

2006

• 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)
(Stock Code: 8166)

*For Identification Purpose Only

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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 increased to approximately HK\$5,290,000 for the nine months ended 30 September 2006 representing an increase of approximately 3.60% as compared to the corresponding period in 2005.

Unaudited net loss attributable to shareholders amounted to approximately HK\$4,372,000 for the nine months ended 30 September 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 nine months ended 30 September 2006.

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 2006 together with the comparative figures for the corresponding period in 2005.

CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 September,		For the nine months ended 30 September,	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2	1,146	1,812	5,290	5,106
Cost of sales		(535)	(1,109)	(3,015)	(3,601)
Gross profit		611	703	2,275	1,505
Other operating income		1	211	262	239
Distribution costs		(331)	(955)	(983)	(2,420)
Administrative expenses		(1,970)	(2,295)	(7,115)	(8,709)
Loss from operations		(1,689)	(2,336)	(5,561)	(9,385)
Interest on bank borrowings		-	-	-	(1)
Loss before taxation		(1,689)	(2,336)	(5,561)	(9,386)
Income tax expenses	3	-	-	-	-
Loss for the period		(1,689)	(2,336)	(5,561)	(9,386)
Loss attributable to:					
Equity holders of the Company		(1,075)	(1,962)	(4,372)	(7,610)
Minority interests		(614)	(374)	(1,189)	(1,776)
		(1,689)	(2,336)	(5,561)	(9,386)
Loss per share					
- Basic (in HK cents)	5	(0.46)	(0.83)	(1.86)	(3.75)
- Diluted (in HK cents)		N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the nine months ended 30 September 2006*

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Special reserve	PRC statutory reserve	Exchange reserve	Accumulated losses	Total	Minority interests	Total equity
	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	-	-	-	-	-	(70)	-	(70)	59	(11)
Loss for the period	-	-	-	-	-	-	(7,610)	(7,610)	(1,776)	(9,386)
At 30 September 2005	23,559	54,458	3,970	3,324	3,029	(37)	(49,091)	39,212	2,285	41,497
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	-	-	-	-	-	(69)	-	(69)	16	(53)
Loss for the period	-	-	-	-	-	-	(4,372)	(4,372)	(1,189)	(5,561)
At 30 September 2006	23,560	54,459	3,970	3,324	3,029	(153)	(59,378)	28,811	2,615	31,426

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 quarterly 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 September,		For the nine months ended 30 September,	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Other system and software related service	33	–	302	–
Voice portal gateway facilities in communication and voice portal application software	1,113	1,812	4,988	5,106
	1,146	1,812	5,290	5,106

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. 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.

4. Dividend

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

5. Loss per Share

The calculation of the Group's basic loss per share for the three months and nine months ended 30 September 2006 and 2005 is based on the respective unaudited consolidated loss attributable to shareholders of HK\$1,075,000 (2005: HK\$1,962,000) and HK\$4,372,000 (2005: HK\$7,610,000).

The basic loss per share is based on the weighted average of 235,599,690 (2005: 235,599,690) and 235,599,690 (2005: 202,737,011) shares of HK\$0.10 each in issue during the three months and nine months ended 30 September 2006 and 2005 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

On the basis of stable development of business co-operation with China Unicom, the Group continued to seek for more business partners. In the second half of this year, the Company co-operated with other mobile communication service providers in respect of mobile communication value-added business. In view of the scope of cooperation, both parties will jointly provide IVR wireless value-added business under the wireless network in the PRC.

Financial review

For the nine months ended 30 September 2006, the Group's turnover increased by 3.60% to approximately HK\$5,290,000 from approximately HK\$5,106,000. During the period under review, distribution costs and administrative expenses were decreased from approximately HK\$2,420,000 and HK\$8,709,000 for the same period last year to HK\$983,000 and HK\$7,115,000 respectively, which was attributable to the adoption of cost control measures by the Group.

As a result, the Group recorded a loss attributable to shareholders for the amount of approximately HK\$4,372,000 as compared to the loss attributable to shareholders of approximately HK\$7,610,000 for the same period last year.

Outlook

The mobile value-added business maintains a broad and prosperous development prospects in the future. Before the commercialization of 3G service, the two major mobile operators in the PRC have currently endeavored to speed up the exploration and promotion of 2.5G network mobile data business and started a new era of diversified mobile data business development. This provides huge market potential and enormous growth for mobile communications service providers and stimulates a further expansion of various mobile data business. In the coming years, following the evolution of mobile communication network from 2.5G to 3G as well as the increasing demand for mobile value-added service by the general public, the Company will embrace greater development opportunity.

While the monitoring of the mobile information service market continued to be tightened, the Group has elevated itself towards higher competence through integration and kept motivating on the basis of its principle business standardization.

The development of mobile voice search of the Company has been completed and gradually promoted for a variety of application including corporation, commercial and community.

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

As at 30 September 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 September 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	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 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 September 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 September 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 nine months ended 30 September 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 nine months ended 30 September 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 September 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, 9 November 2006