



藍帆科技控股有限公司*
LINEFAN TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

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Third Quarterly Report
2005

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 not 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\$5,106,000 for the nine months ended 30 September 2005 representing a decrease of approximately 0.6% as compared to the corresponding period in 2004.

Unaudited net loss attributable to shareholders amounted to approximately HK\$7,610,000 for the nine months ended 30 September 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 nine months ended 30 September 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 and nine months ended 30 September 2005 together with the comparative figures for the corresponding period in 2004.

CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 September,		For the nine months ended 30 September,	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover	2	1,812	3,216	5,106	5,139
Cost of sales		(1,109)	(2,030)	(3,601)	(2,401)
Gross profit		703	1,186	1,505	2,738
Other operating income		211	45	239	72
Distribution costs		(955)	(2,736)	(2,420)	(2,786)
Administrative expenses		(2,295)	(17,721)	(8,709)	(28,675)
Amortization of goodwill		–	(375)	–	(370)
Loss from operations		(2,336)	(19,601)	(9,385)	(29,021)
Interest on bank borrowings		–	(4)	(1)	(23)
Share of results of associates		–	–	–	(110)
Share of results of a jointly controlled entity		–	(455)	–	(716)
Gain on disposal of subsidiaries		–	81	–	32
Loss before taxation		(2,336)	(19,979)	(9,386)	(29,838)
Income tax expenses	3	–	–	–	–
Loss after taxation but before minority interests		(2,336)	(19,979)	(9,386)	(29,838)
Minority interests		374	663	1,776	663
Loss attributable to shareholders		(1,962)	(19,316)	(7,610)	(29,175)
Loss per share					
– Basic (in HK cents) (2004: restated)	5	(0.83)	(14.78)	(3.75)	(24.36)
– Diluted (in HK cents)	5	N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 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	3,071	19,670	-	-	-	-	-	22,741
Issue of shares under the share option scheme	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
At 1 January 2005	15,707	55,116	3,970	3,324	3,029	33	(41,481)	39,698
Issue of new shares under the rights issue	7,852	-	-	-	-	-	-	7,852
Share issue expenses	-	(658)	-	-	-	-	-	(658)
Exchange adjustment	-	-	-	-	-	(70)	-	(70)
Loss for the period	-	-	-	-	-	-	(7,610)	(7,610)
At 30 September 2005	23,559	54,458	3,970	3,324	3,029	(37)	(49,091)	39,212



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 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 and employee share option scheme. 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 associate is carried at cost and reviewed for impairment annually. Impairment, if any, is charged to the profit and loss account. Prior to adoption of the new HKFRSs, no amounts were recognized when employees were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. With effect from 1 January 2005, the fair value of such share options is recognized as an expense in the profit and loss account, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognized in a capital reserve within equity. Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting period. Otherwise, the Group recognizes the fair value in the period in which the options are granted. If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to revenue reserves. 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.

	For the three months ended 30 September,		For the nine months ended 30 September,	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
KM and related network application systems	-	1,903	-	3,826
Voice portal gateway facilities in communication and voice portal application software	1,812	1,313	5,106	1,313
	1,812	3,216	5,106	5,139

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 nine months ended 30 September 2005 (2004: Nil).



5. Loss Per Share

The calculation of the Group's basic and diluted loss per share for the three months and nine months ended 30 September 2005 and 2004 is based on the respective unaudited consolidated loss attributable to shareholders of HK\$1,962,000 (2004: HK\$19,316,000) and HK\$7,610,000 (2004: HK\$29,175,000).

The basic loss per share is based on the weighted average of 235,599,690 (2004: 130,704,827) and 202,737,011 (2004: 119,785,043) shares of HK\$0.10 each in issue during the three months and nine months ended 30 September 2005 and 2004 respectively.

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

The comparative figures of loss per share for the period ended 30 September 2004 had been re-calculated to reflect a rights issue and a share consolidation occurred during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the middle of 2005, the value-added telecommunications service market in China underwent revolutionary change. On the one hand, the office of the National Telecommunications Authority (國家電信管理局) continuously introduces new administrative policies such as keeping business records, raising the threshold of the industry, and strictly controlling advertising activities in the market, etc to regulate the market and strengthen control. On the other hand, telecommunications operators in China have reinforced the business management of value-added service providers (SPs) to satisfy the requirements of regulatory authorities; and made adjustments to the SP cooperation value-added services business and settlement policies. Value-added service providers are under intense market competition, with their business under passive adjustments and business revenue greatly affected. Facing current market situation, SPs are now seeking new points of business growth.

Over the past three months, the Company has adjusted to market demand and is actively responding to market change to expand its market and product lines. The Company's efforts to increase market share by introducing new businesses are shown below:

1. *Actively expand the nationwide business (China Unicom Nicam Business)* **(中國聯通麗音業務)**

Based on the application of knowledge management – the continuous expansion in scale and scope of application in respect of China Unicom's voice search value-added business (語音搜索業務), the Company strived to keep up its original business and to consolidate power in order to design and develop entertainment and communication products on this ground. Three new businesses, namely Phone Book Contacts (電話通訊本), Indiana Jones (奪寶奇兵) and Xiniu Power Password (西諾能量密碼) have been launched, thus there are nine Unicom Nicam national businesses and with this entered the charging stage. The new businesses will become new points of revenue growth for the Company. The coverage of China Unicom's whole network operations has reached over 10 provinces in the country and the revenue from economically developed provinces have increased further.

2. **Enrich the business content under regional cooperation, subdivide markets to satisfy users' needs**

The Company is increasing its investments in regional business cooperation in connected areas, introducing services with local characteristics and expanding product lines according to the customers' needs. Colored Ringtone (彩鈴) is another cell phone value-added service that is well received by users. Meanwhile, as cell phones become a form of media, it gradually becomes a new channel for music-publishing. Cell phone manufacturers are optimistic about this market, thus launching a variety of music cell phones. Colored Ringtone is a powerful tool for enlarging and perfecting the wireless music market.

1. Taking into consideration the local scene, the Company ventured into the Cell Phone Games business and Blazing Ringtone Source (炫鈴源) business at Shandong Unicom, and launched the "Phonebook Expert" (「話簿專家」) business, effectively combining voice phonebook and cell phone SIM cards to effectively integrate voice, SMS and network resources. The Company continues to develop the application of business information in voice search services. According to the customers' needs, the Company develops a personalized voice search application information service, providing a one-stop service of travel, accommodation, catering, transportation and medical information, and a mobile phone love matching service (手機紅娘服務) has been launched. The one-stop service for VIP users of Shandong Telecom will soon commence online. We are continuously improving the sources of business information. In the fourth quarter, there will be more information sources covering more business information.
2. Business cooperation between the Company and Beijing Unicom developed steadily in the third quarter of 2005. Based on the existing service platform, we have enriched service content and is actively exploring other related business content such as SMS, chatroom and entertainment, etc. to cultivate new points of the business growth .
3. The Company is actively exploring local businesses in other regions

The Company has established a branch office in Jilin and a voice value-added service business have been introduced by Jilin Unicom. Business promotion and advertising activities have gradually started in the region to increase business volume and enrich business content step by step in order to increase the market share in the region.

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4. Upgrading the Heilongjiang voice service platform in support of numerous value-added businesses

On the basis of Heilongjiang Unicom's voice service platform, the Company steadily develops services such as Phonebook (電話本), Juke Box (點歌) and Chatroom. The Company has twice merged with the Blazing Ringtone platform of Heilongjiang Telecom to provide Blazing Ringtone hotline service, opening up the new business of providing local Unicom users of a convenient, simple, practical and personalized Ringing Music (回鈴音業務). The Voice business could therefore establish a foundation for extending to other businesses at a time of low investments by the Company.

3. To establish a business brand name and expand recognition

The Company is actively exploring promotion channels and seeking regional business promotion partners to suit its business development needs. The Company continues to increase its marketing efforts to expand its brand name recognition and increase customer loyalty.

The Company's business direction is to continue to move towards information application and enterprise application from entertainment, strengthening its risk resistance capability, laying a firm foundation for further business development by the Company.

The Company continues to actively seek different business cooperation opportunities (such as content, promotion, marketing, etc.), so as to expand the existing business scale with the lowest cost. To tie in with the 3G era, the Company will continue to expand the data business, to integrate existing business customers resources and effectively integrate the WAP business with voice, SMS and network services, introducing a distinctive service business.

Financial review

For the nine months ended 30 September 2005, the Group's turnover decreased by 0.6% to approximately HK\$5,106,000 from approximately HK\$5,139,000 for the same period last year.

Cost of sales for the period under review increased to approximately HK\$3,601,000 from approximately HK\$2,401,000 of the same period last year due to increase of subcontracting costs.

Distribution costs for the period under review decreased to approximately HK\$2,420,000 from approximately HK\$2,786,000 of the same period last year due to adoption of cost control measure by the Group. The decrease in distribution costs was in line with the decreasing trend of the turnover for the period.



Administrative expenses for the period under review decreased to HK\$8,709,000 from approximately HK\$28,675,000 for the same period last year as a result of adoption of cost control measure by the Group.

As a result, the Group recorded a loss attributable to shareholders of approximately HK\$7,610,000 as compared to the loss attributable to shareholders of approximately HK\$29,175,000 for the same period last year.

Outlook

As far as the application of knowledge management in voice search services is concerned, the Company will continue to strengthen its development and to enlarge the cooperation ambition and scale with domestic mobile services providers in value-added voice services in the fourth quarter. While expanding its existing services, the Company will continue to develop the information application and the voice search services in relevant industries so as to develop a more personalized information application services of mobile voice search services, and to perfect the application of information system voice search services a step further, and increase its coverage so as to establish a nationwide business support network and to perfect the business sales system of nationwide, thus expanding nationwide business coverage to the majority of provinces in China. Our one-stop service aims at increasing customers' utilization and loyalty. The Company will fully utilize the advantages and resources in order to enhance a better cooperation with customers, and to realize low-cost but rapid growth by leveraging on our partners' advantages.

In order to further expand its business, the Company will cooperate with China Mobile and China Netcom in the field of voice value-added business in the fourth quarter of the year.

In line with the development plan of 3G by the government, the Company will continue to strengthen the development of data business. It will also effectively integrate existing customers resources with the data and voice search business, so as to realize the effective integration of WAP with voice, SMS and network services. This will pave the way for the Company's entering into the 3G era, enabling the Company to achieve a healthy and steady development.

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

As at 30 September 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 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 30 September 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

Name of director or chief executive	Number of ordinary shares of HK\$0.1 each in the share capital of the Company			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Zhu Guang Bo	–	–	30,660,000 (Note 1)	–

Note:

- 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 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 30 September 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	Number of ordinary shares of HK\$0.1 each	Approximate percentage of holding
Ms. Lu Wen Bin	Beneficial owner	44,533,911	18.90%
World Develop Limited (<i>Note 1</i>)	Beneficial owner	30,660,000	13.01%
Mr. Zhu Guang Bo (<i>Note 1 and 2</i>)	Held by controlled corporation	30,660,000	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 30 September 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 1 January 2005, 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 and 74,900,000 have been lapsed. The following table disclose details of movements of the Company's share options during the period ended 30 September 2005.

Date of grant	Exercisable period	Exercise price per share HK\$ (Note)	Outstanding as at 1.1.2005	Granted during the period	Exercise during the period	Cancelled/lapsed during the period	Adjusted during the period (Note)	Outstanding as at 30.9.2005
15.11.2002	15.11.2002-14.11.2005	1.83	18,000,000	-	-	(900,000)	(16,200,000)	900,000

The number and the exercise price of options which remained outstanding on 30 September 2005 have been adjusted due to consolidation on the basis of every ten shares of HK\$0.01 each being consolidated into one consolidated share of HK\$0.1 each. The exercise price per share was adjusted from HK\$0.183 to HK\$1.83.

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.



DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules governing dealings by directors in listed securities of the Company ("dealings rules") on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules ("required standard of dealings"). Having made specific enquiry of all directors of the Company, all directors of the Company confirm that they complied with such dealings rules throughout the nine months ended 30 September 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 30 September 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, 8 November 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*)