



Thiz Technology Group Limited

即時科研集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

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

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This report, for which the directors of Thiz Technology Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Thiz Technology Group Limited. 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.

SUMMARY

- The Group recorded a turnover of approximately HK\$11,559,000 for the six months ended 30th September, 2004.
- Loss attributable to shareholders was approximately HK\$4,491,000.
- The directors of the Company (the “Directors”) do not recommend the payment of an interim dividend for the six months ended 30th September, 2004.

RESULTS

The board of Directors (the “Board”) of Thiz Technology Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results (“interim accounts”) of the Company and its subsidiaries (together the “Group”) for the three months and six months ended 30th September, 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 30th September,		For the six months ended 30th September,	
		2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudited)
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	4,916	7,670	11,559	23,584
Cost of sales		(2,124)	(2,693)	(4,963)	(6,026)
Gross profit		2,792	4,977	6,596	17,558
Other revenue		91	187	346	271
Provision for doubtful debts		–	(1,365)	–	(10,725)
Operating expenses		(6,419)	(6,659)	(11,227)	(11,775)
Loss from operations		(3,536)	(2,860)	(4,285)	(4,671)
Finance costs		(88)	(70)	(151)	(70)
Loss before tax	3	(3,624)	(2,930)	(4,436)	(4,741)
Tax	4				
– Elsewhere		(61)	(36)	(149)	(54)
Loss before minority interests		(3,685)	(2,966)	(4,585)	(4,795)
Minority interests		94	–	94	–
Loss for the period		(3,591)	(2,966)	(4,491)	(4,795)
Dividend		–	–	–	–
Loss per share	5				
– Basic (in cents)		(0.18)	(0.18)	(0.22)	(0.29)
– Diluted (in cents)		(0.17)	N/A	(0.20)	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30th September, 2004 (Unaudited) HK\$'000	At 31st March, 2004 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		2,554	1,613
Product development costs		9,273	5,862
		<u>11,827</u>	<u>7,475</u>
CURRENT ASSETS			
Inventories		1,562	645
Trade receivables	6	36,026	34,892
Other receivables, deposits and prepayments		3,741	2,918
Tax recoverable	4	23	–
Cash and bank balances		1,723	2,542
		<u>43,075</u>	<u>40,997</u>
CURRENT LIABILITIES			
Trade payables	7	1,575	564
Other payables, accruals and deposits received		10,825	4,376
Amounts due to directors	8	7,277	4,091
Tax payable	4	–	12
		<u>19,677</u>	<u>9,043</u>
NET CURRENT ASSETS			
		<u>23,398</u>	<u>31,954</u>
		<u>35,225</u>	<u>39,429</u>
CAPITAL AND RESERVES			
Share capital		20,411	20,411
Reserves		531	5,018
SHAREHOLDERS' FUNDS			
		20,942	25,429
MINORITY INTERESTS			
		283	–
NON-CURRENT LIABILITIES			
Proceeds of convertible notes received in advance		–	10,000
Convertible notes		14,000	4,000
		<u>35,225</u>	<u>39,429</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September,	
	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	4,062	(1,512)
Net cash outflow from investing activities	(4,881)	(417)
Net cash inflow from financing activities	<u>—</u>	<u>1,911</u>
Decrease in cash and cash equivalents	(819)	(18)
Cash and cash equivalents at beginning of the period	<u>2,542</u>	<u>1,212</u>
Cash and cash equivalents at end of the period	<u>1,723</u>	<u>1,194</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u>1,723</u>	<u>1,194</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1.4.2003	16,461	17,658	84	360	6	(4,094)	30,475
Exchange adjustment on translation of the financial statements of foreign subsidiaries	-	-	-	-	(33)	-	(33)
Loss attributable to shareholders	-	-	-	-	-	(4,795)	(4,795)
At 30.9.2003	<u>16,461</u>	<u>17,658</u>	<u>84</u>	<u>360</u>	<u>(27)</u>	<u>(8,889)</u>	<u>25,647</u>
At 1.4.2004	20,411	22,006	84	360	15	(17,447)	25,429
Exchange adjustment on translation of the financial statements of foreign subsidiaries	-	-	-	-	4	-	4
Loss attributable to shareholders	-	-	-	-	-	(4,491)	(4,491)
As at 30.9.2004	<u>20,411</u>	<u>22,006</u>	<u>84</u>	<u>360</u>	<u>19</u>	<u>(21,938)</u>	<u>20,942</u>

The special reserve of the Group represents the difference between the nominal value of shares of the Company and the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation.

Notes:

1. Basis of preparation

The unaudited interim accounts have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited.

The principal accounting policies and methods of computation adopted in preparing the unaudited interim accounts are consistent with those followed in the Group's annual financial statements for the year ended 31st March, 2004.

All significant intra-group transactions and balances have been eliminated on consolidation.

2. Turnover

Turnover represents the invoiced value of computer products sold and Group's Linux based software products distributed and training income, after allowances for returns and discounts and net of value-added tax.

An analysis of turnover and other revenue is set out below:–

	For the three months ended 30th September, 2004 (Unaudited) HK\$'000		For the six months ended 30th September, 2004 (Unaudited) HK\$'000	
		2003 (Unaudited) HK\$'000		2003 (Unaudited) HK\$'000
Turnover:–				
Distribution of Group's Linux based software products	1,502	3,955	3,120	15,781
Sale of computer products	1,566	2,854	4,005	6,553
Training income	1,848	861	4,434	1,250
	<u>4,916</u>	<u>7,670</u>	<u>11,559</u>	<u>23,584</u>
Other revenue:–				
Interest income	1	–	3	1
Sundry income	90	187	343	270
	<u>91</u>	<u>187</u>	<u>346</u>	<u>271</u>
	<u>5,007</u>	<u>7,857</u>	<u>11,905</u>	<u>23,855</u>

3. Loss before tax

	For the three months ended 30th September,		For the six months ended 30th September,	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Loss before tax is arrived at after charging/(crediting)				
Cost of inventories sold	2,124	2,692	4,963	6,026
Amortisation of product development costs	179	170	558	340
Depreciation	191	156	348	303
Provision for doubtful debts	–	1,365	–	10,725
Interest on secured bank loan	–	20	–	20
Interest on convertible notes	88	25	151	50
Interest income	(1)	–	(3)	(1)

4. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the six months ended 30th September, 2004 and 30th September, 2003.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Deferred taxation in respect of unused tax losses for the periods has not been recognised as it is not probable that future taxable profits will be available for setting off.

5. Loss per share

The calculations of the basic and diluted loss per share for the period are based on the following data:–

	Fox the six months ended 30th September	
	2004	2003
	<i>HK'000</i>	<i>HK\$'000</i>
Loss for the purpose of calculating basic loss per share	(4,491)	(4,795)
Effect of dilutive potential ordinary shares:–		
Interest on convertible notes	<u>151</u>	<u>50</u>
Loss for the purpose of calculating diluted loss per share	<u>(4,340)</u>	<u>(4,745)</u>
	2004	2003
	<i>No. of shares</i>	<i>No. of shares</i>
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	2,041,114,400	1,646,060,000
Effects of dilutive potential ordinary shares:–		
Convertible notes	<u>168,340,944</u>	<u>50,000,000</u>
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	<u>2,209,455,344</u>	<u>1,696,060,000</u>

The share options had no dilutive effect for the three months and six months ended 30th September, 2004 because the exercise price of the Company's share options was higher than the average market price of the shares during the periods.

6. Trade receivables

The Group's trading terms with its customers are mainly on a cash-on-delivery basis, except for major customers, where an average credit period of 30 days is normally given.

The following is an aged analysis of trade receivables (net of provision) at the reporting date:–

	30th September, 2004 (Unaudited) HK\$'000	31st March, 2004 (Audited) HK\$'000
0-30 days	1,040	86
31-60 days	91	57
61-90 days	80	–
91-180 days	12	103
181-360 days	144	10,194
Over 360 days	34,659	24,452
	<u>36,026</u>	<u>34,892</u>

7. Trade payables

The following is an aged analysis of trade payables at the reporting date:–

	30th September, 2004 (Unaudited) HK\$'000	31st March, 2004 (Audited) HK\$'000
0-30 days	1,328	405
31-60 days	–	3
61-90 days	3	–
91-180 days	244	–
181-360 days	–	156
	<u>1,575</u>	<u>564</u>

8. Amounts due to directors

The amounts are interest-free, unsecured and repayable on demand.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2004 (2003: Nil).

BUSINESS REVIEW AND PROSPECTS

Financial Performance

The Group recorded a consolidated turnover of HK\$11,559,000 for the six months ended 30th September, 2004, representing a 51% decrease compared to HK\$23,584,000 for the same period in 2003. Again the significant decrease in turnover was attributed to the termination of a Linux software licensing contract by the Group in July 2003 owing to the customer's default in payment.

On the other hand, during the period under review, loss from operations of the Group amounted to HK\$4,285,000, compared to HK\$4,671,000 in the corresponding period last year. Loss attributable to shareholders was HK\$4,491,000, while the corresponding period last year was HK\$4,795,000.

Although the termination of the licensing contract did have a significant impact, but the encouraging result of "Thiz BEST" training programme and the sale of "Thiz Easy Shop" in China and Taiwan respectively had already started to reverse the situation. Owing to the foreseeable growth in these markets, the Group continued to invest substantial resources in marketing and research and development. However, the Group had strived to maintain profitability through more efficient financial and operational management.

Business review

Under our definitive development tactic of "4 Wheels in One Track with Cross-duplication", the Group's business had been progressing and achieved numerous breakthroughs. First of all, we established the first ThizLinux Institute in Dalian, China, following that the second ThizLinux Institute was also established in Beijing on 23rd July, 2004. During the period under review, the Institutes had gathered some 80 software engineers, a number of teams were formed to engage in various Linux software development projects including a hotel room booking system and a travel system under "Thiz Easy Shop", Li Ning database system, net phone system and a home theatre remote control system. We had also categorised our "Thiz Easy Theatre" product into 3 versions, namely M2, M3 and M4. A grand press conference was held in Beijing on 8th September 2004 to introduce the products, with academician Ni Guangnan as the honorary guest speaker who gave his words of support to us. Leading PC manufacturers like Peking Founder, Tsinghua Tongfang, Tsinghua Unisplendour, Beijing Compower, Hisense and TCL have all agreed to bundle their PCs with "Thiz Easy Theatre Desktop System", making it to become one of the world's professional multimedia players on the Linux platform. This should pave the way for "Thiz Easy Theatre" to become a household software product in home theatre. In particular, the M3 products will feature two powerful functions in addition to its multimedia function i.e. "remote maintenance" and "net phone". Hardware manufacturers face the problem of unpredictable expenses incurred in relation to maintenance that will easily erode away their already thin profit margins. Therefore, the newly added "remote maintenance" function will be most welcomed by PC manufacturers as it can help reduce their maintenance expenses by more than 80%. Such function will be an attractive feature for PC users as they can easily enjoy the otherwise unavailable maintenance service directly from PC manufactures.

With its boundary-free concept, low charges and multiple communication modes included PC to PC, PC to Phone and PC to Mobile Phone, and the possible addition of visual data transmission, the net phone, which employs the concept of IP Phone and allows direct conversation, can bring fundamental changes to the way people uses telephone, making all people to have their personal phone lines in office or residence or anywhere with very low costs or even free of charge.

Prospect

With production and delivery of the M3 software that features “net phone” and “remote maintenance” to commence in the final quarter this year, the Group expects to see a fast growth in the desktop segment. Coupled with the wide-range promotion programme for “Thiz Easy Shop” in the final quarter this year, the Group is expecting a significant growth in geographical regions like Beijing and Dalian in China. Adding to these with the establishment of Linux software institutes in the two cities, personnel recruitment and commencement of operation, the Group is expecting a promising result by the end of 2004. With the eventual graduation of the software engineers under the “1+1+1 Project” and their subsequent enrolment into the Linux software institutes for internship, there shall be considerable human resources supplied to support the development and promotion of the Linux software applications, thereby further enhancing the recognition of Linux software.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, financial resources and capital structure

As at 30th September, 2004, the Group had current assets amounted to HK\$43,075,000, of which HK\$1,723,000 were cash and bank deposits. Current liabilities of HK\$19,677,000 mainly comprised of trade payables, other payables, accruals and deposits received, and amounts due to the directors. The current ratio of the Group was 2.2. The Group had net current assets of approximately HK\$23,398,000 as at 30th September, 2004.

Current ratio and net current assets show a notable decrease from 4.53 and HK\$31,954,000 at 31st March, 2004. The sharp decrease was mainly due to several significant amounts of trade deposits received and amounts due to directors.

At the same date, the Group had outstanding unlisted convertible notes of HK\$14,000,000 bearing interest rate of 2.5% per annum, issued at 17th January, 2003 with maturity at 16th January, 2006 and at 26th March, 2004 with maturity at 25th March, 2007. The notes are convertible into new shares of the Company at a conversion price of HK\$0.036 per share.

The gearing ratio calculated on the basis of total liabilities over shareholders’ funds as at 30th September, 2004 was 1.6, compared with 0.9 at 31st March, 2004. This was also due to the increase in trade deposits received and amounts due to directors.

Investments held and material acquisitions and disposals

The Group had no material investments, acquisitions or disposals during the reporting period.

Segmental information

(a) Business segments

The following tables present revenue, (loss)/profit information for the Group's business segments for the six months ended 30th September, 2004.

	Software development		Computer products		Training services		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:-								
Sales to external customers	<u>3,120</u>	<u>15,781</u>	<u>4,005</u>	<u>6,553</u>	<u>4,434</u>	<u>1,250</u>	<u>11,559</u>	<u>23,584</u>
Segment results	<u>(926)</u>	<u>2,664</u>	<u>(615)</u>	<u>(1,198)</u>	<u>1,870</u>	<u>(65)</u>	<u>329</u>	<u>1,401</u>
Interest income							3	1
Unallocated income							-	270
Unallocated expenses							<u>(4,617)</u>	<u>(6,343)</u>
Loss from operations							<u>(4,285)</u>	<u>(4,671)</u>
Finance costs							<u>(151)</u>	<u>(70)</u>
Loss before tax							<u>(4,436)</u>	<u>(4,741)</u>
Tax							<u>(149)</u>	<u>(54)</u>
Loss before minority interests							<u>(4,585)</u>	<u>(4,795)</u>
Minority interests							<u>94</u>	<u>-</u>
Loss attributable to shareholders							<u>(4,491)</u>	<u>(4,795)</u>

(b) *Geographical segments*

The following tables present revenue, information for the Group's geographical segments for the six months ended 30th September, 2004.

	Hong Kong		Taiwan		PRC		USA		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:-												
Sales to external customers	749	437	3,052	16,130	3,806	986	1,119	2,663	2,833	3,368	11,559	23,584

Employee information

As at 30th September, 2004, the Group had 160 employees spreading over Hong Kong, PRC and Taiwan.

The staff were remunerated based on their work performance, professional experience and prevailing marketing practices. In addition to the basic salaries and retirement schemes, the Group also offered staff benefits including medical insurance, share options, performance bonus and sales commission.

Capital commitments and contingent liabilities

As at 30th September, 2004, the Group had no material capital commitments and contingent liabilities.

Exposure to foreign exchange risk

Since the functional currencies of the Group's operations are Hong Kong dollars, Renminbi and New Taiwan Dollars, the Directors consider that the potential foreign exchange exposure of the Group is limited.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES OF THE COMPANY

As at 30th September, 2004, the interests or short positions of the directors and chief executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), Chapter 571 of the Laws of Hong Kong), which were 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 or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.61 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:–

(a) Long Positions in Ordinary Shares of HK\$0.01 of the Company

Name of Director	Type of interest	Total number of shares held	Percentage of shareholding
Mr. Lin Chien Hsin	Personal	353,000,000	17.29%
Mr. Wong Hoi Wong (“Mr. Albert Wong”) (<i>Note</i>)	Other	397,200,000	19.46%
Ms. Wanzi Huang	Personal	86,459,000	4.24%

Note: These shares are held by Eaglemax International Investment Limited, a company wholly owned by Intelligent Management Limited as the trustee of Intelligent Management Discretionary Trust, a family discretionary trust the objects of which include Mr. Albert Wong and his family and any charity in the world.

Long Positions in Underlying Shares of Equity Derivatives of the Company

The Company adopted a share option scheme (the “2001 Scheme”) on 6th July, 2001, pursuant to which it may grant options to full-time employees of the Group including executive directors of the Company to subscribe for shares in the Company. On 5th August, 2004, the Company adopted a new share option scheme (the “2004 Scheme”), pursuant to which it may grant options to eligible participants including executive directors of the Company to subscribe for shares in the Company and on the same day, the 2001 Scheme was terminated.

Name of Director	Type of interest	Date of grant	Exercise price per share HK\$	Exercisable period	Number of
					ordinary shares eligible for subscription under options granted and outstanding as at 30th September, 2004
Mr. Albert Wong	Personal	21st November, 2001	0.284	30th June, 2002 to 29th June, 2012	1,819,014
Ms. Wanzi Huang	Personal	21st November, 2001	0.284	30th June, 2002 to 29th June, 2012	18,345,423

No options were granted or exercised under the 2001 Scheme and the 2004 Scheme during the six months ended 30th September, 2004.

(b) Short positions in the shares and underlying shares of the Company

Save as disclosed herein, as at 30th September, 2004, none of the directors has short positions in the shares or underlying shares of equity derivatives of the Company.

Save as disclosed herein, as at 30th September, 2004, none of the directors 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 were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.61 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September, 2004, the following persons (not being the directors and chief executives of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO as follows:–

Name of Shareholder	Nature of interest	Number of shares held	Percentage of shareholding
Eaglemax International Investment Limited (Note 1)	Corporate	397,200,000	19.46%
Applied Component Technology Corporation	Corporate	324,340,000	15.89%

Note 1: These shares are held by Eaglemax International Investment Limited, a company wholly owned by Intelligent Management Limited as the trustee of Intelligent Management Discretionary Trust, a family discretionary trust the objects of which include Mr. Albert Wong and his family and any charity in the world. The shareholding is duplicated in the “Directors and Chief Executives’ Interests in Securities of the Company” disclosed above.

Save as disclosed above, as at 30th September, 2004, there was no person (not being the directors and chief executives of the Company) who had any interests or short positions in the shares, underlying shares and debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading “Directors’ and Chief Executives’ Interests in Securities of the Company”, at no time during the six months ended 30th September, 2004 was the Company or any of its subsidiaries a party to any arrangements to enable any director or their respective spouse or children under 18 years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

MANAGEMENT SHAREHOLDERS

Save for the interests disclosed above in respect of the directors, chief executive and their associates, the directors are not aware of any person who, as at 30th September, 2004, was entitled to exercise or control the exercise of 5 per cent or more of the voting power at general meetings of the Company and who was able, as a practical matter, to direct or influence the management of the Company.

COMPETING INTERESTS

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competed or might compete with business of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the six months ended 30th September, 2004.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures during the six months ended 30th September, 2004.

AUDIT COMMITTEE

The Company has established an audit committee since August 2001 with its written terms of reference being in compliance with Rules 5.29 to 5.32 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advices and comments to the Board.

The audit committee comprises three members, namely, Ms. Li Zhe, Mr. Ko Ming Tung, Edward and Mr. Chu Wei Jen, all being independent non-executive Directors of the Company.

The Group's financial statements for the six months ended 30th September, 2004 have been reviewed by the audit committee who was of the opinion that such financial statements complied with applicable accounting standards, the GEM Listing Rules, and that adequate disclosures had been made.

By Order of the Board

Lin Chien Hsin

Chairman

Hong Kong, 26th October, 2004

At the date of this report, the Board comprises:

Mr. Lin Chien Hsin (*Chairman*)

Mr. Wong Hoi Wong (*Executive director*)

Ms. Wanzi Huang (*Executive director*)

Ms. Li Zhe (*Independent non-executive director*)

Mr. Ko Ming Tung, Edward (*Independent non-executive director*)

Mr. Chu Wei Jen (*Independent non-executive director*)