



Q9 Technology Holdings Limited

(九方科技控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)



*For identification purpose only

Interim Report 2005

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.

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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

- The Group recorded turnover of HK\$2,690,000 for the six months ended 30th June 2005, representing a decrease of 27.0% from the corresponding period of last year.
- The Group recorded OEM licensing revenue of HK\$1,208,000 for the six months ended 30th June 2005, representing a decrease of 47.5% from the corresponding period of last year.
- Packaged software sales for the six months ended 30th June 2005 recorded an increase of 6.8% from the corresponding period of previous year.
- The Group recorded a net loss attributable to shareholders for the six months ended 30th June 2005 of HK\$2,958,000 (first half of 2004: net loss attributable to shareholders of HK\$2,811,000).
- The Group's total operating expenses for the six months ended 30th June 2005 was reduced by 9.7% compared to first half of 2004.
- The Group signed an agreement with Yahoo Hong Kong in July 2005, which will allow users of its search engine to type Chinese Characters using Q9 CIS; the Group have established Q9 CIS as the leading Chinese Input System in Hong Kong, and have the largest market share in the fixed line SMS desk top phones, the education market, the Government market, and the software package market in Hong Kong. The Group intends to leverage on its brand name recognition and its leading positions in these markets to develop strategic relationships with selective strategic partners to extend its other market presence in the Greater China region.

The unaudited consolidated results for the six months ended 30th June 2005 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 2005, together with the unaudited comparative figures for the corresponding periods in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 30th June		Six months ended 30th June	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2	1,302	986	2,690	3,686
Cost of sales		(82)	(119)	(172)	(248)
Gross profit		1,220	867	2,518	3,438
Other revenue	2	96	5	176	9
Selling and distribution expenses		(713)	(849)	(1,439)	(1,658)
Research and development expenses		(331)	(291)	(670)	(745)
General and administrative expenses		(1,814)	(2,052)	(3,543)	(3,855)
Loss from operations	3	(1,542)	(2,320)	(2,958)	(2,811)
Share of losses of an associate		—	—	—	—
Loss before taxation		(1,542)	(2,320)	(2,958)	(2,811)
Taxation	4	—	—	—	—
Loss attributable to shareholders		(1,542)	(2,320)	(2,958)	(2,811)
		<i>HK Cent</i>	<i>HK Cent</i>	<i>HK Cent</i>	<i>HK Cent</i>
Loss per share - Basic	6	(0.12)	(0.19)	(0.24)	(0.23)

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th June 2005 (Unaudited) Notes	As at 31st December 2004 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		689	943
Interest in an associate	7	—	—
		<u>689</u>	<u>943</u>
CURRENT ASSETS			
Short term investment		—	283
Financial assets at fair value			
through profit or loss	8	269	—
Inventories	9	359	350
Trade receivables	10	1,305	1,423
Other receivables, prepayments			
and deposits		733	1,673
Amount due from a related company		—	56
Cash at banks and in hand		20,200	22,040
		<u>22,866</u>	<u>25,825</u>
CURRENT LIABILITIES			
Trade payables	11	51	64
Other payables and accruals		1,238	1,398
Amounts due to related companies		—	82
		<u>1,289</u>	<u>1,544</u>
Net current assets		<u>21,577</u>	<u>24,281</u>
Total assets less current liabilities/Net assets		<u><u>22,266</u></u>	<u><u>25,224</u></u>
CAPITAL AND RESERVES			
Share capital		12,464	12,464
Reserves	12	9,802	12,760
Shareholders' funds		<u><u>22,266</u></u>	<u><u>25,224</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Total equity as at 1st January	25,224	33,040
Loss for the six months	<u>(2,958)</u>	<u>(2,811)</u>
Total equity as at 30th June	<u><u>22,266</u></u>	<u><u>30,229</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Net cash used in operating activities	(2,152)	(2,753)
Net cash generated from / (used in) investing activities	<u>312</u>	<u>(451)</u>
Decrease in cash	(1,840)	(3,204)
Cash at 1st January	<u>22,040</u>	<u>28,839</u>
Cash at 30th June	<u><u>20,200</u></u>	<u><u>25,635</u></u>

Notes:


1 Basis of presentation and accounting policies

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

The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the Group’s annual financial statements for the year ended 31st December 2004 except for the adoption of new and revised accounting standards as disclosed in the following paragraphs.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations, which are effective for the accounting periods commencing on or after 1st January 2005. The Group has adopted the following HKASs issued up to 30th June 2005 which are pertinent to its operations and relevant to these interim financial statements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement



The adoption of these HKASs has resulted in the following impacts:

- (a) The adoption of HKAS 1 affects certain presentation and disclosure of the accounts.
- (b) The adoption of HKASs 2, 8 and 16 affect certain disclosure of the accounts.
- (c) The adoption of HKASs 7, 10, 12, 17, 18, 19, 21, 23, 24, 33 and 36 do not have any impact as the Group's accounting policies already comply with those standards.
- (d) HKASs 32 and 39 have resulted in a change in the accounting policy for recognition, measurement and disclosure of financial instruments. Prior to 1st January 2005, investment of the Group was classified as short term investment and was stated at fair value.

In accordance with HKAS 39, investments are classified into available-for-sale financial assets, financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity investments. The classification depends on the purpose of holding the investments. Under this accounting standard, the investment of the Group is classified as financial assets at fair value through profit or loss and is stated at fair value.

The changes in accounting policies have been made in accordance with the transitional provision of HKAS 39. The investment of the Group is reclassified from "short term investment" to "financial assets at fair value through profit or loss" and no financial impact has arisen as a result of the change.

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 30th June		Six months ended 30th June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale of goods	672	712	1,482	1,387
Licensing	630	274	1,208	2,299
	<u>1,302</u>	<u>986</u>	<u>2,690</u>	<u>3,686</u>
Other revenue				
Interest income	96	5	176	9
	<u>1,398</u>	<u>991</u>	<u>2,866</u>	<u>3,695</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 sales and licensing of software and embedded systems is the Group's only business segment.

Geographical segment analysis is as follows:

	Unaudited		Unaudited	
	Three months ended 30th June		Six months ended 30th June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,293	1,042	2,668	3,344
Mainland China	9	(56)	22	342
	<u>1,302</u>	<u>986</u>	<u>2,690</u>	<u>3,686</u>

3 Loss from operations

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30th June		30th June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss from operations is arrived at after charging/(crediting):				
Depreciation	121	185	264	378
Loss on disposal of property, plant and equipment	—	—	—	7
Unrealised (gain)/loss on revaluation of investment at fair value through profit or loss	(17)	109	14	166
	<u>(17)</u>	<u>109</u>	<u>14</u>	<u>166</u>

4 Taxation

No provision for current tax has been made as the Group did not derive any assessable profit in Hong Kong and elsewhere for the six months ended 30th June 2005 (six months ended 30th June 2004: Nil).

At 30th June 2005, the Group has net deferred tax assets mainly arising from tax losses of approximately HK\$63,000,000 (31st December 2004: HK\$61,000,000). However, the net deferred tax assets have not been recognised as it is uncertain whether future taxable profit will be available for utilising the accumulated tax losses. The tax losses may be carried forward indefinitely.

5 Interim dividend

The Directors do not recommend the payment of interim dividend for the six months ended 30th June 2005 (six months ended 30th June 2004: Nil).

6 Loss per share

The calculation of basic loss per share for the three months and six months ended 30th June 2005 is based on the unaudited consolidated loss attributable to shareholders of HK\$1,542,000 and HK\$2,958,000 respectively (three months and six months ended 30th June 2004: HK\$2,320,000 and HK\$2,811,000 respectively) and on the weighted average of 1,246,350,000 shares (three months and six months ended 30th June 2004: 1,246,350,000 shares) in issue during the periods.

No diluted loss 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 Interest in an associate

During the six months ended 30th June 2005, the Group disposed of its 42.5% equity interest in an associate, Q9 Technology Corporation, at the consideration of HK\$1. Before the disposal, the Group's interest in the associate was stated at nil value as the associate has incurred significant losses and the Group has no obligation to share further losses of the associate exceeding the carry amount of its investment in the associate. Gain on disposal of the associate is thereby HK\$1.

8 Financial assets at fair value through profit or loss

	30th June 2005 (Unaudited) HK\$'000	31st December 2004 (Audited) HK\$'000
Listed equity securities in Hong Kong, at market value	<u>269</u>	<u>—</u>
The carrying amounts of the above financial assets are classified as follows:		
Designated as fair value through profit or loss on initial recognition	<u>269</u>	<u>—</u>

9 Inventories

	30th June 2005 (Unaudited) HK\$'000	31st December 2004 (Audited) HK\$'000
Merchandise	288	292
Finished goods	420	407
	<u>708</u>	<u>699</u>
Less: Provision for obsolete inventories	(349)	(349)
	<u>359</u>	<u>350</u>

10 Trade receivables

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

	30th June 2005 (Unaudited) HK\$'000	31st December 2004 (Audited) HK\$'000
Current	691	379
31-90 days	31	360
91-180 days	394	552
Over 180 days	189	132
	<u>1,305</u>	<u>1,423</u>

The majority of the Group's turnover is with credit terms of 30 days on average.

11 Trade payables

The ageing analysis of the trade payables was as follows:

	30th June 2005 (Unaudited) HK\$'000	31st December 2004 (Audited) HK\$'000
Current	37	10
31-90 days	3	32
91-180 days	5	20
Over 180 days	6	2
	<u>51</u>	<u>64</u>

12 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 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>
At 1st January 2005	87,601	37	6,250	3,000	(84,128)	12,760
Loss for the six months ended 30th June 2005	—	—	—	—	(2,958)	(2,958)
At 30th June 2005	<u>87,601</u>	<u>37</u>	<u>6,250</u>	<u>3,000</u>	<u>(87,086)</u>	<u>9,802</u>

13 Commitments

(a) Capital commitments

The Group had no capital commitment as at 30th June 2005 (31st December 2004: Nil).

(b) Commitments under operating leases

As at 30th June 2005, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases were payable as follows:

	30th June 2005 (Unaudited) HK\$'000	31st December 2004 (Audited) HK\$'000
Within one year	1,124	1,412
In the second to the fifth year	327	746
	<u>1,451</u>	<u>2,158</u>

(c) Other commitments

As at 30th June 2005, the Group had no other commitment (31st December 2004: Nil).

14 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	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Office and warehouse rental expenses	(i)	132	132	264	264
Building management fees	(ii)	39	39	79	79
Consultancy fees	(iii)	275	275	551	551
		<u>275</u>	<u>275</u>	<u>551</u>	<u>551</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 2005 (30th June 2004: nil).

There is no charge on the Group's assets as at 30th June 2005 (30th June 2004: nil).

The Group has no debt as at 30th June 2005 (30th June 2004: nil).

The gearing ratio of the Group, based on total debt to shareholders' equity, was nil as at 30th June 2005 (30th June 2004: nil).

Order book

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

Investment

Since 31st December 2004, there is no other significant investment held by the Group.

Acquisition / disposal of subsidiary / associate

The Group disposed of its associate during the period ended 30th June 2005.

Name of associate	Disposal consideration HK\$	% Equity interests held by the Group before disposal
Q9 Technology Corporation	1	42.5%

Save as disclosed above, the Group did not have any material acquisition and disposal of subsidiaries or affiliated companies for the six months ended 30th June 2005.

Employee information

As at 30th June 2005, the Group employed 32 staff (30th June 2004: 32). Total staff costs, including directors' emoluments were approximately HK\$3.2 million for the six months ended 30th June 2005 as compared with that of approximately HK\$3.2 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 2005 (30th June 2004: nil).

BUSINESS REVIEW AND PROSPECTS

The consolidated turnover of the Company and its subsidiaries for the six months ended 30th June 2005 amounted to HK\$2,690,000, representing a decrease of 27.0% from the corresponding period of last year. OEM licensing revenue for the first half of 2005 amounted to HK\$1,208,000 representing a decrease of 47.5% from the corresponding period of last year. Loss attributable to shareholders for the six months ended 30th June 2005 amounted to HK\$2,958,000 compared to a loss of HK\$2,811,000 for the corresponding period of last year. The loss per share was HK0.24 cent (first half of 2004: loss per share of HK0.23 cent).

The Group marketing efforts on OEM manufacturers of mobile phones have experienced some set-back. Due to the downturn of the mobile phone market and down pricing pressure on mobile phones in Mainland China, which significantly affect many local mobile phone manufacturers, some of whom are customers of the Group. The Group will maintain a presence in the OEM market with minimum resources invested.

In July 2005, the Group signed an agreement with Yahoo, Hong Kong, which will enable users of its search engine to type Characters in performing internet search. During the past few years, the Group have successfully established Q9 CIS as the market leader in Hong Kong in the fixed line SMS desk top phone market, Education Market, the Government Market, and the end user market. Leveraging on its leading market position in these market segments in Hong Kong, the Group intends to develop strategic relationships with selective partners, who have the resources and market channels to help extend the Group's presence into other market segments in the Greater China region.

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

As at 30th June 2005, the interests and short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 ORDINARY SHARES OF THE COMPANY

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

(Note 1)

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 2005.

As at 30th June 2005, 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 2005	Exercise price	Option exercise period	Date of grant
Dr. Lim Yin Cheng	84,480,000	HK\$0.36	See note 2(a) below	5/5/2001
Mr. Leung Lap Yan	71,720,000	HK\$0.36	See note 2(a) below	5/5/2001
Mr. Leung Lap Fu Warren	14,470,000	HK\$0.36	See note 2(b) below	5/5/2001
Mr. Lau Man Kin	13,390,000	HK\$0.36	See note 2(a) below	5/5/2001
Mr. Tam Kam Biu William	6,400,000	HK\$0.36	See note 2(b) below	5/5/2001
Mr. Fung Siu To Clement	2,560,000	HK\$0.36	See note 2(b) below	5/5/2001
Mr. Kwan Kin Chung	1,150,000	HK\$0.36	See note 2(b) 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(b) below	5/5/2001
Mr. Lun Pui Kan	3,000,000	HK\$0.45	18/5/2001 to 17/5/2011	18/5/2001

Notes:

- (1) 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, cancelled or lapsed during the six months ended 30th June 2005.

- (2) Option exercise period commenced from the date of grant, terminating ten years thereafter.

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 (a)	Note (b)
	18th November 2001	10%
18th May 2002	10%	20%
18th November 2002	10%	20%
18th May 2003	20%	20%
18th November 2003	20%	20%
18th May 2004	20%	10%
18th November 2004	10%	—

(b) New Share Option Scheme

No option had been granted to the Directors or the chief executive under the New Share Option Scheme for the six months ended 30th June 2005.

Save as disclosed above, as at 30th June 2005, none of the Directors or the chief executive 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 2005, no debt securities had been issued by the Group.



SHARE OPTION SCHEMES

(a) OLD SHARE OPTION SCHEMES

As at 1st January 2005, options to subscribe for up to an aggregate of 219,750,000 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 2005, no option had been exercised, cancelled, lapsed or granted. A summary of the outstanding options granted under the Old Share Option Schemes is as follows:

Grantee	Date of grant	Exercise price	Exercise period	Outstanding options as at 1st January 2005	Exercised/ Lapsed	Outstanding options as at 30th June 2005
Directors	5/5/2001	HK\$0.36	See Note 2(a) below	169,590,000	—	169,590,000
Directors	5/5/2001	HK\$0.36	See Note 2(b) below	26,500,000	—	26,500,000
Directors	18/5/2001	HK\$0.45	18/5/2001 to 17/5/2011	4,000,000	—	4,000,000
Employees	5/5/2001	HK\$0.36	See Note 2(b) below	6,280,000	—	6,280,000
Employee	18/5/2001	HK\$0.45	18/5/2001 to 17/5/2011	720,000	—	720,000
Employee	11/10/2001	HK\$0.142	11/10/2001 to 10/10/2011	100,000	—	100,000
Advisors	5/5/2001	HK\$0.36	See Note 2(b) below	12,560,000	—	12,560,000
				<u>219,750,000</u>	<u>—</u>	<u>219,750,000</u>

Notes:

- (1) 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.
- (2) 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 (a)	Note (b)
18th November 2001	10%	10%
18th May 2002	10%	20%
18th November 2002	10%	20%
18th May 2003	20%	20%
18th November 2003	20%	20%
18th May 2004	20%	10%
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 Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures".



(b) NEW SHARE OPTION SCHEME

As at 1st January 2005, 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 2005, no option had been exercised, cancelled, lapsed or granted.

Grantee	Date of grant	Exercise price	Exercise period	Outstanding	Exercised/ Lapsed	Outstanding
				as at 1st January 2005		as at 30th June 2005
Advisors	10/7/2003	HK\$0.042	10/7/2003 to 9/7/2013	10,000,000	—	10,000,000

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

As at 30th June 2005, 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 executive) 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	300,635,000	24.12%
Culturecom Holdings Limited (Note (iv))	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 are 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 (31.45%) 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) 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 2005, 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.

CORPORATE GOVERNANCE

The Company was in compliance with the Code of Corporate Governance Practices as set out in Appendix 15 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 during the period under review.



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 SECURITIES

The Company has not redeemed any of its shares during the six months ended 30th June 2005. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 30th June 2005.

AUDIT COMMITTEE

The audit committee comprises three Independent Non-executive Directors, namely Mr. Ip Chi Wai, Mr. Tse Wang Cheung Angus and Mr. Woo Wei Chun Joseph. The terms of reference of the audit committee have been established with regard to Rules 5.28 to 5.29 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 audit committee has reviewed with management this unaudited half-yearly report.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 11th August 2005.

By order of the Board
Leung Lap Yan
Chairman

Hong Kong, 11th August, 2005

As of the date of this report, the Board of the Company comprises Mr. Leung Lap Yan, Mr. Leung Lap Fu Warren, Mr. Lau Man Kin, Mr. Tam Kam Biu William, Dr. Lim Yin Cheng, Mr. Fung Siu To Clement, Mr. Lun Pui Kan, Mr. Kwan Po Lam Phileas, Mr. Wan Xiaolin and Mr. Kwan Kin Chung as Executive Directors, Mr. Ip Chi Wai, Mr. Tse Wang Cheung Angus and Mr. Woo Wei Chun Joseph as Independent Non-Executive Directors.