



Q9 Technology Holdings Limited

(九方科技控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)



INTERIM REPORT

2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED ("STOCK EXCHANGE")

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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\$3,686,000 turnover was achieved for the six months ended 30th June 2004, representing an increase of 17.2% from the corresponding period of last year.
- HK\$2,299,000 OEM licensing revenue was achieved for the six months ended 30th June 2004, representing an increase of 153.2% from the corresponding period of last year. OEM license revenue represents 62.4% of total turnover for the six months ended 30th June 2004.
- Four new OEM license agreements were signed by the Group during the first half of 2004, and two new OEM license agreements were signed in July 2004 with two mobile phone manufacturers, including one with Nokia.
- HK\$1,387,000 Packaged software sales was achieved for the first half of 2004, representing a decrease of 38.0% from the corresponding period of last year.
- Total operating expenses in the first half of 2004 was reduced by HK\$543,000 or 8.0%, as compared to the corresponding period of last year.
- The Group recorded a net loss attributable to shareholders for the six months ended 30th June 2004 of HK\$2,811,000 (which is a reduction of HK\$1,246,000 from the corresponding period of 2003 with net loss attributable to shareholders for that period being HK\$4,057,000).

The unaudited consolidated results for the six months ended 30th June 2004 and the comparison 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 2004, together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 30th June		Six months ended 30th June	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	986	1,609	3,686	3,145
Cost of sales		(119)	(193)	(248)	(378)
Gross profit		867	1,416	3,438	2,767
Other revenue	2	5	87	9	175
Selling and distribution expenses		(849)	(828)	(1,658)	(1,806)
Research and development expenses		(291)	(462)	(745)	(1,083)
General and administrative expenses		(2,052)	(1,888)	(3,855)	(3,912)
Loss from operations	3	(2,320)	(1,675)	(2,811)	(3,859)
Share of losses of an associate		—	(22)	—	(198)
Loss attributable to Shareholders		(2,320)	(1,697)	(2,811)	(4,057)
		<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>
Loss per share - Basic	6	(0.19)	(0.14)	(0.23)	(0.33)

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th June 2004 (Unaudited) Notes	As at 31st December 2003 (Audited)
		HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,238	1,615
Interest in an associate		—	—
		<u>1,238</u>	<u>1,615</u>
Current assets			
Other investments	7	286	—
Inventories	8	402	485
Trade receivables	9	1,689	1,453
Other receivables, prepayments and deposits		884	800
Amount due from a related company		56	81
Amount due from an associate		735	735
Cash at banks and in hand		25,635	28,839
		<u>29,687</u>	<u>32,393</u>
Current liabilities			
Trade payables	10	80	143
Other payables and accruals		616	825
		<u>696</u>	<u>968</u>
Net current assets		<u>28,991</u>	<u>31,425</u>
Net assets		<u>30,229</u>	<u>33,040</u>
CAPITAL AND RESERVES			
Share capital		12,464	12,464
Reserves	11	17,765	20,576
Shareholders' funds		<u>30,229</u>	<u>33,040</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Total equity as at 1st January	33,040	37,847
Loss for the six months	(2,811)	(4,057)
Total equity as at 30th June	<u>30,229</u>	<u>33,790</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Net cash used in operating activities	<u>(2,753)</u>	<u>(4,488)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(8)	(5)
Proceeds from disposal of property, plant and equipment	—	102
Interest received	9	175
Other investments	<u>(452)</u>	<u>—</u>
Net cash (used in) / generated from investing activities	<u>(451)</u>	<u>272</u>
Decrease in cash	(3,204)	(4,216)
Cash at 1st January	<u>28,839</u>	<u>33,670</u>
Cash at 30th June	<u>25,635</u>	<u>29,454</u>

Notes:

1 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 2003 have been applied to the Group’s interim financial statements except for the accounting policy as described below, which is newly adopted during the six months ended 30th June 2004.

Other investments

Securities not classified as investment securities nor as held-to-maturity securities are classified as other investments.

Other investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

2 Turnover, revenue and segment information

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

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30th June		30th June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale of goods	712	1,093	1,387	2,237
Licensing	274	516	2,299	908
	<u>986</u>	<u>1,609</u>	<u>3,686</u>	<u>3,145</u>
Other revenue				
Interest income	5	87	9	175
	<u>991</u>	<u>1,696</u>	<u>3,695</u>	<u>3,320</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.

Geographical segment analysis is as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30th June		30th June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,042	1,133	3,344	2,281
Mainland China	(56)	476	342	864
	<u>986</u>	<u>1,609</u>	<u>3,686</u>	<u>3,145</u>

3 Loss from operations

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30th June		30th June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss from operations is arrived at after charging:				
Depreciation	185	222	378	469
Loss on disposal of property, plant and equipment	—	—	7	169
Unrealised holding loss on other investments	109	—	166	—
	<u>109</u>	<u>—</u>	<u>166</u>	<u>—</u>

4 Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the group companies operating in Hong Kong have no assessable profits for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil).

No provision for Mainland China income tax has been made in the financial statements as the group companies operating in Mainland China have no assessable profits for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil).

At 30th June 2004, the Group has net deferred tax assets mainly arising from tax losses of approximately HK\$60,000,000 (31st December 2003: HK\$58,000,000). However, the net deferred tax assets are not recognised as it is uncertain whether future taxable profit will be available for utilising the accumulated tax losses.

5 Interim dividend

The Directors do not recommend the payment of interim dividend for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil).

6 Loss per share

The calculation of basic loss per share for the three months and six months ended 30th June 2004 is based on the unaudited consolidated loss attributable to shareholders of HK\$2,320,000 and HK\$2,811,000 respectively (three months and six months ended 30th June 2003: HK\$1,697,000 and HK\$4,057,000 respectively) and on the weighted average of 1,246,350,000 shares (three months and six months ended 30th June 2003: 1,246,350,000 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 would not have a dilutive effect on the loss per share.

7 Other Investments

	30th June 2004 (Unaudited) HK\$'000	31st December 2003 (Audited) HK\$'000
Listed equity securities in Hong Kong, at market value	<u>286</u>	<u>—</u>

8 Inventories

	30th June 2004 (Unaudited) HK\$'000	31st December 2003 (Audited) HK\$'000
Merchandise	460	400
Finished goods	<u>305</u>	<u>448</u>
	765	848
Less: Provision for obsolete inventories	<u>(363)</u>	<u>(363)</u>
	<u>402</u>	<u>485</u>

Included in the net balance were inventories with a total cost of HK\$363,000 (31st December 2003: HK\$363,000) which were fully provided at 30th June 2004.

9 Trade receivables

The ageing analysis of the trade receivables net of allowances was as follows:

	30th June 2004 (Unaudited) HK\$'000	31st December 2003 (Audited) HK\$'000
Current	273	816
31-90 days	1,169	415
91-180 days	171	222
Over 180 days	76	—
	<u>1,689</u>	<u>1,453</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 Trade payables

The ageing analysis of the trade payables was as follows:

	30th June 2004 (Unaudited) HK\$'000	31st December 2003 (Audited) HK\$'000
Current	67	102
31-90 days	8	37
91-180 days	1	3
Over 180 days	4	1
	<u>80</u>	<u>143</u>

11 Reserves

	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 2003	87,601	37	6,250	3,000	(71,505)	25,383
Loss for the six months ended 30th June 2003	—	—	—	—	(4,057)	(4,057)
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>
At 1st January 2004	87,601	37	6,250	3,000	(76,312)	20,576
Loss for the six months ended 30th June 2004	—	—	—	—	(2,811)	(2,811)
At 30th June 2004	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(79,123)</u>	<u>17,765</u>

12 Commitments

(a) Capital commitments

The Group had no capital commitment as at 30th June 2004 (31st December 2003: Nil).

(b) Commitments under operating leases

As at 30th June 2004, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases were payable as follows:

	30th June 2004 (Unaudited) HK\$'000	31st December 2003 (Audited) HK\$'000
Within one year	729	336
In the second to fifth year	<u>678</u>	<u>604</u>
	<u>1,407</u>	<u>940</u>

(c) *Other commitments*

As at 30th June 2004, the Group had no other commitment (31st December 2003: 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:

	Notes	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Office and warehouse rental expenses	(i)	132	170	264	370
Office rental income		—	88	—	208
Building management fees	(ii)	39	64	79	127
License fee income		—	168	—	336
Consultancy fees	(iii)	275	—	551	—
		<u>275</u>	<u>—</u>	<u>551</u>	<u>—</u>

Notes:

- (i) Office and warehouse rental agreements were entered into with certain subsidiaries of two substantial shareholders of the Company with rental charged at fixed monthly fees.
- (ii) Building management fees were paid to the subsidiary of a substantial shareholder of the Company and were charged at a fixed monthly rate.
- (iii) Consultancy fees were paid to the related companies for providing marketing and public relations services, and technology consultant services for the development and improvement of products.

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 2004 (30th June 2003: Nil).

There is no charge on the Group's assets as at 30th June 2004 (30th June 2003: Nil).

The Group has no debt as at 30th June 2004 (30th June 2003: Nil).

The gearing ratio of the Group, based on total debt to shareholders' equity, was nil as at 30th June 2004 (30th June 2003: Nil).

Order book

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

Investment

Since 31st December 2003, there is no other significant investment held by the Group.

Acquisition/disposal of a subsidiary

The Group did not have any material acquisition and disposal of subsidiaries or affiliated companies for the six months ended 30th June 2004.

Employee Information

As at 30th June 2004, the Group employed 32 staff (30th June 2003: 32). Total staff costs, including directors' emoluments were approximately HK\$3.2 million for the six months ended 30th June 2004 as compared with that of approximately HK\$3.9 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 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.

Segmental information

Details of the segmental information have been set out in note 2 under notes to the unaudited interim financial statements and further elaborated under "Business Review and Prospects".

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 2004 (30th June 2003: Nil).

BUSINESS REVIEW AND PROSPECTS

The consolidated turnover of the Company and its subsidiaries for the six months ended 30th June 2004 amounted to HK\$3,686,000, representing an increase of 17.2% from the corresponding period of last year. OEM licensing revenue for the first half of 2004 amounted to HK\$2,299,000 representing about 62.4% of turnover (first half of 2003: 28.9%). Loss attributable to shareholders for the six months ended 30th June 2004 amounted to HK\$2,811,000 compared to HK\$4,057,000 for the corresponding period of last year. The loss per share for the first half year was HK0.23 cents (first half of 2003: loss per share of HK0.33 cents).

In 2004, the Group continued to focus on marketing existing products to OEM customers through its own sales force, developing new products only in response to definite orders from customers, and penetrating the end user markets through the resources and network of its strategic partners. The development for a Thai version of Q9 CIS was completed during the first quarter of 2004, which was developed at the request of an OEM customer. During the six months ended 30th June 2004, the Group further reduced its operating expenses, and total operating expenses was reduced by 8.0% compared to corresponding period in 2003. Total operating expenses for the first half of 2004 amounted to HK\$6,258,000 (first half of 2003: HK\$6,801,000).

The Group continues to concentrate its marketing efforts on OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes, and steady progress have been made. During the six months ended 30th June 2004, the Group signed four additional OEM licensing agreements, one with a PHS phone manufacturer, a SMS phone manufacturer, a Voice-IP phone manufacturer and another message box manufacturer. In July 2004, the Group signed two additional OEM licensing agreements with two mobile phone manufacturers, one of which is Nokia. Packaged software sales for the six months ended 30th June 2004 decreased by 38.0% compared to corresponding period in 2003, as new versions of Q9 CIS were not released during the first quarter of 2004 and the performance of the sales team and its distributors in Taiwan and PRC were below expectation. New versions of Q9 CIS was released in Hong Kong during July, 2004, with advanced translation features and Cantonese pronunciation developed in response to customers' request. The Group plans to continue the distribution of Q9 package software by appointing non-exclusive distributors in PRC in the near future.

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

As at 30th June 2004, the interests and short positions of each 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 (i) are required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("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 provision of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(i) LONG POSITIONS IN SHARES OF THE COMPANY

Director	Personal interests	Family interests	Number of shares held		Total	Approximate percentage of holding
			Corporate interests (Note 1)	Other interests		
Leung Lap Yan	Nil	Nil	283,390,000	Nil	283,390,000	22.73%

Note:

- The shares are held by Step Up Company Limited. Mr. Leung Lap Yan has a controlling interest (41.25%) in Step Up Company Limited and is deemed to have interest in all the shares held by Step Up Company Limited.

(ii) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

(a) *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 2004.

As at 30th June 2004, 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 share options outstanding as at 30th June 2004	Exercise price	Option exercise period*	Date of grant
Dr. Lim Yin Cheng	84,480,000	HK\$0.36	See note 1 below	5/5/2001
Mr. Leung Lap Yan	71,720,000	HK\$0.36	See note 1 below	5/5/2001
Mr. Leung Lap Fu Warren	14,470,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Lau Man Kin	13,390,000	HK\$0.36	See note 1 below	5/5/2001
Mr. Tam Kam Biu William	6,400,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Fung Siu To Clement	2,560,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Kwan Kin Chung	1,150,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Kwan Po Lam Phileas	1,000,000	HK\$0.45	18/5/2001 to 17/5/2011	18/5/2001
Mr. Lun Pui Kan	1,920,000	HK\$0.36	See note 2 below	5/5/2001
Mr. Lun Pui Kan	3,000,000	HK\$0.45	18/5/2001 to 17/5/2011	18/5/2001

* Option exercise period commenced from the date of grant and will terminate ten years thereafter.

** Options were granted to each grantee in consideration of HK\$1.00. No options granted pursuant to the Old Share Option Schemes had been exercised as at 30th June 2004.

No option granted to Directors lapsed during the six months ended 30th June 2004.

The options may be exercised at any time within the option period provided that the options have been vested. 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	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%	—

(b) *New Share Option Scheme*

No option had been granted to the Directors or the chief executives under the New Share Option Scheme for the six months ended 30th June 2004.

Save as disclosed above, as at 30th June 2004, none of the Directors or the chief executives of the Company had any interest 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 (i) 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 (ii) were recorded in the register required to be kept under Section 352 of the SFO; or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules. During the six months ended 30th June 2004, no debt securities had been issued by the Group.

SHARE OPTION SCHEMES

(a) OLD SHARE OPTION SCHEMES

As at 1st January 2004, options to subscribe for up to an aggregate of 220,380,000 shares of HK\$0.01 each at a subscription price ranging between HK\$0.142 and HK\$0.45 per share had been granted to certain Directors, employees and advisors under the Old Share Option Schemes. During the six months ended 30th June 2004, 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 2004
			1st January 2004	Exercise period*		
Directors	5/5/2001	HK\$0.36	169,590,000	See Note 2(a) below	—	169,590,000
Directors	5/5/2001	HK\$0.36	26,500,000	See Note 2(b) below	—	26,500,000
Directors	18/5/2001	HK\$0.45	4,000,000	18/5/2001 to 17/5/2011	—	4,000,000
Employees	5/5/2001	HK\$0.36	6,910,000	See Note 2(b) below	250,000	6,660,000
					(Note 1)	
Employee	18/5/2001	HK\$0.45	720,000	18/5/2001 to 17/5/2011	—	720,000
Employee	11/10/2001	HK\$0.142	100,000	11/10/2001 to 10/10/2011	—	100,000
Advisors	5/5/2001	HK\$0.36	12,560,000	See Note 2(b) below	—	12,560,000
			<u>220,380,000</u>		<u>250,000</u>	<u>220,130,000</u>

* 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.

Note:

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

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 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**

As at 1st January 2004, options to subscribe for up to an aggregate of 10,000,000 shares of HK\$0.01 each at a subscription price HK\$0.042 per share had been granted to certain advisors under the New Share Option Scheme. During the six months ended 30th June 2004, no option had been exercised or granted.

Grantee	Date of grant	Exercise price	Outstanding as at	
			1st January 2004	30th June 2004
Advisors	<u>10/7/2003</u>	<u>HK\$0.042</u>	<u>10,000,000</u>	<u>10,000,000</u>
			<u>10/7/2003 to 9/7/2013</u>	

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

As at 30th June 2004, according to the register of interests kept by the Company under Section 336 of the SFO, the following parties (in addition to those disclosed above in respect of the Directors and chief executives) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register 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:

Long positions 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 (i))	400,200,000	32.10%
Mr. Poon Jing (Note (ii))	400,200,000	32.10%
Step Up Company Limited (Note (iii))	283,390,000	22.73%
Winway H.K. Investments Limited (Note (iv))	300,635,000	24.12%
Culturecom Holdings Limited (Note (v))	300,635,000	24.12%

Notes:

- (i) Mega Fusion Limited is a wholly-owned subsidiary of Asia Orient Holdings (BVI) Limited which is, in turn a wholly-owned subsidiary of Asia Orient Holdings Limited. Asia Orient Holdings (BVI) Limited and 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.
- (ii) Mr. Poon Jing is deemed to be interested in 400,200,000 shares through his controlling interest (40.99%) in Asia Orient Holdings Limited.
- (iii) Mr. Leung Lap Yan is deemed to be interested in 283,390,000 shares through his controlling interest (41.25%) in Step Up Company Limited.

- (iv) The Company received a copy of the disclosure of interests form filed pursuant to the SFO by the provisional liquidator of TKR Finance Limited claiming it had security interests in 300,000,000 shares. The Company has been informed by Winway H.K. Investments Limited that it has remained the legal and beneficial owner to the 300,000,000 shares throughout and has not pledged the same to TKR Finance Limited at any time and the placing of the shares with TKR Finance Limited is only to facilitate management of such shares.
- (v) Winway H.K. Investments Limited is a wholly-owned subsidiary of Culturecom Investments Limited, which is, in turn, a wholly-owned subsidiary of Culturecom Holdings (BVI) Limited. Culturecom Holdings (BVI) Limited is a wholly-owned subsidiary of Culturecom Holdings Limited. Each of Culturecom Investments Limited, Culturecom Holdings (BVI) Limited and Culturecom Holdings Limited is deemed to be interested in 300,635,000 shares through its controlling interest (100%) in Winway H.K. Investments Limited.

Save as disclosed above, as at 30th June 2004, 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 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 5.34 to 5.45 of the GEM Listing Rules throughout the accounting period covered by the half-yearly report.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors 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. The Company has also made specific enquiry of the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

COMPETING BUSINESS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2004.

AUDIT COMMITTEE

The committee comprises two Independent Non-executive Directors, namely Mr. Ip Chi Wai and Mr. Tse Wang Cheung Angus. The terms of reference of the audit committee have been established with regard to Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control procedures.

The half-year results has been reviewed by the audit committee in accordance with Rule 5.30 of the GEM Listing Rules.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of Directors on 11th August 2004.

By order of the Board
Leung Lap Yan
Chairman

Hong Kong, 11th August 2004