



金融社控股有限公司  
**STOCKMARTNET HOLDINGS LTD.**  
*(incorporated in the Cayman Islands with limited liability)*



# Interim Report 2005

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “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 risks of investing in such companies and should make the 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.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. GEM-listed issuers are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*Pursuant to Chapter 36 of the Rules Governing the Listing of Securities on GEM of the Exchange (the “GEM Listing Rules”), the Securities and Futures Commission (the “SFC”) regulates Stockmartnet Holdings Ltd. (the “Company” and together with its subsidiaries, the “Group”) in relation to the listing of its shares on the Exchange. The SFC and the Exchange take no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with 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:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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

The Group recorded a turnover of approximately HK\$1,801,000 for the six months ended 30th June, 2005 (the "Half-Yearly Period").

Net loss attributable to shareholders for the Half-Yearly Period amounted to approximately HK\$4,330,000.

Loss per share was approximately 0.39 HK cents.

Pursuant to a subscription agreement and the exercise of share options, a total of 1,280 million new shares were issued, thereby substantially strengthening the working capital by about HK\$31 million.

A new board of directors and a new management team were appointed.

The Directors do not recommend the payment of a dividend for the three months ended 30th June, 2005 (the "Quarterly Period").

## Interim Results (Unaudited)

The board of Directors (the "Board") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the Quarterly Period and the Half-Yearly Period together with the comparative unaudited figures for the corresponding periods in 2004.

## Condensed Consolidated Income Statement For

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Turnover	3	691	1,517	1,801	3,718
Cost of sales		(389)	–	(389)	–
Other operating income	5	302	1,517	1,412	3,718
Amortisation of intangible assets		109	23	177	55
Depreciation of property and equipment		(167)	(131)	(333)	(333)
Finance costs		(153)	(226)	(334)	(393)
Staff costs, including directors' remuneration		–	(2)	–	(18)
Other operating expenses		(1,133)	(1,862)	(2,017)	(3,595)
		(1,417)	(2,471)	(3,235)	(5,074)
Loss before taxation		(2,459)	(3,152)	(4,330)	(5,640)
Income tax	6	–	–	–	–
Net loss for the period		(2,459)	(3,152)	(4,330)	(5,640)
Loss per share – basic and diluted	7	(0.17 cents)	(0.41 cents)	(0.39 cents)	(0.75 cents)

**Condensed Consolidated Balance Sheet At**

		<b>30th June, 2005</b>	<b>31st December, 2004</b>
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
<b>Non-current assets</b>			
Property and equipment		508	833
Intangible assets		1,699	2,032
Statutory deposits		2,180	2,180
Investments/securities	8	177	–
		<hr/> 4,564	<hr/> 5,045
<b>Current assets</b>			
Trade receivables	9	739	8,668
Marketable securities		380	–
Other amounts receivable, prepayments and deposits		765	516
Bank balances and cash		53,433	24,864
		<hr/> 55,317	<hr/> 34,048
<b>Current liabilities</b>			
Trade payables	10	5,560	12,039
Other amounts payable and accrued charges		719	500
		<hr/> 6,279	<hr/> 12,539
Net current assets		<hr/> 49,038	<hr/> 21,509
Net assets		<hr/> <b>53,602</b>	<hr/> <b>26,554</b>
<b>Capital and reserves</b>			
Share capital	11	20,500	7,649
Share premium		99,501	80,974
Special reserve		4,779	4,779
Accumulated losses		(71,178)	(66,848)
Total capital and reserves		<hr/> <b>53,602</b>	<hr/> <b>26,554</b>

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2005

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2004	7,649	80,974	4,779	(56,090)	37,312
Net loss for the period	—	—	—	(5,640)	(5,640)
At 30th June, 2004	7,649	80,974	4,779	(61,730)	31,672
Net loss for the period	—	—	—	(5,118)	(5,118)
At 31st December, 2004 and 1st January, 2005	7,649	80,974	4,779	(66,848)	26,554
Issued of new shares	12,851	20,529	—	—	33,380
Share issue expenses	—	(2,002)	—	—	(2,002)
Net loss for the period	—	—	—	(4,330)	(4,330)
At 30th June, 2005	<u>20,500</u>	<u>99,501</u>	<u>4,779</u>	<u>(71,178)</u>	<u>53,602</u>

## Condensed Consolidated Cash Flow Statement

	For the six months ended 30th June,	
	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Net cash used in operating activities	(3,291)	(2,253)
Net cash used in investing activities	(9)	(2)
Net cash generated from financing activities	31,378	—
Net increase/(decrease) in cash and cash equivalents	28,078	(2,255)
Cash and cash equivalents at beginning of period	20,240	26,937
Cash and cash equivalents at end of period	<u>48,318</u>	<u>24,682</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	53,433	28,711
Less: Trust account balances	(5,115)	(4,029)
	<u>48,318</u>	<u>24,682</u>

Notes:

## 1. GENERAL

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of financial services including the provision of a trading platform, brokerage and securities margin financing business, and infrastructure broking services comprising trading, clearing and settlement, corporate financing as well as trading and principal investment.

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the GEM Listing Rules").

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2004.

The principal accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively, the "new HKFRS") which are effective for accounting periods commencing on or after 1st January, 2005.

The Directors considered that the adoption of the new HKFRS has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been made for the purpose of preparation of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements are unaudited but have been reviewed by the Audit Committee.

### (b) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life.



**(c) Investment securities**

Investment securities are securities which are intended to be held on a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less provisions for impairment losses, on an individual investment basis. When such impairment losses have occurred, the carrying amounts of the securities are reduced to their fair values, as determined by the Directors and the amounts of the impairments are charged to the profit and loss account for the period in which they arise.

**(d) Marketable securities**

Marketable securities are those securities which are held for trading purposes. Such dealings in securities and disposals of investments are grouped under trading and principal Investment.

**(e) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit & loss account as follows:

- (i) Income from trading platform is recognised on a trade date basis.
- (ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iii) Commission income/infrastructure broking service fee are recognised on a trade date basis.
- (iv) Corporate finance advisory service is recognised upon such services being rendered.
- (v) Transactions of investment in securities and related revenues are recorded on a transaction date basis.

**3. TURNOVER**

Turnover of the Group is analysed as follows:

	Three months ended 30th June,		Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Income from trading platform	35	35	70	73
Commission income/Infrastructure broking service fees	203	1,457	1,258	3,546
Fee income from corporate finance	50	–	50	–
Interest income from clients	11	25	31	99
Trading and principal Investment	392	–	392	–
	<u>691</u>	<u>1,517</u>	<u>1,801</u>	<u>3,718</u>

#### 4. BUSINESS SEGMENTS

For management purposes, the Group is currently organised into 4 main operating divisions, engaged in the following principal activities: (i) the provision of a trading platform; (ii) brokerage and securities margin financing business and infrastructure broking services; (iii) corporate financing and (iv) trading and principal Investment. These divisions are the basis on which the Group reports its primary segment information.

The principal activities of the divisions are as follows:

- Provision of a trading platform
- Brokerage and securities margin financing and infrastructure broking services
- Corporate finance advisory services
- Trading and principal Investment which includes dealings in securities and disposals of investments

#### Income statement for the six months ended 30th June, 2005

	Provision of a trading platform <i>HK\$'000</i>	Brokerage and securities margin financing and infrastructure broking services <i>HK\$'000</i>	Corporate finance advisory services <i>HK\$'000</i>	Trading and principal investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
Turnover	70	1,289	50	392	1,801
RESULTS					
Segment gain/(loss)	(71)	(2,269)	50	3	(2,287)
Net unallocated expenses					(2,043)
Loss before taxation					(4,330)
Income tax					-
Net loss for the period					(4,330)

**Income statement for the six months ended 30th June, 2004**

	Provision of a trading platform <i>HK\$'000</i>	Brokerage and securities margin financing and infrastructure broking services <i>HK\$'000</i>	Corporate finance advisory services <i>HK\$'000</i>	Trading and principal investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
Turnover	73	3,645	-	-	3,718
RESULTS					
Segment loss	(132)	(2,489)	-	-	(2,621)
Net unallocated expenses					(3,019)
Loss before taxation					(5,640)
Income tax					-
Net loss for the period					(5,640)

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and loss before taxation were derived from Hong Kong. Accordingly, no analysis by geographical segments is presented.

**5. OTHER OPERATING INCOME**

	Three months ended 30th June,		Six months ended 30th June,	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest income from bank deposits	64	2	67	4
Sundry income	45	21	110	51
	109	23	177	55

**6. INCOME TAX**

No provision for Hong Kong Profits Tax has been made as the Group incurred a tax loss for the periods (for the six months ended 30th June, 2004: Nil).

No deferred tax liabilities are recognised as the Group did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 30th June, 2005 (30th June, 2004: Nil).

No deferred tax asset has been recognised in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which any such asset can be utilised (30th June, 2004: Nil).

**7. LOSS PER SHARE – BASIC AND DILUTED**

The calculation of the basic loss per share for the three months and six months ended 30th June, 2005 is based on the net loss of the Group of approximately HK\$2,459,000 and HK\$4,330,000 (three months and six months ended 30th June, 2004: loss of approximately HK\$3,152,000 and HK\$5,640,000) and on weighted average number of 1,465,044,681 and 1,116,899,481 ordinary shares respectively (three months and six months ended 30th June, 2004: 764,886,000 ordinary shares) in issue during the period.

The computation of diluted loss per share has not assumed the exercise of options outstanding during the periods because their exercise would reduce loss per share.

**8. INVESTMENTS/SECURITIES**

	<b>30th June, 2005</b> <i>HK\$'000</i>	<b>31st December, 2004</b> <i>HK\$'000</i>
Equity securities listed in Hong Kong	<u>177</u>	<u>–</u>

**9. TRADE RECEIVABLES**

	<b>30th June, 2005</b> <i>HK\$'000</i>	<b>31st December, 2004</b> <i>HK\$'000</i>
Accounts receivable arising from equities broking:		
Margin clients	244	409
Cash clients	28	1,443
Hong Kong Securities Clearing Company Limited ("HKSCC") (net)	–	5,544
Accounts receivable arising from futures broking:		
Brokers and dealers	258	865
HKFE Clearing Corporation Limited ("HKFECC")	158	405
Other trade receivables	<u>51</u>	<u>2</u>
	<u>739</u>	<u>8,668</u>

Accounts receivable from margin clients are repayable on demand, bear interest at prevailing market rates and are secured by clients' securities that are listed on the Exchange with a market value of approximately HK\$1,152,000 as at 30th June, 2005 (31st December, 2004: approximately HK\$2,792,000). No aged analysis is disclosed as, in the opinion of the Directors, the aged analysis does not give additional value in view of the nature of business of securities margin financing.

The settlement terms of accounts receivable arising from equities broking are one or two trade days after the trade execution date, and accounts receivable arising from futures broking are one trade day after the trade execution date. Except for the accounts receivable from margin clients as mentioned above, the age of the balances with clients is within 30 days.

The following is an aged analysis of other trade receivables at the reporting dates:

	<b>30th June, 2005</b>	<b>31st December, 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	51	2
31 to 60 days	–	–
61 to 90 days	–	–
Over 90 days	–	–
	<hr/>	<hr/>
	<b>51</b>	<b>2</b>
	<hr/>	<hr/>

#### 10. TRADE PAYABLES

	<b>30th June, 2005</b>	<b>31st December, 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts payable arising from equities broking:		
Margin clients	2,886	2,063
Cash clients	2,088	8,185
HKSCC (net)	258	–
Accounts payable arising from futures broking:		
Clients	327	1,099
Other trade payables	1	692
	<hr/>	<hr/>
	<b>5,560</b>	<b>12,039</b>
	<hr/>	<hr/>

Accounts payable to margin clients are repayable on demand and bear interest at prevailing market rates. No aged analysis is disclosed as, in the opinion of the Directors, the aged analysis does not give additional value in view of the nature of business of securities margin financing.

The settlement terms of accounts payable arising from equities broking are one or two trade days after the trade execution date. The age of the balances with clients is within 30 days. Accounts payable to clients arising from futures broking are margin deposits received from clients for their trading of futures contracts. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as, in the opinion of the Directors, the aged analysis does not give additional value in view of the nature of business of future contracts dealing.

The following is an aged analysis of other trade payables at the reporting dates:

	<b>30th June, 2005</b>	<b>31st December, 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	1	692
31 to 60 days	–	–
61 to 90 days	–	–
Over 90 days	–	–
	<hr/>	<hr/>
	<b>1</b>	<b>692</b>
	<hr/>	<hr/>

## 11. SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31st December, 2004 and 30th June, 2005	<u>10,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 31st December, 2004	764,886	7,649
Issue of new shares ( <i>note</i> )	<u>1,285,148</u>	<u>12,851</u>
At 30th June, 2005	<u>2,050,034</u>	<u>20,500</u>

*Note:* On 29th April, 2005, 1,000,000,000 shares of HK\$0.01 each were issued by way of subscription at a subscription price of HK\$0.026 per share. On 1st June, 2005, 5,148,000 shares of HK\$0.01 each were issued at a subscription price of approximately HK\$0.019 per share by exercise of options under the Pre-IPO Share Option Plan. On 29th June, 2005, 280,000,000 shares of HK\$0.01 each were issued at a subscription price of HK\$0.026 per share by exercise of options under of the Share Option Scheme.

## 12. DIVIDEND

The Directors do not recommend the payment of any dividend by the Company for the Quarterly Period (for the six months ended 30th June, 2004: Nil).

## Business Review

The first six months of 2005 recorded a turnover of about HK\$1,801,000, a decrease of approximately 52% compared to the last corresponding period. This was mainly due to the discontinuation of the infrastructure brokering services. The group continued to control and reduce its operating expenses and as a result the loss attributable to shareholders was approximately HK\$4,330,000 for the first six months of 2005, a decrease of approximately 23% compared to the last corresponding period.

To avail the group of sufficient financial resources to explore new business and take on future opportunities, the Company entered into a subscription agreement in which the Company agreed to allot and issue 1,000 million new subscription shares to Asia Network Holdings Limited (the "Subscriber") at HK\$0.026 per share and to grant an aggregate of 350 million new share options to the Subscriber, Mr. Richard Yingneng Yin and Dr. Seah Chin Yew at HK\$0.026 per share. Pursuant to the agreement, 1,000 million new subscription shares were issued to the Subscriber on 29 April 2005. A further 130 million new shares were issued to the Subscriber, 75 million to Mr. Yin and 75 million to Dr. Seah on 29 June 2005 following the exercise of the share options. As a result, the working capital of the group was substantially strengthened by about HK\$31 million.

Following the execution of the subscription agreement, a new board of directors was appointed. The new board members are Mr. Yin, Dr. Seah and Mr. Lee Yiu Sun, being executive directors, and Mr. Michael Wu Wai Chung, Mr. Japhet Sebastian Law and Mr. Tsang Hing Lun, being independent non-executive directors. A new management team was also established, consisting of Mr Yin as the Chairman, Dr. Seah as the Chief Executive Officer and Mr. Lee as an Executive Director.

## Outlook

With the working capital being substantially strengthened following the share subscriptions, as well as the installment of the new management team, the Company will pursue more business opportunities. Apart from enhancing its securities and futures brokering services, it will also work to recommence its infrastructure brokering services. The Company will endeavour to expand its corporate finance activities, especially in the Greater China Area and South-east Asia. It will also simultaneously focus on direct investments in private and public companies, as well as take strategic proprietary positions in private companies that have potentials for listing. Overall, the Company expects that the investment of the new capital raised in 2005 will contribute to growth.

## Financial Review

The turnover of the Group was approximately HK\$1,801,000 for the six months ended 30th June, 2005 (2004: approximately HK\$3,718,000), representing a decrease of 52% from the previous period. This was attributable to the constraints on financial resources at the early part of the year and the discontinuation its infrastructure brokering services. During the period, the Group continued to enforce and implement tight control measures on all expenses including in particular staff costs by further reducing headcount. As a result, the loss attributable to shareholders for the six months ended 30th June, 2005 decreased to approximately HK\$4,330,000 from approximately HK\$5,640,000 during the corresponding period in 2004.

### **Liquidity and Financial Resources**

As at 30th June, 2005, the Group had total assets of approximately HK\$59,881,000, including bank balances and cash of approximately HK\$53,433,000. The Group did not incur any bank overdraft or loan during the period under review.

As at 30th June, 2005, the Group's gearing ratio, defined as the Group's total borrowings divided by shareholders' funds, was nil.

The Group financed its operations entirely with its own internal funding. With net assets of approximately HK\$53,602,000, the Group remained in a healthy and liquid position as at 30th June, 2005.

Since essentially all of the transactions of the Group are denominated in Hong Kong dollars, no hedging or other arrangements to reduce the currency risk have been implemented.

### **Employee Information**

As at 30th June, 2005, the Group had rationalized its workforce to 10 employees (30th June, 2004: 18). For the six months ended 30th June, 2005, the total staff costs amounted to approximately HK\$2,017,000 (six months ended 30th June, 2004: approximately HK\$3,595,000). The Group's remuneration policies are determined on the basis of the performance and experience of individual employees.

### **Significant Investments**

For the six months ended 30th June, 2005, the Group had made no significant investments.



## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2005, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to the minimum standard of dealings by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### Long positions in shares of the Company

Name of Director	Personal	Number of shares beneficially held		Total	Approximate percentage shareholdings
		Corporate			
Richard Yingneng Yin	75,000,000	1,130,006,000 (Note 1)		1,205,006,000	58.78%
Seah Chin Yew	75,000,000	1,130,006,000 (Note 2)		1,205,006,000	58.78%
Lee Yiu Sun	4,719,000	–		4,719,000	0.23%

#### Notes:

1. Mr. Richard Yingneng Yin was deemed to be interested in 1,130,006,000 shares through his controlling interest in Asia Network Holdings Limited.
2. Dr. Seah Chin Yew was deemed to be interested in 1,130,006,000 shares through his interest in Asia Network Holdings Limited.

### Long positions in underlying shares of the Company

The Company operates two share option schemes, namely the Share Option Scheme and the Pre-IPO Share Option Plan (as defined in the prospectus of the Company dated 8th January, 2002), under which the participants are entitled to an opportunity to obtain equity interest in the Company in respect of their services and/or goods provided to the Group.

The number of shares in respect of which options may be granted under the Share Option Scheme and the Pre-IPO Share Option Plan is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders.

The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue during the twelve months before the date of grant, without prior approval from the Company's shareholders.

Details of movements in the Pre-IPO Share Option Plan granted to the relevant persons were as follows:

Name of grantee	Date of grant	Number of options			Exercise period	Exercise price per share (approximately) HK\$
		Outstanding as at 1st January, 2005	Exercised during the period	Outstanding as at 30th June, 2005		
So Kin Wing	17/12/2001	5,148,000	5,148,000	–	11/01/2004 - 16/12/2010	0.019
		<u>5,148,000</u>	<u>5,148,000</u>	<u>–</u>		

No options were offered or granted under the Pre-IPO Share Option Plan during the six months ended 30th June, 2005 as the right to offer or grant options under the Pre-IPO Share Option Plan ended upon the listing of the Company's shares on GEM.

All the abovementioned outstanding options are unlisted and represent physically settled equity derivatives.

Details of movements in the Share Option Scheme granted to the relevant persons were as follows:

Name of grantee	Date of grant	Number of options			Outstanding as at 30th June, 2005	Exercise period	Exercise price per share HK\$
		Outstanding as at 1st January, 2005	Granted during the period	Exercised during the period			
Asia Network Holdings Limited	29/04/2005	–	130,000,000	130,000,000	–	29/04/2005 - 28/04/2009	0.026
Richard Yingneng Yin	29/04/2005	–	120,000,000	75,000,000	45,000,000	29/04/2005 - 28/04/2009	0.026
Seah Chin Yew	29/04/2005	–	100,000,000	75,000,000	25,000,000	29/04/2005 - 28/04/2009	0.026
		<u>–</u>	<u>350,000,000</u>	<u>280,000,000</u>	<u>70,000,000</u>		

The options granted under the Company's share option schemes are not recognized in the Group's financial statements until they are exercised. The Directors consider that it is not appropriate to state the value of such options on the ground that there are limitations in the application of the Black-Scholes Option Pricing Model and the Binomial Model in the valuation of such options, especially given that the key assumption underlying these derivative valuation metrics – that the

options valued can be sold in a secondary market transaction – is not valid because holders of such options may not sell such options, they may only exercise them. Accordingly, the Directors believe that any valuation of such options would not be meaningful and may be misleading to the shareholders of and potential investors in the Company.

**Long positions in debentures of the Company**

No long positions of the Directors including the chief executive of the Company in the debentures of the Company or its associated corporations were recorded in the register, or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

**Short positions in shares of the Company**

No short positions of the Directors including the chief executive of the Company in the shares of the Company or its associated corporations were recorded in the register, or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

**Short positions in underlying shares of the Company**

No short positions of the Directors including the chief executive of the Company in the underlying shares of the equity derivatives of the Company or its associated corporations were recorded in the register, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, as at 30th June, 2005, none of the Directors or the chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to the minimum standard of dealings by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

During the six months ended 30th June, 2005, there was no debt securities issued by the Group at any time.

## Substantial Shareholders' and other Persons' interests and Short Positions in Shares and Underlying Shares

As at 30th June, 2005, the following companies had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### Long positions in shares of the Company

Name	Capacity	Nature of interest	Number of shares	Approximate percentage shareholdings
First Vanguard Group Limited (Notes 1 and 2)	Interest in a controlled corporate	Corporate	1,130,006,000	55.12%
Asia Network Holdings Limited (Note 2)	Beneficially owner	Corporate	1,130,006,000	55.12%

Notes:

1. First Vanguard Group Limited was deemed to be interested in 1,130,006,000 through its controlling interest of 80.00% in Asia Network Holdings Limited.
2. The 1,130,006,000 shares held by each of Mr. Richard Yingneng Yin, First Vanguard Group Limited and Asia Network Holdings Limited refer to the same parcel of shares.

### Long positions in underlying shares of the Company

No long positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

### Short positions in shares of the Company

No short positions of other persons or substantial shareholders in the shares of the Company were recorded in the register.

### Short positions in underlying shares of the Company

No short positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 30th June, 2005, the Company had not been notified of any other person (other than the Directors of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company and was required to be recorded in the register required to be kept under Section 336 of the SFO and/or was directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

During the six months ended 30th June, 2005, there was no debt securities issued by the Group at any time.

## **Interest in Competitors**

None of the Directors or the management shareholders of the Company (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

## **Compliance with Rules 5.48 To 5.67 of the GEM Listing Rules**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30th June, 2005. Having made specific enquiry of all Directors, the Company's Directors have complied with such code of conduct and the required standard of dealings throughout the six months ended 30th June, 2005.

## **Audit Committee**

In compliance with Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference. The audit committee comprises three members, being Mr. Michael Wu Wai Chung, Mr. Japhet Sebastian Law and Mr. Tsang Hing Lun, all of them are Independent Non-executive Directors.

During the six months, the audit committee has conducted two meetings. The audit committee has reviewed the financial statements of the Group for the six months ended 30th June, 2005 pursuant to the relevant provisions contained in the Code on Corporate Governance Practices as set out in Appendix 15 and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure has been made in respect thereof. It has also reviewed the financial reporting process and the adequacy and effectiveness of the internal control system of the Group.

## **Corporate Governance**

The Company had been looking for several candidates to be the members of the Remuneration Committee. The appointments were completed and the Remuneration Committee was formed in August 2005. Save as disclosed above, throughout the period, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

## **Purchase, Redemption or Sale of Listed Securities**

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

As at the date of this report, Mr. Richard Yingneng Yin, Dr. Seah Chin Yew and Mr. Lee Yiu Sun are executive directors, Mr. Michael Wu Wai Chung, Mr. Japhet Sebastian Law and Mr. Tsang Hing Lun are independent non-executive directors.

By order of the Board  
**Richard Yingneng Yin**  
*Chairman*

Hong Kong, 9th August, 2005