



藍帆科技控股有限公司<sup>\*</sup>  
**LINEFAN TECHNOLOGY HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report  
**2005**

\* 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 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.**

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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 increased to approximately HK\$1,491,000 for the three months ended 31 March 2005 representing increase of approximately 74.8% as compared to the corresponding period in 2004.

Unaudited net loss attributable to shareholders amounted to approximately HK\$2,717,000 for the three months ended 31 March 2005.

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 three months ended 31 March 2005.

## 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 2005 together with the comparative figures for the corresponding period in 2004.

### CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 31 March,	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover	2	1,491	853
Cost of sales		(1,203)	(82)
Gross profit		288	771
Other operating income		3	2
Distribution costs		(783)	(42)
Administrative expenses		(3,048)	(3,825)
Amortization of goodwill		0	3
<b>Loss from operations</b>		<b>(3,540)</b>	<b>(3,091)</b>
Interest on bank borrowings		(1)	(15)
Share of results of associates		0	(81)
Share of results of a jointly controlled entity		0	(1)
<b>Loss before taxation</b>		<b>(3,541)</b>	<b>(3,188)</b>
Income tax expenses	3	0	-
Loss after taxation but before minority interests		(3,541)	(3,188)
Minority interests		824	-
<b>Loss attributable to shareholders</b>		<b>(2,717)</b>	<b>(3,188)</b>
Loss per share			
- Basic (in HK cents)	5	(0.17)	(0.3)
- Diluted (in HK cents)	5	N/A	N/A

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2005

	Share capital	Share premium	Capital reserve	Special reserve	PRC statutory reserve	Exchanged reserve	Accumu- lated loss	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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)
<b>At 31 March 2004</b>	<b>12,078</b>	<b>34,392</b>	<b>3,970</b>	<b>3,324</b>	<b>11,623</b>	<b>21</b>	<b>(16,770)</b>	<b>48,638</b>
At 1 January 2005	15,707	55,116	3,970	3,324	3,029	33	(41,481)	39,698
Share issue expenses	-	(22)	-	-	-	-	-	(22)
Exchange adjustment	-	-	-	-	-	(5)	-	(5)
Loss for the period	-	-	-	-	-	-	(2,717)	(2,717)
<b>At 31 March 2005</b>	<b>15,707</b>	<b>55,094</b>	<b>3,970</b>	<b>3,324</b>	<b>3,029</b>	<b>28</b>	<b>(44,198)</b>	<b>36,954</b>

*Notes:*

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

The Group's unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). They are prepared under the historical cost convention and comply with the applicable disclosure provisions of GEM Listing Rules.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("new HKAS") and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs, has results in the change in the Group's accounting policies for goodwill on acquisition of subsidiaries and associates. In prior years, goodwill on acquisition of subsidiaries and associates was carried at cost and amortised over its estimated useful life. Following the adoption of new HKAS and HKFRSs, goodwill on acquisition of subsidiaries and associates is carried at cost and reviewed for impairment annually. Impairment, if any, is charged to the profit and loss account. This change in accounting policy has no material effect on the Group.

Saved as mentioned above, 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 2004.

**2. Turnover**

Turnover represents sales values of KM software systems and voice portal software less discounts and value added tax.

**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 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 recognised as Hi-Tech Enterprise by the Beijing Municipal Government in November 2001, and therefore is eligible to receive preferential treatment in form of a concession tax rate of 15%. It is also eligible for full exemption from 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. For the other PRC subsidiaries of the Group, they have all incurred losses and no provision for PRC income tax are required for the period. These losses can be carried forward to offset against future profits for a period of five years.

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 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 three months ended 31 March 2005 (2004: Nil).

#### 5. Loss per share

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

	<b>For the three months ended 31 March</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Loss for the period for the purpose of the basic loss per share	<b>2,717</b>	3,188
Weighted average number of ordinary shares for the purpose of diluted loss per share	<b>1,570,664,600</b>	1,069,951,780

The computation of diluted earnings per share for the period ended 31 March 2005 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

The Company entered into a conditional underwriting agreement dated 18 January 2005 and a conditional supplemental agreement dated 18 February 2005 with Ms. Lu Wen Bin, World Develop Limited and Mr. Sun Gang, collectively being the underwriting shareholders, in respect of the rights issue of not less than 78,533,230 rights shares and not more than 79,433,230 rights shares at a price of HK\$0.10 per share. The right issue has been completed by 3 May 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the past three months, on the basis of the voice search services as an application of knowledge management, the Company has made further advancement in both the scale and coverage of its cooperation with China Unicom, a leading mobile communication service provider in China, in the value-added voice services. The whole network operations of China Unicom has been expanding in over ten provinces and cities in the PRC.

The Company has not only expanded its end-users, but it also focused on the application of voice search services in relevant industries. Meanwhile, the voice search service, as a personalized and applicable information service, is being extended corresponding to the segmentation of target customers. In view of the market demand, the Company has expanded the product lines, enriching the contents of blazing ringtone and mobile games. It has been seeking cooperation opportunities to realize the expansion of business scale with minimum expense. The Company has kept reviewing its data business and perfecting its WAP business such as mobile games.

## **Financial Review**

For the three months ended 31 March 2005, the Group's turnover increased by 74.8% to approximately HK\$1,491,000 from approximately HK\$853,000 for the corresponding period in last year. The increase was mainly attributable to the successful introduction of mobile voice search services to customer in a nationwide scale and commencement of mobile valued-added voice service for the whole network of China Unicom.

Cost of sales for the period under review increased to approximately HK\$1,203,000 from approximately HK\$82,000 of the corresponding period in last year. The increase was in line with the increase in turnover during the period.

Distribution costs for the period under review increased to approximately HK\$783,000 from approximately HK\$42,000 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 decreased to HK\$3,048,000 from approximately HK\$3,825,000 for the corresponding period in last year due to the adoption of cost control measurement during the period.

As a result, the Group recorded a loss attributable to shareholders for the amount of approximately HK\$2,717,000 as compared to the loss attributable to shareholders of approximately HK\$3,188,000 for the corresponding period in last year.

## **Outlook**

Concerning its application of knowledge management in voice search services, the Company will continue strengthening its development and enlarging the cooperation extent and scale with domestic mobile service providers in value-added voice services. While developing its voice search services with existing end-users, the Company also emphasized the application of voice search services in relevant industries. On the other hand, the mobile voice search service as an applicable information service will be developed in a more personalized manner, whilst the expansion of industry and corporate clients will also be reinforced. The Company will realize low-cost but rapid growth by exploring fully premium resources and strengthening its cooperation with clients.



In accordance with the development plan of the 3G business of the PRC Government, the Company will consolidate the development momentum of data business, preparing for its participation in the 3G era.

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

As at 31 March 2005, 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 EXECUTIVE'S INTERESTS IN SECURITIES**

As at 31 March 2005, the interest of the directors and the chief executive 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 was as follows:

### **Long positions**

<b>Name of director or chief executive</b>	<b>No. of shares held</b>			
	<b>Personal interests</b>	<b>Family interests</b>	<b>Corporate interests</b>	<b>Other interests</b>
Mr. Zhu Guang Bo	–	–	204,400,000 <i>(Note 1)</i>	–

*Note:*

1. 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 31 March 2005, 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 at end of the period or at any time during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, 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 was 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	No. of shares	Approximate percentage of holding
Ms. Lu Wen Bin	Beneficial owner	241,561,800	15.38%
World Develop Limited (Note 1)	Beneficial owner	204,400,000	13.01%
Mr. Zhu Guang Bo (Note 1 and 2)	Held by controlled corporation	204,400,000	13.01%

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.

Save as disclosed above, as at 31 March 2005, no other persons had an interest or short position in the shares and underlying share of the Company or any of its associated corporations was 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 185,809,000 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	92,900,000	HK\$0.183	15/11/2002-14/11/2005	74,900,000	18,000,000
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

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

## **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 for the period ended 31 March 2005.

## **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. Feng Jue Min and Mr. Zhang Gong, who are the independent non-executive directors of the Company. They conduct four times of the meeting for a year, usually one or two business days before the Board of Directors to approve the financial results. The Group's unaudited consolidated results for the period ended 31 March 2005 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, 10 May 2005

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

Mr. Wang Yong (*Chairman and 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*)