately 70.1% as compared to the corresponding period in 2003.

Unaudited net loss attributable to shareholders amounted to approximately HK\$29,175,000 for the nine months ended 30 September 2004.

The board of directors (the "Board") of the Linefan Technology Holdings Limited (the "Company") does not recommend the payment of an interim dividend for the nine months ended 30 September 2004.



## 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 2004 together with the comparative figures for the corresponding period in 2003.

### CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	For the three months ended 30 September,		For the nine months ended 30 September,	
		<b>2004 (Unaudited) HK\$'000</b>	2003 (Unaudited) HK\$'000	<b>2004 (Unaudited) HK\$'000</b>	2003 (Unaudited) HK\$'000
Turnover	2	<b>3,216</b>	6,075	<b>5,139</b>	17,458
Cost of sales		<b>(2,030)</b>	(3,208)	<b>(2,401)</b>	(5,342)
<b>Gross profit</b>		<b>1,186</b>	2,867	<b>2,738</b>	12,116
Other operating income		<b>45</b>	48	<b>72</b>	444
Distribution costs		<b>(2,736)</b>	(1,438)	<b>(2,786)</b>	(1,822)
Administrative expenses		<b>(17,721)</b>	(8,639)	<b>(28,675)</b>	(26,289)
Amortization of goodwill		<b>(375)</b>	(277)	<b>(370)</b>	(762)
<b>Loss from operations</b>		<b>(19,601)</b>	(7,439)	<b>(29,021)</b>	(16,313)
Interest on bank borrowings		<b>(4)</b>	(37)	<b>(23)</b>	(65)
Share of results of associates		–	(197)	<b>(110)</b>	(565)
Share of results of a jointly controlled entity		<b>(455)</b>	(176)	<b>(716)</b>	(176)
Gain on disposal of subsidiaries		<b>81</b>	–	<b>32</b>	–
<b>Loss before taxation</b>		<b>(19,979)</b>	(7,849)	<b>(29,838)</b>	(17,119)
Income tax expenses	3	–	–	–	–
Loss after taxation but before minority interests		<b>(19,979)</b>	(7,849)	<b>(29,838)</b>	(17,119)
Minority interests		<b>663</b>	75	<b>663</b>	326
<b>Loss attributable to shareholders</b>		<b>(19,316)</b>	(7,774)	<b>(29,175)</b>	(16,793)
Loss per share					
– Basic ( <i>in HK cents</i> )	5	<b>(1.62)</b>	(0.84)	<b>(2.44)</b>	(1.81)
– Diluted ( <i>in HK cents</i> )	5	<b>N/A</b>	N/A	<b>N/A</b>	N/A



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2004

	Share capital	Share premium	Capital reserve	Special reserve	PRC statutory reserve	Exchanged reserve	Accumulated profits/ (loss)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
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	3,071	19,670	-	-	-	-	-	22,741
Issue of shares on exercise of share options	929	2,323	-	-	-	-	-	3,252
Share issue expenses	-	(650)	-	-	-	-	-	(650)
Exchange adjustment	-	-	-	-	-	75	-	75
Loss for the period	-	-	-	-	-	-	(29,175)	(29,175)
At 30 September 2004	13,291	49,751	3,970	3,324	11,623	93	(42,757)	39,295

Notes:

### 1. Principal Accounting Policies and Basis of Preparation

The unaudited financial statements of the Group have been prepared under the historical cost convention. The unaudited 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 Institute of Certified Public 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. Moreover, Unlimited Business Opportunity Communication Technology Company Limited ("UBO"), another PRC operating subsidiary of the Group, was officially awarded as Hi-Tech Enterprise by the Beijing Municipal Government in November 2001, and is eligible to receive preferential treatment which entitle it to be charged at the rate of 15%. It is also eligible for exemption for income tax for its first three years of operations. No provision for PRC income tax has been made for the period as UBO 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. Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2004 (2003: Nil).

### 5. Loss per share

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

	For the nine months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Loss for the period for the purpose of the basic loss per share	29,175	16,793
Weighted average number of ordinary shares for the purpose of diluted loss per share	1,193,897,126	929,090,000

The computation of diluted earnings per share for the period ended 30 September 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 of shares.



## 6. Post balance sheet event

On 19 October 2004, the Company issued 241,561,800 new shares pursuant to the terms and conditions of the subscription agreement dated 6 October 2004.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business review

For the past nine months, the Group has continued its effort in enhancing its voice search segment by taking advantage of the existing customer resources to ensure the application and use of its existing knowledge management (“KM”) technology and products in the government sectors on the one hand, and making actual progress in full cooperation with China Unicom, a leading mobile communication service provider in China, on the other hand, thus successfully introducing mobile voice search services to customers in a nationwide scale, with encouraging marketing results from Shandong, Heilongjiang and Beijing. The related business revenues from Shandong and Heilongjiang listed on top among other competitors of the industry in the same region and promised an accelerating growth potential. The business has also been launched extensively in other inland provinces and cities paving the way for the next full-scale business promotion in anticipation of substantial revenue.

## Financial review

For the nine months ended 30 September 2004, the Group’s turnover dropped by 70.1% to approximately HK\$5,139,000 from approximately HK\$17,458,000 for the corresponding period in last 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 government departments in the PRC which were major customers of the group.

Cost of sales for the period under review decreased to approximately HK\$2,401,000 from approximately HK\$5,342,000 of the corresponding period in last year. The decrease was in line with the decrease in turnover during the period.

Distribution costs for the period under review increased to approximately HK\$2,786,000 from approximately HK\$1,822,000 of the corresponding period in last year. The increase was due to the expansion of sales and distribution networks and launching a series of nationwide promotional campaign.

Administrative expenses for the period under review increased to HK\$28,675,000 from approximately HK\$26,289,000 for the corresponding period in last year. With the introduction of mobile voice search services to customers in a nationwide scale and purchase and upgrading of equipment and facilities by the Group, our research and development expenses as well as depreciation expenses increased accordingly. The increase in administrative expenses was also attributable to the provision for receivable, write offs of intangible assets and recognition of impairment loss of jointly controlled entity for which were accounted for in aggregate to approximately HK\$12,464,000.



As a result, the Group recorded a loss attributable to shareholders for the amount of approximately HK\$29,175,000 as compared to the loss attributable to shareholders of approximately HK\$16,793,000 for the corresponding period in last year.

### **Outlook**

The Group's business target has changed to the introduction and promotion of the voice search as a value-added service. While the basic telecommunication service market has almost saturated under the fierce competition among service providers in the industry, it has become increasingly difficult to further generate revenue by merely relying on market penetration. The introduction of new value-added voice service, however, could entice customers to use the service more and longer. With a great potential in group users market, the value-added voice service will become a top competing area among competitors in the telecommunication industry in the future, being an effective way to enlist customers' loyalty and the only means to differentiate provider's product and brand awareness. Meanwhile, in line with the fast-growing telecommunication business, the value-added voice service has become an important source of revenue for profit maximization in the industry.

The Group is now cooperating with the China telecommunication service provider by jointly introducing to the market the mobile voice search service. The move conforms with the Group's business market niche strategy and is in line with the service provider's business development target. Thus both sides have invested huge resources into the promotion of the business. The broadening of the business scope and increase in the business revenue will surely bring about more earnings for the Group.

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

As at 30 September 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 30 September 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 or Chief Executive	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:*

1. 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.
2. These shares are registered in the name of World Develop Limited, which is beneficially-owned by Mr. Zhu Guang Bo.

Save as disclosed above, as at 30 September 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 notify 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

So far as is known to any directors or chief executive of the Company, as at 30 September 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



## LINEFAN TECHNOLOGY HOLDINGS LIMITED

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.

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate percentage of holding</b>
World Develop Limited ( <i>Note 1</i> )	Beneficial owner	204,400,000	15.38%
Mr. Zhu Guang Bo ( <i>Notes 1 and 2</i> )	Held by controlled corporation	204,400,000	15.38%
Cheng Yuen Investment Limited ( <i>Note 3</i> )	Beneficial owner	94,278,167	7.09%

*Notes:*

1. World Develop Limited ("WDL") is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Zhu Guang Bo.
2. The shares are registered in the name of World Develop Limited, and Mr. Zhu Guang Bo is the executive director of the Company.
3. According to the information provided by Cheng Yuen Investment Limited ("CYIL"), Cheng Yuen Investment Limited is a company incorporated in Hong Kong. Narada Holdings Company Limited, a company incorporated in the People's Republic of China, indirectly owns 100% interests in CYIL through its wholly owned subsidiaries Nicepoint Investment Limited and Carlson Enterprises Limited which are the companies incorporated in the British Virgin Islands.

Save as disclosed above, as at 30 September 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.



### 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 185,818,000 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 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	92,909,000	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

### SPONSOR'S INTERESTS

As notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 30 September 2004, neither the Sponsor, nor any of its respective directors, employees or associates (as defined in 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 nine months ended 30 September 2004.

## **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 during the nine months ended 30 September 2004.

## **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 comprises Doctor Chan, Peter Yat Tung, Mr. Feng Jue Min and Mr. Zhang Gong, who are the independent non-executive directors of the Company. The Group's unaudited results for the nine months ended 30 September 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

**Wang Yong**

*Chairman*

Hong Kong, 11 November 2004

As the date of this report, the Board comprises of:

Mr. Wang Yong (*Executive director*)

Ms. Ma Gui Fang (*Executive director*)

Mr. Zhu Guang Bo (*Executive director*)

Mr. Chan, Peter Yat-Tung (*Independent non-executive director*)

Mr. Feng Jue Min (*Independent non-executive director*)

Mr. Zhang Gong (*Independent non-executive director*)