



**Q9 Technology Holdings Limited**  
**(九方科技控股有限公司)\***  
*(Incorporated in the Cayman Islands with limited liability)*

# Interim Report 2002



\* For Identification purpose only

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“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 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 of GEM is publication on the internet website operated by the Stock Exchange. Listed companies 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.

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims 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 Q9 Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules governing the Listing of Securities on the Growth Enterprise Market (“GEM Listing Rules”) of the Stock Exchange 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.*

## FINANCIAL HIGHLIGHTS

- HK\$2.236m turnover achieved for the 6 months ended 30 June 2002, representing a decrease of 49% from corresponding period last year.
- HK\$1.9 m gross profit achieved for the 6 months ended 30 June 2002, representing a decrease of 53% from corresponding period last year.
- Gross profit margin percentage decreased to approximately 84.6% compared to 91% in last period.
- Operating loss increased to approximately HK\$16.665 m compared to HK\$7.078 m in last period.
- Established agreement with Hong Kong IT Skills Assessment Centre of the Vocational Training Council, to co-develop and co-promote the “Q9 Chinese input assessment”, and to establish Q9 Chinese input skill as a recognized qualification by employers in Hong Kong.
- Signed licensing agreement with UTStarcom Telecom Co., Ltd, Astralink Technology Pte Ltd, Guangzhou Southern Hi-Tech Company, Shenzhen Telsda Mobile Communication Industry Developing Co., Ltd, and Shenzhen Guanri Telecommunication Technology Ltd, to embed Q9 input system. It is expected Nokia (HK) will also embed Q9 input system in one of its new high end mobile phone, which will be launched to the market during the fourth quarter this year.
- The Group expects that about nine original equipment manufacturers (“OEMs”) in Hong Kong and PRC, will commence production, and licensing revenue will be derived from these OEMs starting from third quarter.

The Group has recorded a net loss attributable to shareholders for the six months ended 30 June 2002 of HK\$16,592,000, representing a basic loss per share of HK1.33 cent.

The unaudited consolidated results for the six months ended 30th June 2002 and the comparisons with last year are set out in the accompanying table.

## INTERIM RESULTS (UNAUDITED)

The Board of Directors (the "Directors") of Q9 Technology Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2002, together with the unaudited comparative figures for the corresponding period in 2001 as follows:

	Notes	Unaudited Three months ended 30 June Unaudited		Unaudited Six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	796	2,483	2,236	4,421
Cost of sales		(119)	(242)	(344)	(408)
Gross profit		677	2,241	1,892	4,013
Other revenues	2	164	103	348	139
Selling and distribution expenses		(6,080)	(2,114)	(8,235)	(3,643)
Research and development expenses		(2,244)	(1,302)	(4,572)	(3,029)
General and administrative expenses		(3,399)	(2,557)	(6,098)	(4,558)
Operating loss	3	(10,882)	(3,629)	(16,665)	(7,078)
Finance costs		—	—	—	—
Loss for the period		(10,882)	(3,629)	(16,665)	(7,078)
Minority Interest		73	—	73	—
Loss attributable to shareholders		(10,809)	(3,629)	(16,592)	(7,078)
Loss per share (cents)	5	0.86	0.36	1.33	0.67

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

		As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
	Notes		
Fixed assets		3,614	2,953
Goodwill		913	—
Deferred expenditure		3,051	5,412
Current assets			
Inventories	6	1,396	1,047
Current portion of deferred expenditure		2,886	7,428
Accounts receivable	7	1,377	1,672
Deposits and prepayments		1,058	1,554
Bank balances and cash		<u>41,254</u>	<u>46,859</u>
		<u>47,971</u>	<u>58,560</u>
Current liabilities			
Accounts payable	8	276	819
Other payables and accruals		753	1,302
Amounts due to directors		—	—
Amounts due to related companies		131	—
Loans from shareholders and a related company		<u>—</u>	<u>—</u>
		<u>1,160</u>	<u>2,121</u>
Net current liabilities		<u>46,811</u>	<u>56,439</u>
		<u>54,389</u>	<u>64,804</u>
Financed by:			
Share capital		12,500	12,500
Reserves	9	<u>41,174</u>	<u>52,304</u>
Shareholders' funds		<u>53,674</u>	<u>64,804</u>
Minority Interest		<u>715</u>	<u>—</u>
		<u>54,389</u>	<u>64,804</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital HK\$'000	Share premium HK\$'000	Reorganisation reserve HK\$'000	Warrant reserve HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
<b>2002</b>						
At 1 January 2002	12,500	88,627	3,000	—	(39,323)	64,804
Issue of Warrants				6,250		6,250
Warrant issue expenses		(788)				(788)
Loss for the six months ended 30 June 2002					(16,592)	(16,592)
At 30 June 2002	<u>12,500</u>	<u>87,839</u>	<u>3,000</u>	<u>6,250</u>	<u>(55,915)</u>	<u>53,674</u>

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June 2002 (Unaudited) HK\$'000	Six months ended 30 June 2001 (Unaudited) HK\$'000
Cash flows used in operating activities	(10,200)	(20,937)
<b>Cash flows from Investing activities</b>		
Interest received	337	129
Purchase of fixed assets	(1,204)	(99)
Sale of fixed assets	—	—
Net cash used in investing activities	(867)	30
<b>Cash flows from financing activities</b>		
Proceeds from issue of new shares	—	112,500
Share issue expenses	—	(16,087)
Loans from shareholders	—	7,500
Repayment of loans from shareholders	—	(24,611)
Proceeds from issue of warrants	6,250	—
Warrant issue expenses	(788)	—
Net cash generated from financing activities	5,462	79,302
(Decrease)/increase in bank balances and cash	(5,605)	58,395
Bank balances and cash at 1st January	46,859	2,768
Bank balances and cash at 30th June	41,254	61,163

NOTES:

1. **Basis of preparation and principal accounting policies**

The basis of preparation and principal accounting policies adopted in preparing the unaudited consolidated interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2001 and conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

2. **Turnover and revenues**

Turnover and other revenues of the Group on the basis set out in note 1 above are as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Sale of goods at invoiced value, net of returns and discounts	796	2,483	2,236	4,421
Other revenues				
Interest	163	103	337	129
Other	1	—	11	10
	<u>164</u>	<u>103</u>	<u>348</u>	<u>139</u>
Total revenues	<u>960</u>	<u>2,586</u>	<u>2,584</u>	<u>4,560</u>

The Group's turnover by country or sales area are as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong & Macau	751	2,483	2,160	4,418
PRC	41	—	72	—
United States	4	—	4	3
Turnover	<u>796</u>	<u>2,483</u>	<u>2,236</u>	<u>4,421</u>



### 3. Operating loss

Operating loss is stated after charging:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Depreciation	262	217	511	434
Loss on disposal of fixed assets	15	—	31	—
Amortisation of deferred expenditure	5,049	—	6,903	—
	<u>5,326</u>	<u>217</u>	<u>7,445</u>	<u>434</u>

### 4. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the six months ended 30 June 2002. The subsidiaries operating in Mainland China have no assessable profits during the relevant periods and accordingly no provision for Mainland China profits tax has been made.

No provision for deferred tax has been made in the accounts as the tax effect of timing differences is not material to the Group.

### 5. Loss per share

The calculation of basis loss per share for the three months and six months ended 30 June 2002 is based on the unaudited consolidated loss attributable to shareholders of HK\$10,809,000 and HK\$16,592,000 respectively (three months and six months ended 30 June 2001: HK\$3,629,000 and HK\$7,078,000 respectively) and the weighted average number of 1,250,000,000 (three months and six months ended 30 June 2001: 1,000,000,000 and 1,062,500,000 respectively) ordinary shares in issue during the periods. In determining the weighted average number of shares in 2001, the 500,000,000 shares issued upon establishment of the Company and as part of the Reorganisation and the further 500,000,000 shares issued pursuant to the capitalisation issue had been in issue throughout the six months ended 30 June 2001.

No diluted loss per share is presented as the exercise of subscription rights attached to the share options would not have a dilutive effect on the loss per share.

## 6. Inventories

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Merchandise	743	684
Finished goods	653	363
	<u>1,396</u>	<u>1,047</u>

## 7. Accounts receivable

The ageing analysis of the accounts receivable were as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current	68	215
31-90 days	31	132
91-180 days	249	987
Over 180 days	1,029	338
	<u>1,377</u>	<u>1,672</u>

The credit terms given to customers vary and are generally based on the financial strengths of individual customers.

## 8. Accounts payable

The ageing analysis of the accounts payable were as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current	160	281
31-90 days	27	154
91-180 days	30	131
Over 180 days	59	253
	<u>276</u>	<u>819</u>

## 9. Reserves

Movement of reserves of the Group were as follows:

	Share Reorganisation premium HK\$'000	Reorganisation reserve HK\$'000	Warrant reserve HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
At 1 January 2002	88,627	3,000	—	(39,323)	52,304
Issue of Warrants			6,250		6,250
Warrant issue expenses	(788)				(788)
Loss for the year retained				(16,592)	(16,592)
	<u>87,839</u>	<u>3,000</u>	<u>6,250</u>	<u>(55,915)</u>	<u>41,174</u>

## 10. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001:Nil).

## BUSINESS REVIEW AND PROSPECTS

The Group's turnover for the six months period ended 30 June 2002 of HK\$2,236,000 decreased by HK\$2,185,000 or 49% over corresponding period last year. The decrease in the Group's revenue for the six months period in current year over corresponding period of last year was mainly attributable to decrease in sales of Q9 character input system in Hong Kong, a slow start in penetrating the huge China market, and minimal OEM licensing income booked during first half of the year. As the Group's strategy is to establish Q9 Chinese input system as the market leader, the Group further reduced the price of its packaged software, and allowed free downloads of a trimmed down version of Q9 Chinese input software through the Group's website. Over 100,000 free downloads have been registered in Hong Kong, which may affect sales in the short run, but will speed up the wide spread penetration and adoption of Q9 Chinese input system as a de facto standard system in the Greater China market.

The Group's total expenses for the six months period ended 30 June 2002 of HK\$18,905,000 increased by HK\$7,675,000 or 68.3% over corresponding period last year, mainly attributable to the Group increased selling and distribution expenses, as the number of advertising and promotional programs launched to promote Q9 character input system in China increased. As Q9 Chinese input software is a new product in the huge China market, it is necessary to incur some advertising and promotional expenses during the initial market launch to create market awareness. The Group has been successful in recruiting distribution agents in PRC including Chengdu, Mianyang and several agents in the Sichuan Province, and will continue to expand the number of distributing agents across the PRC. Going forward, the Group intends to focus its marketing activities to OEM customers, including mobile phone, desk top phone, PDA and PC manufacturers, and promote Q9 to the end users in concert with these OEM manufacturers, and minimize the advertising and promotional budget deployed in targeting the end users directly. The Group commenced a co-marketing program with Nokia in Hong Kong and China, whereby users may download Q9 Chinese input system from a website and load the software into Nokia mobile phone models which run on Symbian operating platform. The Group's general and administrative expenses increased by about HK\$1,540,000 during the six months ended 30 June 2002 over the same period last year. The Group's research and development expenses increased by about HK\$1,543,000 over same period last year, mainly due to co-development projects with a number of mobile telephone and telecommunication equipment companies for new operating platforms.

In Hong Kong, the Group teamed up with Hong Kong IT Skills Assessment Centre of the Vocational Training Council, to co-develop and co-promote the “Q9 Chinese input assessment”, and to establish Q9 Chinese input skill as a recognized qualification by employers in Hong Kong. Participants of such Assessment program, will be issued a certificate upon meeting certain standards and speed in mastery of Q9 Chinese input.

In the PRC, the Group invited current and potential OEM customers and the media to attend conference in Shenzhen, announcing the official market launch of Q9 CIS in China. A number of potential customers who attended the conference continue their discussion with the Group to embed Q9 CIS into their products. The Group expects that about nine original equipment manufacturers (“OEMs”) in Hong Kong and the PRC, will commence production, and licensing revenue will be derived from these OEMs starting from third quarter. The Group focused its marketing effort to OEM customers, and market Q9 packaged software through its network of distributors in China.

In Taiwan, the Group acquired 51% interests in a former distributor of Q9 CIS, who have developed a wide network of distribution channels and good relationship with Taiwanese based OEM manufacturers. It is expected that the Taiwan’s subsidiary will contribute positively to the Group in marketing Q9 CIS in Taiwan, as well as assisting the Group to promote Q9 CIS to Taiwanese OEM manufacturers based in Taiwan and/or in the PRC.

## **COMPARISON OF THE BUSINESS OBJECTIVES SET OUT IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS**

### **Establishing further distribution centres in Shanghai, Beijing and Chongqing in the PRC**

The Group has sponsored the Young Communists Association (“YCA”) to co-promote Q9 CIS through a National Competition program. Through this program, the Group has the opportunity to provide training and to distribute Q9 CIS to millions of members of YCA through the National network training centers of YCA. It is expected the Group will develop a long term relationship with YCA, who will assist the Group in establishing more distribution centers in Beijing, Shanghai and other cities in China.

The Group has successfully secured the endorsement of the Education Department in Shan Dong Province to include Q9 CIS in the curriculum of primary and secondary schools for the entire province, and will be published in the approved list of educational software. The Group is currently co-developing the marketing and distribution arrangements for the Shan Dong province, targeting over 15 million students and their parents, through the Educational TV channels and the training centers run by the Education Department.

#### **Launching Q9 CIS in the Japanese Market**

The actual market launch of Q9 CIS in the Japanese market did not take place during the first half of 2002 as originally planned as stated in the Prospectus, as the Group intends to focus its marketing activities in the Greater China region.

#### **Launching Q9 CIS in the Korean Market**

The actual market launch of Q9 CIS in the Korean market will not take place during the first half of 2002 as originally planned as stated in the Prospectus, as the Group intends to focus its marketing activities in the Greater China region.

#### **Continuing its marketing campaign in the Greater China market**

The Group continues its marketing efforts in the Greater China market targeting primarily educational institutions and equipment suppliers and manufacturers. In Hong Kong, the endorsement of Q9 CIS by Vocational Training Council will further enhance the status of Q9 CIS in the minds of the end users. In Taiwan, the newly formed subsidiary of the Group has established relationship with many potential business and channel partners, and financial contribution to the Group is expected commencing from the last quarter of 2002.

The Group is also making good progress in marketing Q9 CIS to a number of mobile and desk top telephone manufacturers in PRC.

**Continuing research and development into mobile information platform applicable to as wide a range as possible of mobile telecommunication devices and other applicable electronic devices. Arabic and Thai versions and continuing development of its Japanese and Korean versions.**

The Group's current focus in research and development is to focus on the development of an operating system to be deployed in desk top short message phones. It is envisaged that the operating system could also be deployed on other mobile information, but the design and marketing focus of the operating system will be targeted towards the desk top short message phone manufacturers, as there is no entrenched competitor in this newly developed market, and the Group believes it has comparative advantages over its competitors in terms of market penetration into the end user markets in PRC, such as in Shan Dong province, where Q9 CIS is the only numeric based CIS endorsed by the Education Department.

## Securing further licensing agreements

The Group has signed licensing agreements with three international mobile phone companies, three mobile phone and two fixed line phone manufacturers based in the PRC, and one desktop phone manufacturer based in Singapore from 1st January 2002 to the date of this report. Although the Group may fall short of meeting the target of signing at least four licensing agreements with major international companies and not less than twelve agreements with manufacturers based in the Greater China region during the first half of 2002, the Group is confident that it will be able to secure further licensing agreements, due to the Group's continuous and focused research and development efforts and marketing efforts and its superior product design features.

## DIRECTORS' INTERESTS

### (i) SHARES

At 30 June 2002, the interests of the directors and their associates in the shares of the company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Directors	Personal Interest	Family Interest	Corporate Interest (Note 1)	Other interest	Total no. of Shares
Leung Lap Yan	Nil	Nil	280,000,000 (Note 2)	Nil	280,000,000
Lau Man Kin	Nil	Nil	93,000,000	Nil	93,000,000
Leung Lap Fu, Warren	Nil	Nil	22,000,000	Nil	22,000,000

#### Notes:

1. These shares are held by Step Up Company Limited.
2. Mr. Leung Lap Yan has a controlling interest in Step Up Company Limited and is deemed to have interest in all the shares held by Step Up Company Limited.

Save as disclosed above, none of the Directors or their associates had, as at 30 June 2002, any interests in the shares of the Company or its associated corporations which are recorded in the register required to be kept under Section 29 of the SDI Ordinance.

## (ii) WARRANTS

Directors	Nature of Interest	Number of warrants held
Leung Lap Yan (Note 2)	Corporate interest (Note 1)	5,120,000
Lau Man Kin	Corporate interest (Note 1)	1,587,200
Leung Lap Fu, Warren	Corporate interest (Note 1)	716,800

Notes:

1. The warrants are held by Step Up Company Limited.
2. Mr. Leung Lap Yan has a controlling interest in Step Up Company Limited and is deemed to have interest in all the warrants held by Step Up Company Limited.

## (iii) DIRECTORS' RIGHT TO ACQUIRE SHARES

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 5 May 2001 and the Share Option Scheme adopted by the Company on 7 May 2001, particulars of the outstanding options which have been granted under the Pre-IPO Share Option Scheme and the Share Option Scheme are set out below:

Name of Director	Number of underlying shares and outstanding at 30 June 2002	Exercise Price	Option Exercise Period*
Dr. Lim Yin Cheng	84,480,000	HK\$0.36	See note 1 below
Mr. Leung Lap Yan	71,720,000	HK\$0.36	See note 1 below
Mr. Leung Lap Fu Warren	14,470,000	HK\$0.36	See note 2 below
Mr. Lau Man Kin	13,390,000	HK\$0.36	See note 1 below
Mr. William Tam Kam Biu	6,400,000	HK\$0.36	See note 2 below
Mr. Clement Fung Siu To	2,560,000	HK\$0.36	See note 2 below
Mr. Kwan Kin Chung	1,150,000	HK\$0.36	See note 2 below
Mr. Tao Shi	640,000	HK\$0.36	See note 2 below
Mr. Phileas Kwan Po Lam	1,000,000	HK\$0.45	18/5/01 to 17/5/11
Mr. Lun Pui Kan	1,920,000	HK\$0.36	See note 2 below
Mr. Lun Pui Kan	3,000,000	HK\$0.45	18/5/01 to 17/5/11

- \* Option period commenced from date of grant and terminating ten years thereafter. No options granted pursuant to the Pre-IPO Share Option Scheme and Share Option Scheme had been exercised as at 30 June 2002.



Save as disclosed above, during the six months ended 30 June 2002, none of the Directors or their associates was granted options to subscribe for shares.

The options may be exercised at any time within the option period provided that the options have been vested. Generally, the options are vested in different tranches and may be exercised within the option period.

	Percentage of options exercisable by each grantee in respect of options granted to him
<b>Note 1: Commencement date when the options shall vest and be exercisable:</b>	
(a) the date falling six months from 18 May 2001	10%
(b) the date falling six months from the date in (a)	10%
(c) the date falling six months from the date in (b)	10%
(d) the date falling six months from the date in (c)	20%
(e) the date falling six months from the date in (d)	20%
(f) the date falling six months from the date in (e)	20%
(g) the date falling six months from the date in (f)	10%

	Percentage of options exercisable by each grantee in respect of options granted to him
<b>Note 2: Commencement date when the options shall vest and be exercisable:</b>	
(a) the date falling six months from 18 May 2001	10%
(b) the date falling six months from the date in (a)	20%
(c) the date falling six months from the date in (b)	20%
(d) the date falling six months from the date in (c)	20%
(e) the date falling six months from the date in (d)	20%
(f) the date falling six months from the date in (e)	10%

## SHARE OPTIONS SCHEMES

During the period ended 30 June 2002, no options have been granted or exercised. Options granted under the Pre-IPO Share Option Scheme adopted on 5 May 2001 and the Share Option Scheme adopted on 7 May 2001 for a total of 11,670,000 shares and 680,000 shares respectively lapsed after employees' leaving the employment of the Group. At 30 June 2002, options to subscribe for a total of 225,880,000 shares are outstanding.

The Company has terminated the Share Option Scheme adopted on 7 May 2001 and adopted a new share option scheme on its annual general meeting on 30 April 2002 (the "New Share Option Scheme"). Pursuant to the New Share Option Scheme, details of which have been set out in a circular of the Company to its shareholders dated 27 March 2002, any director, employee, consultant, customer, supplier, agent, partner or advisers of or contractor to the Group or any entity in which any member of the Group holds any interest may be granted options to subscribe for the shares of the Company.

Up to the six months ended 30 June 2002, no option was granted by the Company under the New Share Option Scheme.

## SPONSORS INTERESTS

As updated and notified by Company's sponsor, Anglo Chinese Corporate Finance, Limited (Anglo Chinese), 3,660,000 Shares and 850,000 Shares are held by its immediate holding company and two directors of Anglo Chinese as at 30 June 2002. Saved as disclosed above, neither Anglo Chinese nor its directors or employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the securities of the company, including options or rights to subscribe for such securities.

Pursuant to the agreement dated 18 May 2001 entered into between the company and Anglo Chinese, Anglo Chinese will receive a fee for acting as the company's retained sponsor for the period from 18 May 2001 to 31 December 2003.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the register of substantial shareholders maintained under Sections 16(1) of the SDI Ordinance shows that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name of Shareholder	Number of shares	Approximate percentage holding
Mega Fusion Limited	400,000,000	32.0%
Asia Orient Holdings (BVI) Limited (Note 1)	400,200,000	32.0%
Asia Orient Holdings Limited (Note 2)	400,200,000	32.0%
Mr. Poon Jing (Note 3)	400,200,000	32.0%
Step Up Company Limited (Note 4)	280,000,000	22.4%
Culture.com Technology (BVI) Limited	300,000,000	24.0%
Culturecom Holdings (BVI) Limited (Note 5)	300,635,000	24.0%
Culturecom Holdings Limited (Note 6)	300,635,000	24.0%

### Notes:

1. Asia Orient Holdings (BVI) Limited is deemed to be a substantial shareholder as Mega Fusion Limited is its wholly owned subsidiary.
2. Asia Orient Holdings Limited is deemed to be a substantial shareholder as Asia Orient Holdings (BVI) Limited is its wholly owned subsidiary.
3. Mr. Poon Jing is deemed to be a substantial shareholder as he has controlling interest in Asia Orient Holdings Limited.
4. Mr. Leung Lap Yan is deemed to be a substantial shareholder as he is interested in 55% of the shares of Step Up Company Limited.
5. Culturecom Holdings (BVI) Limited is deemed to be a substantial shareholder as Culture.com Technology (BVI) Limited and Winway H.K. Investments Limited are its wholly owned subsidiaries.
6. Culturecom Holdings Limited is deemed to be a substantial shareholder as Culturecom Holdings (BVI) Limited is its wholly owned subsidiary.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30 June 2002, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Shares of the Company.

## **COMPETING INTERESTS**

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

## **AUDIT COMMITTEE**

Pursuant to rules 5.23 and 5.24 of the GEM Listing Rules, an audit committee, comprising two independent non-executive directors, namely Mr. Ip Chi Wai and Angus Tse Wang Cheung, was established on 19 September 2000.

The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. The half-year results has been reviewed by the audit committee.

By order of the Board  
**Leung Lap Yan**  
*Chairman*

13 August 2002