Wonson International Holdings Limited

(Incorporated in Bermuda with limited liability)

interim report

2005

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Wonson International Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group"), for the six months ended 30 June 2005 together with the comparative figures (as restated) for the corresponding period in 2004 as follow:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005

		Six months ended 30 June	
	NOTES	**2005**	2004
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited and restated)
Turnover	4	**6,999**	540
Cost of sales		**(6,876)**	(364)
Gross profit		**123**	176
Other operating income		**465**	116
Administrative expenses	5	**(23,115)**	(8,480)
Net realised and unrealised losses on financial assets measured at fair value through profit or loss		**(6,529)**	(1,366)
Loss from operations	6	**(29,056)**	(9,554)
Finance costs	7	**(1,338)**	(2,900)
Gain on disposal of subsidiaries	8	**—**	2,909
Gain on disposal of interests in associates	9	**—**	12,254
Share of results of associates		**—**	1,027
Share of results of joint ventures		**(143)**	(127)
(Loss) profit for the period		**(30,537)**	3,609
(Loss) earnings per share - basic	11	**(HK7.09 cents)**	HK1.06 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2005

	NOTES	**30 June 2005** ***HK$'000*** **(Unaudited)**	31 December 2004 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**215**	501
Available-for-sale investment	13	**13,489**	—
Loan to an investee company	13	**16,588**	—
Interests in joint ventures		**6,088**	6,231
		36,380	6,732
Current assets			
Inventories		**1,784**	1,940
Other receivables		**838**	1,510
Investments in securities	14	**—**	22,616
Financial assets at fair value through profit or loss	14	**33,256**	—
Bank balances and cash		**45,452**	10,116
		81,330	36,182
Current liabilities			
Other payables		**1,393**	3,702
Net current assets		**79,937**	32,480
Net assets		**116,317**	39,212
Capital and reserves			
Share capital	15	**88,609**	68,374
Reserves		**27,708**	(29,162)
Equity attributable to equity holders of the Company		**116,317**	39,212

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Attributable to equity holders of the Company										
	Share capital	Share premium	Contributed surplus	Translation reserve	Capital reserve	Investment revaluation reserve	Investment property revaluation reserve	Share options reserve	Convertible note reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004											
- as originally stated	68,374	135,369	422,882	5	802	1,913	11,368	–	–	(586,005)	54,708
- effect of changes in accounting policies	–	–	–	–	–	–	–	–	2,963	(2,400)	563
- as restated	68,374	135,369	422,882	5	802	1,913	11,368	–	2,963	(588,405)	55,271
Release of reserves upon disposal of associates	–	–	–	–	–	(1,913)	(11,368)	–	–	–	(13,281)
Profit for the period (restated)	–	–	–	–	–	–	–	–	–	3,609	3,609
At 30 June 2004	68,374	135,369	422,882	5	802	–	–	–	2,963	(584,796)	45,599
Loss for the period (restated)	–	–	–	–	–	–	–	–	–	(6,387)	(6,387)
At 31 December 2004	68,374	135,369	422,882	5	802	–	–	–	2,963	(591,183)	39,212
Recognition of expenses in relation to equity-settled share based payments	–	–	–	–	–	–	–	13,441	–	–	13,441
Issue of new shares	13,675	57,434	–	–	–	–	–	–	–	–	71,109
Issue upon exercise of share options	6,560	31,809	–	–	–	–	–	(13,441)	–	–	24,928
Expenses incurred in connection with issue of new shares	–	(1,836)	–	–	–	–	–	–	–	–	(1,836)
Loss for the period	–	–	–	–	–	–	–	–	–	(30,537)	(30,537)
At 30 June 2005	88,609	222,776	422,882	5	802	–	–	–	2,963	(621,720)	116,317

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(11,706)**	(9,153)
Net cash (used in) from investing activities:		
Loan to an investee company	**(30,000)**	—
Purchase of financial assets at fair value through profit or loss	**(17,426)**	(83)
Proceeds from disposal of associates	**—**	78,000
Proceeds from disposal of financial assets at fair value through profit or loss	**257**	27,602
Other investing cash flows	**10**	(191)
	(47,159)	105,328
Net cash from (used in) financing activities:		
Net proceeds from issue of share	**69,273**	—
Proceeds from exercise of share options	**24,928**	—
Repayment of borrowing	**—**	(25,000)
	94,201	(25,000)
Net increase in cash and cash equivalents	**35,336**	71,175
Cash and cash equivalents at the beginning of the period	**10,116**	6,600
Cash and cash equivalents at the end of the period	**45,452**	77,775
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	**45,452**	77,775

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas:

Business combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The Group had not entered into any business combination during the current period.

Goodwill

Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition.

Share-based payment

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company granted under the Share Option Scheme (the "Scheme"). Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based payment *(Continued)*

Following the adoption of HKFRS 2, the fair values of directors' and employees' share options are determined at the date of grant and are amortised over the relevant vesting periods to the income statement.

The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. The adoption of HKFRS 2 has a significant impact on the results of the Group for accounting periods beginning on 1 January 2005. An adjustment of HK$13,441,000 (nil for the six months ended 30 June 2004) representing the estimated fair value of share options granted in February 2005 under the Scheme was charged to the income statement during the period, with a corresponding credit to the equity.

Interests in jointly controlled entities

In previous periods, interests in jointly controlled entities were accounted for using the equity method. HKAS 31 "Interests in Jointly Controlled Entities" allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly controlled entities.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instrument in the financial statements of the Group for the current and prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Convertible note payable

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative profit for 2004 has been restated in order to reflect the increase in effective interest on the liability component.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments ***(Continued)***

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt or equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24")

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Unquoted equity investments of which the fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Investments in securities which were previously classified as trading securities with carrying amount of HK$22,616,000 were reclassified to financial assets at fair value through profit or loss on 1 January 2005. No adjustment has been made on 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

During the period, an interest free loan advanced to an investee company classified as non-current asset is measured at fair value on initial recognition. As a result, a fair value adjustment made on initial recognition of HK$13,489,000 was treated as deemed contribution to the investee and included in the carrying amount of available-for-sale investment. The corresponding adjustment was made to loan to an investee company.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior periods are as follows:

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited and restated)
Expenses in relation to share options granted to employees	**(13,441)**	—
Imputed interest income on loan to an investee company determined using the effective interest method	**77**	—
Effect of recognition of effective interest expense on convertible note payable	**—**	(554)
Increase in loss for the current period/decrease in profit for the prior period	**(13,364)**	(554)

At the date of authorisation of these condensed financial statements, the HKICPA has issued the following standards and interpretations ("Int") that are not yet effective:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int-5	Rights to Interests Arising from Decommissioning Restoration and Environmental Rehabilitation Funds

The directors anticipate that the adoption of these new HKFRSs in future periods will have no material impact on the results of the Group.

4. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions - metals trading, sales of communication products and investments in securities. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

	Six months ended 30 June 2005			
	Metals trading	**Sales of communication products**	**Investments in securities**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	6,994	5	—	6,999
Segment result	121	2	(6,529)	(6,406)
Dividend income	—	—	378	378
Interest income				87
Unallocated corporate expenses				(23,115)
Loss from operations				(29,056)
Share of results of joint ventures				(143)
Finance costs				(1,338)
Loss for the period				(30,537)

4. SEGMENT INFORMATION *(Continued)*

	Six months ended 30 June 2004			
	Metals trading	**Sales of communication products**	**Investments in securities**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	430	110	—	540
Segment result	(92)	(6)	(1,366)	(1,464)
Dividend income	—	—	113	113
Interest income				3
Unallocated corporate expenses				(8,206)
Loss from operations				(9,554)
Gain on disposal of interests in associates	—	—	12,254	12,254
Gain on disposal of subsidiaries	—	2,909	—	2,909
Share of results of associates	—	—	1,027	1,027
Share of results of joint ventures				(127)
Finance costs				(2,900)
Profit for the period				3,609

5 ADMINISTRATIVE EXPENSES

Following the adoption of HKFRS 2 which is effective for accounting periods beginning on or after 1 January 2005, an adjustment of HK$13,441,000 (nil for the six months ended 30 June 2004) representing of the estimated fair value of share options granted in February 2005 under the Share Option Scheme of the Company, was charged to the income statement during the period, with a corresponding credit to the equity.

6. LOSS FROM OPERATIONS

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Depreciation	**286**	318
and after crediting:		
Dividend income from financial assets measured at fair value through profit or loss	**378**	113
Interest income	**87**	3

7. FINANCE COSTS

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Interest on borrowings wholly repayable within five years:		
Convertible note payable	**(88)**	(2,578)
Other payables	**—**	(72)
	(88)	(2,650)
Issue cost of convertible note payable	**(1,250)**	(250)
	(1,338)	(2,900)

8. DISPOSAL OF SUBSIDIARIES

In the prior period, the Group disposed of its interests in certain subsidiaries which were engaged in developing and trading of communication equipment.

The effect of the disposal is summarised as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	557
Inventories	4,939
Trade and other receivable	3,312
Bank balances and cash	233
Trade and other payables	(11,908)
	(2,867)
Gain on disposal of subsidiaries	2,909
Cash consideration	42
Net cash outflow arising on disposal:	
Cash consideration	42
Bank balances and cash disposed of	(233)
	(191)

9. DISPOSAL OF INTERESTS IN ASSOCIATES

In the prior period, the Group disposed of its entire interests in associates. The effect of the disposal is summarised as follows:

	HK$'000
Net assets disposed of:	
Interests in associates	232,437
Less: Impairment loss recognised	(153,410)
	79,027
Reserves attributable to the Group and released upon disposal	(13,281)
	65,746
Gain on disposal of interests in associates	12,254
Cash consideration received	78,000

10. TAXATION

No provision for taxation has been made for the Group in the condensed financial statements since the Group has no assessable profit for both periods.

11. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss for the period of HK$30,537,000 (2004: profit for the period of HK$3,609,000) and on the weighted average number of 430,824,538 (2004: 341,871,119) ordinary shares in issue after adjusted for the effect of share consolidation on 11 July 2005 as disclosed in note 16.

No diluted loss per share had been presented for the current period as the effect of the potential ordinary shares in issue would result in a decrease in the loss per share.

No diluted earnings per share had been presented for the prior period as the effect of the potential ordinary shares outstanding in respect of the convertible note payable was anti-dilutive.

12. INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 June 2005 (2004: nil).

13. AVAILABLE-FOR-SALE INVESTMENT/LOAN TO AN INVESTEE COMPANY

On 8 June 2005, the Group entered into the Sale and Purchase Agreement with Fabulous Resources Limited ("Fabulous Resources") to acquire 6 shares at a par value of US$1 each in the issued share capital of Found Macau Investments International Limited ("Found Macau") from Fabulous Resources. On the same date, the Group also advanced HK$30,000,000 which had been remeasured at fair value at an amount of approximately HK$16,511,000 to Found Macau, and as a result, a fair value adjustment made on initial recognition of HK$13,489,000 was treated as deemed contribution to the investee and included in the carrying amount of available-for-sale investment. The loan is unsecured, interest free and repayable on demand at face value of HK$30,000,000 after 8 years from the date of drawdown.

14. INVESTMENTS IN SECURITIES/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39 which is effective for annual periods beginning on or after 1 January 2005. Investments in securities which were previously classified as trading securities with carrying amount of HK$22,616,000 were reclassified to financial assets at fair value through profit or loss on 1 January 2005.

15. SHARE CAPITAL

	Number of shares (Unaudited)	Amount (Unaudited) HK$'000
Authorised:		
Ordinary shares of HK$0.01 each as at 1 January 2005 and 30 June 2005	50,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each as at 1 January 2005	6,837,422,389	68,374
Issue of new shares (note (a))	1,367,484,000	13,675
Issue upon exercise of share options (note (b))	656,000,000	6,560
At 30 June 2005	8,860,906,389	88,609

Notes:

(a) On 10 January 2005, the Company entered into an agreement with a placing agent for placement of 1,367,484,000 new shares to independent investors at a price of HK$0.052 per new share on a fully underwritten basis. The net proceeds amounted to approximately HK$69 million. About HK$30 million was used for investing in and loan to Found Macau Investments International Limited and about HK$39 million was used for general working capital of the Group.

(b) On 1 February 2005, the Company granted share options to employees to subscribe for 656,000,000 ordinary shares of the Company of HK$0.01 each at the subscription price of HK$0.038 per share (closing price per share on 31 January 2005 was HK$0.037) under the share option scheme adopted on 27 May 2002. Share options granted may be exercised any time from the date of grant to the day preceding the first anniversary of the date of grant. On 2 February 2005, the share options were exercised in full at the subscription price of HK$0.038 per share (closing price per share on 1 February 2005 was HK$0.034).

16. POST BALANCE SHEET EVENTS

(a) Pursuant to a special resolution passed at the special general meeting on 8 July 2005

(i) every twenty shares of HK$0.01 each in the issued and unissued ordinary share capital of the Company be and are hereby consolidated into one consolidated share of HK$0.20 ("Consolidated Share"); and

(ii) every issued and unissued Consolidated Share of the Company be and is hereby reduced in nominal amount by cancelling HK$0.19 of the capital paid up on each issued Consolidated Share and by reducing the nominal amount of each authorised but unissued Consolidated Share, from HK$0.2 to HK0.01 each so as to form one share of HK$0.01 each.

(b) On 24 August 2005, the Company entered into an agreement with a placing agent for placement of 88,600,000 new shares to independent investors at a price of HK$0.1 per new share on a fully underwritten basis. The net proceeds amounting to HK$8,500,000 was used for general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover for the first six months of the year 2005 increased by approximately HK$6.46 million to approximately HK$7 million. Net realized and unrealized losses on financial assets measured at fair value through profit or loss increased by approximately HK$5.16 million to approximately HK$6.53 million as the Group's investment in securities was not satisfactory. Although the Group's turnover has increased, trading business has remained difficult. During the current period, the Company has granted share options to employees to subscribe ordinary shares of the Company. Under the new Hong Kong Financial Reporting Standard 2, an amount of approximately HK$13.44 million was recognized and included in the administrative expenses for the current period to reflect the effect of granting the share options to employees. Finance costs have decreased during the period as the 2001 Convertible Notes (as defined below) were fully repaid in the year 2004 and the 2005 Convertible Notes (as defined below) were also been repaid in March 2005. Overall, net loss for the first six months of the year 2005 was approximately HK$30.54 million as opposed to a net profit of approximately HK$3.61 million for the corresponding period in 2004.

As at 30 June 2005, the Group had cash and bank balances of approximately HK$45.45 million and financial assets at fair value through profit or loss of approximately HK$33.26 million. In the corresponding period last year, the Group had convertible note payable in the principal amount of HK$58 million (the "2001 Convertible Notes"). The 2001 Convertible Notes were originally issued on 3 July 2001 and was unsecured. It bore interest at 7% per annum and matured on the third anniversary of the date of issue. In July 2004, the 2001 Convertible Notes were fully repaid upon maturity. On 5 January 2005, the Company entered into an agreement with a placing agent for placement of convertible notes issued by the Company up to an aggregate principal amount of HK$50 million (the "2005 Convertible Notes"). The 2005 Convertible Notes were unsecured and bore interest at 3% per annum, payable upon one year from the date of issue. Details of which has been disclosed in the Company's announcement dated 5 January 2005 and the circular dated 19 January 2005. Net proceeds from the 2005 Convertible Notes amounted to approximately HK$48.5 million. All the 2005 Convertible Notes have been redeemed and repaid in full in March 2005. As at 30 June 2005, the Group had no loans or borrowings outstanding. The Group employed about twenty staff. Staff remuneration packages are normally reviewed annually. The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance. In addition, the Group provides other staff benefits which include double pay, share option scheme, insurance and medical benefits. Total staff costs for the current period was around HK$18.58 million. During the current period, the Company has granted share options to employees to subscribe 656,000,000 ordinary shares of the Company at the subscription price of HK$0.038 per share, and all these share options granted have been exercised during the current period. As at 30 June 2005, no share options granted were outstanding.

On 10 January 2005, the Company entered into agreement with a placing agent for placement of 1,367,484,000 new shares at a price of HK$0.052 per new share on a fully underwritten basis (the "First Placing"). On the same date, the Company entered into another agreement for placement of 3,000,000,000 new shares at a price of HK0.052 per new share on a best effort basis (the "Second Placing"). The First Placing has been completed whilst the Second Placing has been lapsed. Details of the First Placing and the Second Placing have been disclosed in the Company's announcements dated 10 January, 28 February, 24 March, 31 May and 4 July 2005 and circular dated 19 January 2005. Net proceeds from the First Placing was approximately HK$69 million of which HK$30 million was advanced ("Found Macau Loan") to Found Macau Investments International Limited ("Found Macau"). The Group has an investment in Found Macau (details of the investment and the Found Macau Loan have been disclosed in the Company's announcement dated 10 June 2005 and circular dated 27 June 2005). The balance of the net proceeds of approximately HK$39 million from the First Placing was used for the general working capital of the Group.

On 24 May 2005, the Company entered into agreement with a placing agent for placement of new shares of the Company on a fully underwritten basis. The placing agreement was terminated on 27 May 2005 and was replaced by a new placing agreement entered into between the Company and the placing agent on 27 May 2005 for placement of up to 150,000,000 new reorganized shares at a price of HK0.27 per new reorganized share (conditional upon the proposed reorganization of share capital as described below becoming effective) on a best effort basis. This new placing agreement was subsequently lapsed in August 2005. Details of which has been disclosed in the Company's announcements dated 27 May and 15 August 2005.

On 27 May 2005, the Company announced the proposed reorganization of share capital of which included consolidation of shares of the Company on the basis of consolidating 20 shares into 1 consolidated share. Details of which have been disclosed in the Company's announcement dated 27 May 2005 and circular dated 14 June 2005. The proposed reorganization of share capital was approved by shareholders on 8 July 2005 and became effective on 11 July 2005.

On 24 August 2005, the Company entered into agreement with a placing agent for placement of 88,600,000 new shares of the Company at a price of HK$0.10 per new share on a fully underwritten basis. The placing was completed in September 2005 and the net proceeds of approximately HK$8.5 million was used for general working capital purposes.

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

As at 30 June 2005, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Name of director	Type of interest	Number of shares
Mr. Chiu Kong	Personal	4,000,000 (note)
Mr. Hui Richard Rui	Personal	105,000,000 (note)

note: Pursuant to a special resolution passed at the special general meeting on 8 July 2005, shares of the Company were consolidated on the basis of every 20 shares were consolidated into 1 consolidated shares ("Share Consolidation"). The number of consolidated shares held by Mr. Chiu Kong and Mr. Hui Richard Rui would be 200,000 and 5,250,000 respectively after the Share Consolidation.

The interest stated above represented long positions in the shares of the Company as at 30 June 2005.

Except as disclosed above, as at 30 June, 2005, none of the directors and chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required (a) to be recorded in the register required to be kept under Section 352 of the SFO; or (b) to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the register required to be kept under Section 336 of the SFO showed no person had an interest or a short position in the shares and underlying shares of the Company that were required to be recorded in register.

CORPORATE GOVERNANCE

The Company has, during the six months ended 30 June 2005 met the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the following deviations :

(a) Code provision A.2.1

The roles of chairman and chief executive officer are not separate. The Company considers more time is needed to finalize the decision and to seek and appoint appropriate person(s) to different roles in order to comply this Code provision.

(b) Code provision A.4.1

Non-executive directors are not appointed for a specific term. The Company is in the process of setting the term of appointment for each non-executive director.

(c) Code provision A.4.2

The Code requires every director should be subject to retirement by rotation at least once every three years (the "Rotation Period Restriction"). The Chairman of the Company is not subject to retirement by rotation and the Company's bye-laws does not contain that Rotation Period Restriction. The Company intends to amend the bye-laws of the Company to comply with this Code provision, and the relevant resolutions for amending the bye-laws are expected to be proposed at the next annual general meeting of the Company.

(d) Code provision A.5.4

The Code requires written guidelines on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers ("Written Guidelines") for relevant employees in respect of their dealings in the securities of the Company should be established. On 21 September 2005, Written Guidelines were established.

(e) Code provision B.1.1

Remuneration committee has not been set up yet. The Company is in the process of establishing a Remuneration Committee with appropriate composition and terms of reference.

(f) Code provision C.3.3

The Code requires the terms of reference of the audit committee should include certain minimum duties. On 21 September 2005, the terms of reference of the audit committee were revised to include all the duties set out in Code provision C.3.3.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding director's securities transactions. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 June 2005.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

REVIEW BY AUDIT COMMITTEE

Having been reviewed by the Company's Auditors, Deloitte Touche Tohmatsu, the 2005 interim report has been reviewed by audit committee which comprises three independent non-executive directors of the Company.

As at the date of this interim report, the Board of the Company comprises Mr. Chiu Kong, Mr. Hui Richard Rui, Mr. Tsui Ching Hung, Mr. Chung Nai Ting and Mr. Tse Lanny Cheuk Ming as Executive Directors, and Mr. Tong Wui Tung, Mr. Chan Sze Hung and Mr. Miu, Frank H. as Independent Non-executive Directors.

By order of the Board
Chiu Kong
Chairman

Hong Kong, 27 September, 2005