



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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8166

Interim Report 2006

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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 increased to approximately HK\$4,144,000 for the six months ended 30 June 2006 representing an increase of approximately 25.8% as compared to the corresponding period in 2005.

Unaudited net loss attributable to shareholders amounted to approximately HK\$3,297,000 for the six months ended 30 June 2006.

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 six months ended 30 June 2006.

UNAUDITED CONSOLIDATED INTERIM RESULTS

The Board would like to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2006 together with the comparative figures for the corresponding period in 2005.

CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June,		For the six months ended 30 June,	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2	2,118	1,803	4,144	3,294
Cost of sales		(1,199)	(1,289)	(2,480)	(2,492)
Gross profit		919	514	1,664	802
Other operating income		8	28	261	31
Distribution costs		(273)	(682)	(652)	(1,465)
Administrative expenses		(2,436)	(3,366)	(5,145)	(6,414)
Loss from operations	4	(1,782)	(3,506)	(3,872)	(7,046)
Interest on bank borrowings		-	(3)	-	(4)
Loss before taxation		(1,782)	(3,509)	(3,872)	(7,050)
Income tax expenses	5	-	-	-	-
Loss for the period		(1,782)	(3,509)	(3,872)	(7,050)
Loss attributable to:					
Equity holders of the Company		(1,519)	(2,931)	(3,297)	(5,648)
Minority interests		(263)	(578)	(575)	(1,402)
		(1,782)	(3,509)	(3,872)	(7,050)
Loss per share					
- Basic (in HK cents)	7	(0.64)	(1.37)	(1.40)	(3.04)
- Diluted (in HK cents)	7	N/A	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET

		At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		9,750	11,900
Intangible assets		938	1,337
Goodwill		23,083	22,777
		33,771	36,014
Current assets			
Inventories		4	11
Trade receivables	8	2,523	1,578
Other receivables, deposits and prepayments		614	817
Cash and cash equivalents		434	2,014
		3,575	4,420
Current liabilities			
Trade payables		2,080	1,795
Other payables and accruals		1,115	1,866
Amount due to a related party	9	1,000	-
		4,195	3,661
Net current (liabilities)/assets		(620)	759
Net assets		33,151	36,773
Capital and reserves			
Share capital	10	23,560	23,560
Reserves		6,372	9,692
Equity attributable to equity holders of the Company		29,932	33,252
Minority interests		3,219	3,521
Total equity		33,151	36,773

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash used in operating activities	(1,249)	(2,105)
Net cash used in investing activities	–	(149)
Net cash generated from financing activities	–	7,195
Net (decrease)/increase in cash and cash equivalents	(1,249)	4,941
Cash and cash equivalents at the beginning of period	2,014	582
Effect of exchange rate changes	(331)	3
Cash and cash equivalents at the end of period	434	5,526
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	434	5,526

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2006*

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Special reserve	PRC		Accumulated losses	Minority Total	Minority interests	Total equity
					statutory reserve	Exchange reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2005	15,707	55,116	3,970	3,324	3,029	33	(41,481)	39,698	4,002	43,700
Issue of new shares under the right issue	7,852	-	-	-	-	-	-	7,852	-	7,852
Share issue expenses	-	(658)	-	-	-	-	-	(658)	-	(658)
Exchange adjustment	-	-	-	-	-	1	-	1	(1)	-
Loss for the period	-	-	-	-	-	-	(5,648)	(5,648)	(1,402)	(7,050)
At 30 June 2005	23,559	54,458	3,970	3,324	3,029	34	(47,129)	41,245	2,599	43,844
At 1 January 2006	23,560	54,459	3,970	3,324	3,029	(84)	(55,006)	33,252	3,521	36,773
Elimination arising on acquisition of subsidiary not recognised in previous year	-	-	-	-	-	-	-	-	267	267
Exchange adjustment	-	-	-	-	-	(23)	-	(23)	6	(17)
Loss for the period	-	-	-	-	-	-	(3,297)	(3,297)	(575)	(3,872)
At 30 June 2006	23,560	54,459	3,970	3,324	3,029	(107)	(58,303)	29,932	3,219	33,151

Notes:

1. Principal Accounting Policies and Basis of Preparation

The Group's unaudited consolidated results have been prepared under the historical cost convention and 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.

The accounting policies and basis of preparation adopted for the presentation of the interim financial statements are consistent with those adopted by the Group in its annual financial statement for the year ended 31 December 2005.

2. Turnover

Turnover represents sales values of voice portal gateway facilities in communication and voice portal software less discounts and value added tax.

	For the three months ended 30 June,		For the six months ended 30 June,	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Other system and software related service	269	5	269	5
Voice portal gateway facilities in communication and voice portal application software	1,849	1,798	3,875	3,289
	2,118	1,803	4,144	3,294

3. Business and Geographical Segments

The Group's operations are situated in the PRC in which revenue was derived principally therefrom. Accordingly, no geographical segments were presented. The Group comprises one primary business segment which is the sales of voice portal gateway facilities in communication and voice portal software.

Business segments

The following table presents revenue and results for the Group's business segments:

	For the six months ended 30 June					
	KM Systems		Voice portal		Consolidated	
	2006	2005	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:						
Turnover	-	5	4,144	3,289	4,144	3,294
Segment results	-	(3,245)	(2,603)	(2,489)	(2,603)	(5,734)
Unallocated corporate expenses					(1,269)	(1,312)
Loss from operations					(3,872)	(7,046)
Interest on bank borrowings					-	(4)
Loss for the period					(3,872)	(7,050)

4. Loss from Operations

Loss from operations has been arrived at after charging and crediting:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000
Total staff costs	1,199	1,367
Bad debts written off	-	15
Depreciation	2,149	2,132
Interest income	-	31

5. 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. All of the PRC subsidiaries of the Group have incurred losses for the period and no provision for PRC income tax are required. These losses can be carried forward to offset against future profits for a period of five years.

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

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

6. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

7. Loss per Share

The calculation of the Group's basic and diluted loss per share for the three months and six months ended 30 June 2006 and 2005 is based on the respective unaudited consolidated loss attributable to shareholders of HK\$1,519,000 (2005: HK\$2,931,000) and HK\$3,297,000 (2005: HK\$5,648,000).

The basic loss per share is based on the weighted average of 235,599,690 (2005: 214,024,627) and 235,599,690 (2005: 185,702,886) shares of HK\$0.10 each in issue during the three months and six months ended 30 June 2006 and 2005 respectively.

8. Trade Receivables

The Group generally allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
0-60 days	1,414	801
61-90 days	700	335
>90 days	409	442
	2,523	1,578

9. Amount due to a related party

The balance is unsecured, interest free and with no fixed terms of repayment.

10. Share Capital

	Number of shares	HK'000
Authorised:		
At 31 December 2004	5,000,000,000	50,000
Share consolidation	(4,500,000,000)	-
At 31 December 2005 and 30 June 2006	500,000,000	50,000
Issued and fully paid:		
At 31 December 2004	1,570,664,600	15,707
Share consolidation	(1,413,598,140)	-
Rights shares issued	78,533,230	7,853
At 31 December 2005 and 30 June 2006	235,599,690	23,560

11. Operating Lease Commitments

At 30 June 2006, the Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 30 June 2005 (Unaudited) HK\$'000
Within one year	280	690
In the second to fifth year inclusive	–	264
	280	954

MANAGEMENT DISCUSSION AND ANALYSIS**Business review**

The Group has been working together with China Unicom and keep enlarging and developing it. Based on the stable development of the original business co-operation with the headquarter of China Unicom, Shandong Unicom, Heilongjiang Unicom and Beijing Unicom, the Group has commenced business co-operation with Jilin Unicom in 2006 with more diversified business aspects, mainly in the area of information application services, such as interactive voice business, blazing ringtone, cell phone games, voice phone book and business community.

Besides co-operating with various kinds of multimedia, we had also co-operated with certain business partners. This form of marketing promotion has improved the Company's resistance against risk, and helped realizing largest growth in business revenue with lowest cost.

Financial Review

For the six months ended 30 June 2006, the Group's turnover increased by 25.8% to approximately HK\$4,144,000 from approximately HK\$3,294,000. The increase was mainly due to a change in the Group's marketing strategy by exploring new markets.

Distribution costs and administrative expenses for the period under review decreased to HK\$652,000 and HK\$5,145,000 from approximately HK\$1,465,000 and HK\$6,414,000 respectively for the same period last year as a result of the adoption of cost control measures by the Group.

As a result, the Group recorded a loss attributable to equity holder of the Company for the amount of approximately HK\$3,297,000 as compared to the loss attributable to shareholders of approximately HK\$5,648,000 for the same period last year.

Outlook

The development of telecommunication value-added business depends on the good co-operation relationship between value-added business providers and the basic telecommunication operators. The operation experience gained these few years has made the Group adapting to market changes easily, and the strategy position of business co-operation with telecommunication operators had also become clear.

The business co-operation with China Unicom has achieved significant result, in particular, the Company has become one of the biggest business partners of China Unicom in nationwide Nicam business. Working on this, the Company will further co-operate with China Unicom in various kind of personalized value-added business. In order to develop value-added services suitable for its customers, the Company will forecast the market changes precisely, build up a flexible contingency mechanism and keep innovating.

In order to have sustained development in the long-term, the Company will further develop a co-operation model with its business partners that can bring benefits under all situations, and will continually increase the effort in co-marketing its business.

For the development of mobile voice search, the Company has currently entered into the application phase. In order to lay a solid foundation for the Company to develop its business in all directions, the Company intends to apply the search technology to more personalized application areas, such as corporation, commercial and community.

Segmental information

Details have been set out in Note 3 "Business and Geographical Segments" under "Notes to the consolidated financial statements". During the period under review, the turnover represents sales of voice portal gateway facilities in communication and voice portal software and are all generated from the PRC market.

Charge on Group assets and contingent liabilities

There was no charge on the Group's assets and no significant contingent liabilities as at 30 June 2006.

Exposure to fluctuations in exchange rates

All of the Group's assets, liabilities and transactions are denominated either in Hong Kong dollars or Renminbi (RMB). As the exchange rate of HK\$ against RMB has been stable for the period under review, so the Directors do not consider that the Group is exposed to any material foreign currency exchange risk. Therefore, no hedging or other alternatives have been implemented.

Gearing ratio

As at 30 June 2006, the Group did not have any long-term debts and its gearing ratio is zero.

Liquidity and financial resources

The Group financed its business operations with internally generated cash flows. As at 30 June 2006, the Group's cash and cash equivalents balance was approximately HK\$434,000. Current assets and current liabilities amounted to approximately HK\$3,575,000 and 4,195,000 respectively. The equity attributable to equity holders of the Company amounted to approximately HK\$29,932,000 as at 30 June 2006 as compared to HK\$33,252,000 as at 31 December 2005.

Employees

As at 30 June 2006, the Group had 50 full time employees. The Group remunerates its employees mainly based on individual expertise and performance. Apart from the basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution. Other benefits include retirement schemes.

Capital structure

There has been no change in the capital structure of the Company for the six months ended 30 June 2006.

Significant investments

As at 30 June 2006, the Group did not have any significant investments.

Material acquisitions and disposals

Save as disclosed above, the Group undertook no material acquisition or disposal.

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

As at 30 June 2006, 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 30 June 2006, 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	No. of shares held		Other interests
		Family interests	Corporate 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.

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Save as disclosed above, as at 30 June 2006, 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 June 2006, 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 June 2006, 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. A total of 185,809,000 share options which were all made to various employees were granted since the adoption of the Share Option Scheme. An aggregate of 92,909,000 options have been exercised and 92,900,000 options have been lapsed.

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.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

Mr. Wang Yong assumes the role of both the chairman and the chief executive officer of the Company. The Board is of the view that this has not compromised accountability and independent decision making. The Board is also of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management. Save as disclosed above, the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the six months ended 30 June 2006.

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 six months ended 30 June 2006.

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 June 2006 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 August 2006