



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

Interim Report 2003



* 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 on 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 of Hong Kong Limited 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\$3,145,000 turnover was achieved for the six months ended 30th June 2003, representing an increase of 40.6% from corresponding period last year.
- HK\$908,000 OEM licensing revenue was achieved for the six months ended 30th June 2003. The OEM licensing revenue represents 29% of the Group's turnover for the first six months ended 30th June 2003, as compared to 0.7% in the first half of 2002.
- Seven OEM license agreements were signed by the Group and the Group's associated company in Taiwan during the first half of 2003:-
 - one PRC based desk-top SMS phone manufacturer;
 - one PRC based mobile phone manufacturer;
 - one Hong Kong based multimedia interactive set-top box manufacturer;
 - two Taiwan based desk-top SMS phone manufacturers;
 - two Taiwan based mobile phone manufacturers.
- The SMS desk-top phones launched in July 2003 were manufactured by the Group's OEM licensee, and will generate incremental OEM licensing revenue for the Group in the second half of 2003. The Group expects increasing amount of OEM licensing revenue will be realized from existing and new OEM license contracts signed in the second half of 2003.
- HK\$2,131,000 packaged software revenue was achieved for the first half of 2003, which is about the same level as the corresponding period last year.
- The Group recorded a net loss for the month of June 2003 of HK\$252,000 on turnover of HK\$892,000.
- The Group substantially reduced its operating expenses in the first half of 2003, whereby research and development expenses, selling and distribution expenses, general and administrative expenses, and total operating expenses were reduced by 76%, 78%, 36% and 64% respectively, as compared to the first half of 2002.
- The Group continues to focus its marketing efforts on OEM manufacturers of mobile phones, desk-top phones and digital set-top box, and steady progress have been made.
- The Group recorded a net loss attributable to shareholders for the six months ended 30th June 2003 of HK\$4,057,000 (compared with a loss of HK\$16.6 million for the same period of 2002) representing a basic loss per share of HK0.33 cents.

The unaudited consolidated results for the six months ended 30th June 2003 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 30th June 2003, together with the unaudited comparative figures for the corresponding periods in 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	Three months ended 30th June		Six months ended 30th June	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	1,609	796	3,145	2,236
Cost of sales		(193)	(119)	(378)	(344)
Gross profit		1,416	677	2,767	1,892
Other revenues	2	87	164	175	348
Selling and distribution expenses		(828)	(6,080)	(1,806)	(8,235)
Research and development expenses		(462)	(2,244)	(1,083)	(4,572)
General and administrative expenses		(1,888)	(3,399)	(3,912)	(6,098)
Operating loss	3	(1,675)	(10,882)	(3,859)	(16,665)
Share of losses of an associate		(22)	—	(198)	—
Loss for the period		(1,697)	(10,882)	(4,057)	(16,665)
Minority interests		—	73	—	73
Loss attributable to shareholders		(1,697)	(10,809)	(4,057)	(16,592)
		HK Cents	HK Cents	HK Cents	HK Cents
Loss per share	6	(0.14)	(0.86)	(0.33)	(1.33)

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th June 2003 (Unaudited) HK\$'000	As at 31st December 2002 (Audited) HK\$'000
	Notes		
Fixed assets		2,017	3,023
Interest in associate	7	—	—
Current assets			
Inventories	8	825	1,198
Accounts receivable	9	1,192	844
Other receivables, deposits and prepayments		1,330	1,003
Bank balances and cash		29,454	33,670
		<u>32,801</u>	<u>36,715</u>
Current liabilities			
Accounts payable	10	190	263
Other payables and accruals		838	1,438
		<u>1,028</u>	<u>1,701</u>
Net current assets		<u>31,773</u>	<u>35,014</u>
Net assets		<u>33,790</u>	<u>38,037</u>
Financed by:			
Share capital		12,464	12,464
Reserves	11	21,326	25,383
Shareholders' funds		<u>33,790</u>	<u>37,847</u>
Minority interests		—	190
		<u>33,790</u>	<u>38,037</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Total equity as at 1st January	37,847	64,804
Loss for the six months	(4,057)	(16,592)
Issue of warrants	—	6,250
Warrant issue expenses	—	(788)
	<hr/>	<hr/>
Total equity as at 30th June	<u>33,790</u>	<u>53,674</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Cash flows used in operating activities	(4,488)	(10,200)
Cash flows from investing activities		
Interest received	175	337
Purchase of fixed assets	(5)	(1,204)
Sale of fixed assets	102	—
Net cash from/(used in) investing activities	272	(867)
Cash flows from financing activities		
Proceeds from issue of warrants	—	6,250
Warrant issue expenses	—	(788)
Net cash generated from financing activities	—	5,462
Decrease in cash and cash equivalents	(4,216)	(5,605)
Cash and cash equivalents at 1st January	33,670	46,859
Cash and cash equivalents at 30th June	29,454	41,254
Analysis of balances of cash and cash equivalents		
Bank balances and cash	29,454	41,254

Notes:

1 **Basis of presentation**

(a) *Basis of preparation and principal accounting policies*

The unaudited interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and comply with the applicable 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”).

The same principal accounting policies adopted in the Group’s annual financial statements for the year ended 31st December 2002 have been applied to the Group’s interim financial statements, which are in accordance with accounting principles generally accepted in Hong Kong.

(b) *Associate*

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The results of the associates are accounted for by the Group using the equity method of accounting. The Group’s investments in associates are stated at its share of net assets of the associate. The Company’s investments in associates are stated at cost less impairment losses.

2 Turnover, revenue and segment information

The Group is principally engaged in software and embedded systems development. Turnover and other revenues of the Group are as follows:

	Unaudited		Unaudited	
	Three months ended 30th June		Six months ended 30th June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale of goods at invoiced value, net of returns and discounts	1,093	783	2,237	2,220
Licensing fee income	516	13	908	16
	<u>1,609</u>	<u>796</u>	<u>3,145</u>	<u>2,236</u>
Other revenues				
Interest	87	163	175	337
Others	—	1	—	11
	<u>87</u>	<u>164</u>	<u>175</u>	<u>348</u>
Total revenues	<u>1,696</u>	<u>960</u>	<u>3,320</u>	<u>2,584</u>

In accordance with the Group's internal financial reporting, the Group has determined that business segment is presented as the primary reporting format and geographic segment as the secondary reporting format.

No business segment analysis is provided as software and embedded systems development is the Group's only business segment.

The Group's turnover by geographical segment analysis is as follows:-

	Unaudited		Unaudited	
	Three months ended 30th June		Six months ended 30th June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,133	751	2,281	2,160
Mainland China	476	41	864	72
USA	—	4	—	4
	<u>1,609</u>	<u>796</u>	<u>3,145</u>	<u>2,236</u>

3 Operating loss

Operating loss is stated after charging the following:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30th June		30th June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	222	262	469	511
Loss on disposal of fixed assets	—	15	169	31
Amortisation of deferred expenditure	—	5,049	—	6,903
	<u>—</u>	<u>5,049</u>	<u>—</u>	<u>6,903</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 30th June 2003 (six months ended 30th June 2002: Nil). The subsidiaries operating in Mainland China have no assessable profits during the relevant periods and accordingly no provision for Mainland China income tax has been made.

As at 30th June 2003, the Group had deferred tax assets of approximately HK\$11 million (31st December 2002: HK\$10,594,000) mainly arising from tax effect of timing difference attributable to tax losses which can be carried forward to offset against future taxable profits. The potential deferred tax asset has not been recognized due to the unpredictability of future profit streams.

5 Interim dividend

The Directors do not recommend the payment of interim dividend for the six months ended 30th June 2003 (six months ended 30th June 2002: Nil).

6 Loss per share

The calculation of basic loss per share for the three months and six months ended 30th June 2003 is based on the unaudited consolidated loss attributable to shareholders of HK\$1,697,000 and HK\$4,057,000 respectively (three months and six months ended 30th June 2002: HK\$10,809,000 and HK\$16,592,000 respectively) and on the weighted average of 1,246,350,000 (three months and six months ended 30th June 2002: 1,250,000,000) ordinary shares in issue during the periods.

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

7 Interest in associate

On 1st January 2003, the Group's subsidiary in Taiwan, Q9 Technology Corporation, issued a total of 300,000 ordinary shares to third parties. As a consequence, the Group's equity interest was reduced from 51% to 42.5% and Q9 Technology Corporation became an associate of the Group.

8 Inventories

	30th June 2003 (Unaudited) HK\$'000	31st December 2002 (Audited) HK\$'000
Merchandise	405	537
Finished goods	<u>420</u>	<u>661</u>
	<u>825</u>	<u>1,198</u>

9 Accounts receivable

The ageing analysis of the accounts receivable was as follows:

	30th June 2003 (Unaudited) HK\$'000	31st December 2002 (Audited) HK\$'000
Current	688	719
31-90 days	354	99
91-180 days	<u>150</u>	<u>26</u>
	<u>1,192</u>	<u>844</u>

The credit terms given to customers vary and are generally based on the financial strengths of individual customers. The credit terms range from cash on delivery to 90 days from date of invoice.

10 Accounts payable

The ageing analysis of the accounts payable was as follows:

	30th June 2003 (Unaudited) HK\$'000	31st December 2002 (Audited) HK\$'000
Current	81	180
31-90 days	95	32
91-180 days	14	8
Over 180 days	—	43
	<u>190</u>	<u>263</u>

11 Reserves

Movements of reserves of the Group are as follows:

	Share premium (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Warrants reserve (unaudited) HK\$'000	Reorganisation reserve (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
At 1st 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 six months ended 30th June 2002	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(16,592)</u>	<u>(16,592)</u>
At 30th June 2002	<u>87,839</u>	<u>—</u>	<u>6,250</u>	<u>3,000</u>	<u>(55,915)</u>	<u>41,174</u>
At 1st January 2003	87,601	37	6,250	3,000	(71,505)	25,383
Loss for the six months ended 30th June 2003	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,057)</u>	<u>(4,057)</u>
At 30th June 2003	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(75,562)</u>	<u>21,326</u>

12 Commitments

(a) Capital commitments

The Group had no capital commitment as at 30th June 2003 (31st December 2002: Nil).

(b) Commitments under operating leases

As at 30th June 2003, the Group had future aggregate minimum lease payments in respect of properties under non-cancellable operating leases as follows:

	30th June 2003 (Unaudited) HK\$'000	31st December 2002 (Audited) HK\$'000
Not later than one year	547	1,448
Later than one year but not later than five years	930	528
	<u>1,477</u>	<u>1,976</u>

(c) Other commitments

As at 30th June 2003, the Group had no other commitment (31st December 2002: Nil).

13 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business were as follows:

	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	2003	2002	2003	2002
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing transactions				
Office and warehouse rental expenses	(a) 170	331	370	663
Building management fees	(b) 64	64	127	127
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes:

- (a) Office and warehouse rental agreements were entered into with certain subsidiaries of two substantial shareholders of the Group, and were charged based on fixed monthly fees.
- (b) Building management fees were paid to a subsidiary of a substantial shareholder and were charged at a fixed monthly rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group has no interest bearing debt and has no change in share capital. The Group relies on the internal resources, the net proceeds from its IPO and the subsequent issue of warrants as sources of funding. The Group keeps most of its cash in Hong Kong dollars as short term fixed deposit at banks, and balances of cash are kept in bank accounts as working capital of the Group.

The Group kept a minimum amount of cash as working capital in a bank account of its subsidiary in China in Renminbi and the balance in Hong Kong dollars.

The Group has no credit facilities and no borrowing outstanding as at 30th June 2003 (30th June 2002: nil).

There is no charge on the Group's assets as at 30th June 2003 (30th June 2002: nil).

The Group has no debt as at 30th June 2003 (30th June 2002: nil).

The gearing ratio of the Group, based on total debt to shareholders' equity, was nil as at 30th June 2003 (30th June 2002: nil).

Order book

Due to the nature of the Group's business, the Group does not maintain an order book.

Investment

Since 31st December 2002, apart from the acquisition of a subsidiary mentioned below, there are no other significant investments held by the Group.

Acquisition/disposal of a subsidiary

On 1st January 2003, the Group's subsidiary in Taiwan, Q9 Technology Corporation, issued a total of 300,000 ordinary shares to third parties. As a consequence, the Group's equity interest was reduced from 51% to 42.5% and Q9 Technology Corporation became an associate of the Group.

Save as disclosed, the Group did not have any material acquisition and disposal of subsidiaries or affiliated companies for the six months ended 30th June 2003.

Employee information

As at 30th June 2003, the Group employed 32 staff (30th June 2002: 64). Total staff costs, including directors' emoluments were approximately HK\$3.9 million for the six months ended 30th June 2003 as compared with that of approximately HK\$6.5 million for the corresponding period of the preceding financial year.

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonuses and share options may be granted to eligible staff by reference to the Group's performance as well as the individuals' performance.

Future plans for material investments and capital assets

The Group does not have any present plan for material investments or the acquisition of capital assets. The Group will focus its efforts on promoting existing products, Q9 CIS Chinese and English version, to OEM customers in the Greater China region. Accordingly, the business objective relating to the promotion of Q9 CIS into other markets, as stated in the Prospectus of the Group will be adjusted, and R&D expenditures for new products will also be significantly reduced.

Hedging policy

The Group does not have any material exposure to fluctuations in exchange or interest rates. Therefore, no hedging measures have been taken at present.

Contingent liabilities

The Group does not have any contingent liabilities as at 30th June 2003 (30th June 2002: nil).

BUSINESS REVIEW AND PROSPECTS

The consolidated turnover of the Company and its subsidiaries for the six months ended 30th June 2003 amounted to HK\$3,145,000, representing an increase of 40.6% from the corresponding period of last year. OEM licensing revenue for the first half of 2003 amounted to HK\$908,000 representing about 29% of turnover (first half of 2002: 0.7%). Loss attributable to shareholders for the six months ended 30th June 2003 amounted to HK\$4,057,000 compared to HK\$16,592,000 for the corresponding period of last year. The loss per share was HK0.33 cents (first half of 2002: loss per share of HK1.33 cents).

In 2003, the Group continued to focus only on marketing existing products to OEM customers through its own sales forces, developing new products only when it has definitive orders from customers, and penetrating the end user markets through the resources and networks of its strategic partners, Shantou Idall Electronic Company Ltd in China, and Q9 Technology Corporation in Taiwan. During the six months ended 30th June 2003, the Group substantially reduced its operating expenses, whereby research and development expenses, selling and distribution expenses, general and administrative expenses, and total operating expenses were reduced by about 76%, 78%, 36% and 64% respectively compared to corresponding period in 2002. Total operating expenses for the first half of 2003 amounted to HK\$6,801,000 (first half of 2002: HK\$18,905,000).

The Group continues to focus its marketing efforts on OEM manufacturers of mobile phones, desk-top phones and digital set-top box, and steady progress have been made. The Group's OEM licensing revenue for the first half of 2003 was contributed by four mobile phone manufacturers and one electronic dictionary manufacturer. The Group expects that seven of the OEM customers who have already signed OEM licensing agreements with the Group and its associate but did not contribute revenue in the first half of 2003, will start to contribute OEM licensing revenue to the Group during the second half of 2003. The Group expects increasing amount of OEM licensing revenue will be received from existing and new OEM licence contracts are signed in the second half of 2003. In addition, commencing from the first half of 2003, Nokia phones users could purchase downloadable Q9 CIS to Nokia phones through over 300 Nokia kiosks in APAC region.

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

Appointing distributors for new markets

The Group decided to defer launching Q9 CIS in new markets until definite prospects are identified, as the Group intends to focus its marketing efforts in the Greater China market, and not to divert attention and resources in other markets as originally planned.

Continuing its marketing campaign in the Greater China market

The Group signed an agreement with Shantou Idall Electronic Company Ltd (“Idall”) in February 2003, under which Idall was appointed as the sole National Distributor of Q9 CIS packaged software for the entire market in the PRC (excluding Hong Kong, Macau and Taiwan). The Group is working closely with Idall to support its marketing programmes for Q9 CIS packaged software, targeting educational institutions and the end users in the China market. Idall had also rented some of the office space at the Group’s Shenzhen office.

Continuing research and development into mobile information platform, Q9 CIS for non-Asian languages and an intelligent character output system

While the Group continued its research and development efforts on applications of Q9 CIS for use in the operating systems of different mobile phones and desk-top phones, the Group decided to stop its further research and development activities on projects not requested by the customers. Hence the Group has suspended the next phase of development of the mobile information platform, Q9 CIS for non-Asian languages and development an intelligent character output system, until there is a specific request from the customer(s) as the next phase of development will be conducted in close cooperation with customers.

Securing further licensing agreements

The Group and its associate in Taiwan signed seven licensing agreements during the first half of 2003. The SMS desk-top phones marketed in July 2003, were supplied by the Group’s OEM licensee, which will generate incremental OEM licensing revenue for the Group in the second half of 2003.

The Group is currently negotiating several licensing agreements with OEM manufacturers of mobile phones, desk-top phones and digital set-top box.

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

As at 30th June 2003, the interests of the Directors and the chief executives 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 (Chapter 571, Laws of Hong Kong) (the "SFO")) which (a) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under Section 352 of the SFO, or (c) have to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in Rule 5.40 of the GEM Listing Rules, were as follows:

(a) LONG POSITIONS IN SHARES OF THE COMPANY

Director	Number of shares held				Approximate	
	Personal interests	Family interests	Corporate interests	Other interests	Total	percentage holding
Leung Lap Yan	Nil	Nil	283,390,000	Nil	283,390,000	22.73%

(Note 1)

Note:

- Mr. Leung Lap Yan was deemed to be interested in 283,390,000 shares through his controlling interest (55%) in Step Up Company Limited.

(b) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

(i) **Warrants** (Note 1)

Director	Subscription		Subscription period	Number of	Number of
	price	Interests		warrants exercised as at 30th June 2003	warrants not yet exercised as at 30th June 2003
Leung Lap Yan	HK\$0.125 per share	5,120,000 (Note 2)	8th February 2002 to 7th August 2003	Nil	5,120,000

Notes:

- 1 One warrant is convertible into one share.
- 2 Mr. Leung Lap Yan was deemed to be interested in 5,120,000 warrants through his controlling interest (55%) in Step Up Company Limited.

(ii) **Pre-IPO Share Option Scheme and the First Post-IPO Share Option Scheme**

The Company adopted the Pre-IPO Share Option Scheme on 5th May 2001 which was terminated on 7th May 2001 and replaced on the same date by the first Post-IPO Share Option Scheme (the Pre-IPO Share Option Scheme and the first Post-IPO Share Option Scheme are together called the "Old Share Option Schemes"). The first Post-IPO Share Option Scheme was terminated on 30th April 2002 and replaced on the same date by a second Post-IPO Share Option Scheme (the "New Share Option Scheme") which remained in force as at 30th June 2003.

Outstanding options granted under the Old Share Option Schemes remain to be exercisable. Details of the Old Share Option Schemes are set out in the sub-section headed "Old Share Option Schemes" under the section headed "Share Option Schemes" below.

As at 30th June 2003, information on share options which had been granted to Directors under the Old Share Option Schemes and which remained outstanding was as follows:

Director	Number of options outstanding as at		Exercise price	Exercise period*	Date of grant
	1st January 2003 and 30th June 2003†				
Dr. Lim Yin Cheng	84,480,000		HK\$0.36	See Note 1 below	5th May 2001
Mr. Leung Lap Yan	71,720,000		HK\$0.36	See Note 1 below	5th May 2001
Mr. Leung Lap Fu Warren	14,470,000		HK\$0.36	See Note 2 below	5th May 2001
Mr. Lau Man Kin	13,390,000		HK\$0.36	See Note 1 below	5th May 2001
Mr. Tam Kam Biu William	6,400,000		HK\$0.36	See Note 2 below	5th May 2001
Mr. Fung Siu To Clement	2,560,000		HK\$0.36	See Note 2 below	5th May 2001
Mr. Kwan Kin Chung	1,150,000		HK\$0.36	See Note 2 below	5th May 2001
Mr. Tao Shi	640,000		HK\$0.36	See Note 2 below	5th May 2001
Mr. Kwan Po Lam Phileas	1,000,000		HK\$0.45	18th May 2001 to 17th May 2011	18th May 2001
Mr. Lun Pui Kan	1,920,000		HK\$0.36	See Note 2 below	5th May 2001
Mr. Lun Pui Kan	3,000,000		HK\$0.45	18th May 2001 to 17th May 2011	18th May 2001

No option had granted to the Directors had lapsed during the period from 1st January 2003 to 30th June 2003.

* The exercise period is, unless otherwise stated in that column, from 5th May 2001, the date of grant of the options (subject to such options having vested, details of which are set out below), to 4th May, 2011, ten years from the date of grant. The vesting dates of the options and the percentage of options vested or vesting on such dates are set out below.

	Date of vesting of the options (that is, the date when the options become/became exercisable)	Percentage of options vested/ vesting on such dates	
		Note 1	Note 2
		(a)	18th November 2001
(b)	18th May 2002	10%	20%
(c)	18th November 2002	10%	20%
(d)	18th May 2003	20%	20%
(e)	18th November 2003	20%	20%
(f)	18th May 2004	20%	10%
(g)	18th November 2004	10%	—

(iii) **New Share Option Scheme**

Details of the New Share Option Scheme are set out in the sub-section headed "New Share Option Scheme" under the section headed "Share Option Schemes" below.

No option had been granted under the New Share Option Scheme for the six months ended 30th June 2003.

Save as disclosed above, as at 30th June 2003, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under Section 352 of the SFO, or (c) have to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in Rule 5.40 of the GEM Listing Rules. During the six months ended this period, no debt securities had been issued by the Group.

SHARE OPTION SCHEMES

(a) OLD SHARE OPTION SCHEMES

Under the Old Share Option Schemes, options to subscribe for up to an aggregate of 238,230,000 shares of HK\$0.01 each at a subscription price ranging between HK\$0.142 and HK\$0.482 per share had been granted to certain Directors, employees and advisors, of which 15,110,000 options granted to employees lapsed during the year ended 31st December 2002. During the six months ended 30th June 2003, 2,100,000 options granted to employees lapsed. During this period, no option had been exercised or granted. A summary of the outstanding options granted under the Old Share Option Schemes is as follows:

Grantee	Date of grant	Exercise price	Outstanding options as at		Options lapsed during the period	Outstanding options as at 30th June 2003
			1st January 2003	Exercise period*		
Directors	5th May 2001	HK\$0.36	169,590,000	See Note 2(a) below	—	169,590,000
Directors	5th May 2001	HK\$0.36	27,140,000	See Note 2(b) below	—	27,140,000
Directors	18th May 2001	HK\$0.45	4,000,000	18th May 2001 to 17th May 2011	—	4,000,000
Employees	5th May 2001	HK\$0.36	9,010,000	See Note 2(b) below	2,100,000 (Note 1)	6,910,000
Employee	18th May 2001	HK\$0.45	720,000	18th May 2001 to 17th May 2011	—	720,000
Employee	11th October 2001	HK\$0.142	100,000	11th October 2001 to 10th October 2011	—	100,000
Advisors	5th May 2001	HK\$0.36	12,560,000	See Note 2(b) below	—	12,560,000
			<u>223,120,000</u>		<u>2,100,000</u>	<u>221,020,000</u>

Note:

1 These options were granted to employees and they lapsed when the employees ceased their employment with the Company.

* The exercise period is, unless otherwise stated in that column, from 5th May 2001, the date of grant of the options (subject to such options having vested, details of which are set out below), to 4th May, 2011, ten years from the date of grant. The vesting dates of the options and the percentage of options vested and vesting on such dates are set out below.

Date of vesting of the options (that is, the date when the options become/became exercisable)	Percentage of options vested/ vesting on such dates	
	Note 2(a)	Note 2(b)
(a) 18th November 2001	10%	10%
(b) 18th May 2002	10%	20%
(c) 18th November 2002	10%	20%
(d) 18th May 2003	20%	20%
(e) 18th November 2003	20%	20%
(f) 18th May 2004	20%	10%
(g) 18th November 2004	10%	—

Details of options granted to Directors under the Old Share Option Schemes are set out in the sub-section headed "Long position in underlying shares of the Company" under the section headed "Directors' and Chief executives' interest and short positions in shares, underlying shares and debentures".

(b) **NEW SHARE OPTION SCHEME**

The Company adopted the New Share Option Scheme in its annual general meeting of 2002 on 30th April 2002. Up to the six months ended 30th June 2003, no option had been granted under the New Share Option Scheme by the Company.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th June 2003, according to the register of interests kept by the Company under Section 336 of the SFO, the following parties (other than the directors and chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept under 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 any other members of the Group:

(a) LONG POSITION IN SHARES OF THE COMPANY

Name of shareholder	Number of shares	Approximate percentage holding
Mega Fusion Limited	400,000,000	32.09%
Asia Orient Holdings Limited (Note 1)	400,200,000	32.10%
Mr. Poon Jing (Note 2)	400,200,000	32.10%
Step Up Company Limited	283,390,000	22.73%
Mr. Leung Lap Yan (Note 3)	283,390,000	22.73%
Winway H.K. Investments Limited	300,635,000	24.12%
Culturecom Holdings Limited (Note 4)	300,635,000	24.12%

Notes:

- 1 Asia Orient Holdings Limited is deemed to be interested in 400,200,000 shares through its controlling interest (100%) in Mega Fusion Limited and in Asia Orient Company Limited.
- 2 Mr. Poon Jing is deemed to be interested in 400,200,000 shares through his controlling interest (47.47%) in Asia Orient Holdings Limited.
- 3 Mr. Leung Lap Yan is deemed to be interested in 283,390,000 shares through his controlling interest (55%) in Step Up Company Limited.
- 4 Culturecom Holdings Limited is deemed to be interested in 300,635,000 shares through its controlling interest (100%) in Winway H.K. Investments Limited.

(b) LONG POSITION IN UNDERLYING SHARES OF THE COMPANY

Warrants (Note 1)

Substantial shareholder	Subscription price	Interests	Subscription period	Number of warrants exercised as at 30th June 2003	Number of warrants not yet exercised as at 30th June 2003
Step Up Company Limited	HK\$0.125 per share	5,120,000	8th February 2002 to 7th August 2003	Nil	5,120,000
Leung Lap Yan	HK\$0.125 per share	5,120,000 (Note 2)	8th February 2002 to 7th August 2003	Nil	5,120,000

Notes:

- 1 One warrant is convertible into one share.
- 2 Mr Leung Lap Yan was deemed to be interested in 5,120,000 warrants through his controlling interest (55%) in Step Up Company Limited.

Save as disclosed above, as at 30th June 2003, the Directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept under 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 any other members of the Group.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the minimum standards of good practice concerning the general management responsibilities of the board as set out in rules 5.28 to 5.39 of the GEM Listing Rules throughout the accounting period covered by the half-yearly report.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June 2003, neither the Company nor its subsidiaries purchased, sold or redeemed any of the shares of the Company.

SPONSORS INTERESTS

As updated and notified by the Company's sponsor, Anglo Chinese Corporate Finance, Limited ("Anglo Chinese"), 3,660,000 shares and 850,000 shares of the Company are held by its holding company and two directors of Anglo Chinese as at 30th June 2003. 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 18th 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 18th May 2001 to 31st December 2003.

AUDIT COMMITTEE

The half-year results have been reviewed by the audit committee in accordance with rule 5.25 of the GEM Listing Rules.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 11th August 2003.

By order of the Board
Leung Lap Yan
Chairman

Hong Kong, 11th August 2003