



THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

7 August 2006

The GEM Listing Committee of The Stock Exchange of Hong Kong Limited (the “GEM Listing Committee”) criticises the following parties for breaching the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”):

- 1. Linefan Technology Holdings Limited (the “Company”);**
- 2. Ms Ma Gui Fang, a former executive director of the Company resigned effective 1 July 2006 (“Ms Ma”);**
- 3. Mr Xu Wen Bo, a former executive director of the Company resigned effective 1 November 2004 (“Mr Xu”); and**
- 4. Mr Zhu Zhaofa, a former executive director of the Company resigned effective 28 May 2004 (“Mr Zhu”).**

On 6 June 2006, the GEM Listing Committee conducted a hearing into the conduct of, among others, the Company, Ms Ma, Mr Xu and Mr Zhu (collectively, the “Relevant Directors”) in relation to the obligations under Rule 5.20, the then Rule 17.15, Rules 17.17 and 17.22 of the GEM Listing Rules and the Undertaking given by each of the Relevant Directors to the Exchange in the form set out in Appendix 6A to the GEM Listing Rules (the “Director’s Undertaking”).

Facts

The Company was required under:

- the then Rule 17.15 of the GEM Listing Rules to disclose the relevant advance to an entity from the Company or any of its subsidiaries which exceeded 25 per cent of the Company’s net tangible assets;
- Rule 17.17 of the GEM Listing Rules to disclose information of the relevant advance by announcement immediately after the disclosure obligation arose; and
- Rule 17.22 of the GEM Listing Rules to disclose the information specified under Rule 17.17 in the Company’s half-year, quarterly or annual report where the circumstances giving rise to a disclosure obligation under Rule 17.15 continued to exist at the Company’s half yearly or quarterly period end or annual financial year end.

On 19 September 2003, Beijing Linefan Silver-Soft Technology Company Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party (the “ITP”), pursuant to which an advance in the sum of approximately \$18.1 million was made to the ITP. The advance was unsecured, interest free and no repayment term was specified in the agreement. No collateral was required to be made by the ITP. The advance represented 32.6 per cent of the Company’s net tangible assets as at 30 June 2003, which exceeded the 25 per cent threshold.

The Company published an announcement on 9 September 2004 (the “Announcement”) disclosing the details of the advance and admitting the breaches of the then Rule 17.15 and Rule 17.17 of the GEM Listing Rules.

The Listing Division alleged that:

1. the Company breached the then Rule 17.15 and Rules 17.17 and 17.22 of the GEM Listing Rules;
2. each of the Relevant Directors breached the Director’s Undertaking; and
3. Mr Xu had failed to fulfil the responsibilities under Rule 5.20 of the GEM Listing Rules.

Conclusions

The GEM Listing Committee concluded that:

- (i) the Company breached the then Rule 17.15, Rules 17.17 and 17.22 of the GEM Listing Rules;
- (ii) each of the Relevant Directors breached the Director’s Undertaking in failing to use his or her best endeavours to procure the Company’s compliance with the GEM Listing Rules; and
- (iii) Mr Xu as Compliance Officer breached his duties imposed by Rule 5.20 of the GEM Listing Rules to advise on and assist the board of directors of the Company in implementing procedures to ensure that the Company complied with the GEM Listing Rules.

The GEM Listing Committee decided to impose a public statement which involves criticism on the Company and the Relevant Directors for their respective breaches mentioned in (i) to (iii) above.

Head of Listing, Richard Williams commented, “Rule 17.15 in the form existing at the relevant time and Rule 17.22 which is unchanged imposed and continue to impose clearly defined and unambiguous obligations on listed issuers to disclose advances of a particular size and magnitude. It is important that listed issuers establish adequate and effective internal control systems to monitor transactions and advances in order to ensure compliance with this disclosure obligation.

The GEM Listing Rule requirement that each listed issuer appoint a Compliance Officer is intended to ensure and enhance listed issuers’ compliance with the GEM Listing Rules. This case serves as a good reminder that mere appointment of a Compliance Officer is clearly insufficient. Rule 5.20 clearly stipulates the responsibility of Compliance Officers to advise on and assist the Board of Directors in implementing procedures to ensure listed issuers’ compliance with the GEM Listing Rules and other applicable laws and regulations. In this case, the Compliance Officer at the relevant time has failed to discharge this responsibility.

Compliance Officers should be left in no doubt that in investigating into breaches of the GEM Listing Rules and the question of internal control systems, the Exchange will invariably look into the Compliance Officers’ position and they are liable to disciplinary actions for failure to discharge their responsibility.”