



B&S
ENTERTAINMENT HOLDINGS LIMITED
中大娛樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8167)

INTERIM REPORT
2004 – 2005

For the three months and six months ended
31 December 2004

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of B&S Entertainment Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to B&S Entertainment Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.

RESULTS

The board of directors (the “Board”) of B&S Entertainment Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 31 December 2004 together with comparative unaudited figures for the corresponding period of 2003 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	For the three months ended 31 December		For the six months ended 31 December	
		2004 (unaudited) <i>HK\$'000</i>	2003 (unaudited) <i>HK\$'000</i>	2004 (unaudited) <i>HK\$'000</i>	2003 (unaudited) <i>HK\$'000</i>
TURNOVER	2	751	4,960	1,382	10,195
Cost of sales		<u>(1,135)</u>	<u>(2,030)</u>	<u>(3,517)</u>	<u>(4,987)</u>
Gross (loss)/profit		(384)	2,930	(2,135)	5,208
Other revenue	2	4	9	40	30
Selling and distribution costs		(96)	(289)	(233)	(919)
Administrative expenses		(2,702)	(1,366)	(4,044)	(2,589)
Provisions for irrecoverable deposits and doubtful debts		<u>(5,446)</u>	<u>—</u>	<u>(5,446)</u>	<u>—</u>
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	3	(8,624)	1,284	(11,818)	1,730
Finance costs	4	<u>(352)</u>	<u>(167)</u>	<u>(835)</u>	<u>(368)</u>
(LOSS)/PROFIT BEFORE TAXATION		(8,976)	1,117	(12,653)	1,362
Taxation	5	<u>—</u>	<u>(316)</u>	<u>—</u>	<u>(316)</u>
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>(8,976)</u>	<u>801</u>	<u>(12,653)</u>	<u>1,046</u>
(LOSS)/EARNINGS PER SHARE	6				
Basic		<u>(2.24 cent)</u>	<u>0.20 cent</u>	<u>(3.16 cent)</u>	<u>0.26 cent</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2004 (unaudited) HK\$'000	30 June 2004 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	–	30
Deferred tax assets	1	1,830	1,830
Film rights and films in progress	9	3,745	3,946
Prepayments		<u>5,600</u>	<u>5,600</u>
		11,175	11,406
CURRENT ASSETS			
Film rights and films in progress	9	22,142	25,186
Accounts receivable	10	4,610	9,038
Prepayments, deposits and other receivables		8,452	9,958
Pledged deposits	13	5,000	10,000
Cash and bank balances		<u>86</u>	<u>633</u>
		40,290	54,815
CURRENT LIABILITIES			
Deposits received		1,262	1,212
Accounts payable	11	92	89
Accrued liabilities and other payables		3,382	936
Tax payable		5	16
Bank overdrafts, secured	12	12,090	17,361
Short term loans		<u>3,678</u>	<u>6,000</u>
		20,509	25,614
NET CURRENT ASSETS		19,781	29,201
TOTAL ASSETS LESS CURRENT LIABILITIES		30,956	40,607
NON-CURRENT LIABILITIES			
Due to a director		11,046	9,046
Due to a shareholder		<u>1,002</u>	<u>–</u>
		12,048	9,046
NET ASSETS		18,908	31,561
CAPITAL AND RESERVES			
Issued capital	13	4,000	4,000
Reserves		<u>14,908</u>	<u>27,561</u>
		18,908	31,561

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 31 December	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(52)	1,196
NET CASH INFLOW FROM INVESTING ACTIVITIES	–	19
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<u>328</u>	<u>(368)</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(276)	847
CASH AND CASH EQUIVALENTS AT 1 JULY	<u>(6,728)</u>	<u>(6,213)</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>(7,004)</u></u>	<u><u>(5,366)</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Pledged bank deposits	(5,000)	10,000
Cash and bank balances	86	1,651
Bank overdrafts, secured	<u>(12,090)</u>	<u>(17,017)</u>
	<u><u>(7,004)</u></u>	<u><u>(5,366)</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2003, as previously reported	4,000	20,027	17,590	(14,115)	27,502
Prior year adjustment:					
SSAP 12 – restatement of deferred tax assets	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,471</u>	<u>2,471</u>
At 1 July 2003, as restated	4,000	20,027	17,590	(11,644)	29,973
Profit for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,046</u>	<u>1,046</u>
At 31 December 2003	<u>4,000</u>	<u>20,027</u>	<u>17,590</u>	<u>(10,598)</u>	<u>31,019</u>
At 1 July 2004	4,000	20,027	17,590	(10,056)	31,561
Loss for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>(12,653)</u>	<u>(12,653)</u>
At 31 December 2004	<u>4,000</u>	<u>20,027</u>	<u>17,590</u>	<u>(22,709)</u>	<u>18,908</u>

Notes:

1. Principal accounting policies and basis of presentation

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong, and the applicable disclosure requirements of the GEM Listing Rules. They have been prepared under the historical cost convention.

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 30 June 2004.

2. Turnover, revenues and segment information

Turnover represents licensing and sub-licensing fee income and the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group’s turnover, revenues and results by business segments is as follows:

	Turnover	
	For the six months	
	ended 31 December	
	2004	2003
	(unaudited)	(unaudited)
	HK\$’000	HK\$’000
Licensing of film rights	1,373	9,804
Sub-licensing of film rights	–	380
Sale of videos and video compact discs	<u>9</u>	<u>11</u>
	1,382	10,195
Other revenues	<u>40</u>	<u>30</u>
	<u>1,422</u>	<u>10,225</u>
	Segment results	
	For the six months	
	ended 31 December	
	2004	2003
	(unaudited)	(unaudited)
	HK\$’000	HK\$’000
Film licensing and sub-licensing	(11,821)	1,733
Sale of video and video compact discs	<u>3</u>	<u>(3)</u>
	(11,818)	1,730
Finance costs	<u>(835)</u>	<u>(368)</u>
(Loss)/profit before taxation	(12,653)	1,362
Taxation	<u>–</u>	<u>(316)</u>
(Loss)/profit attributable to shareholders	<u>(12,653)</u>	<u>1,046</u>

3. (Loss)/profit from operating activities

(Loss)/profit from operating activities is stated after charging:

	For the six months	
	ended 31 December	
	2004	2003
	HK\$’000	HK\$’000
Cost of film and sub-licensing rights	3,512	4,976
Cost of inventories sold	6	11
Depreciation	16	16
Loss on disposal of fixed assets	14	–
Provision for irrecoverable deposit	1,500	–
Provision for doubtful debts	<u>3,946</u>	<u>–</u>

4. Finance costs

	For the six months ended 31 December	
	2004 HK\$'000	2003 HK\$'000
Interest on bank overdrafts wholly repayable within one year	299	368
Interest on other loans	536	—
	<u>835</u>	<u>368</u>

5. Taxation

	For the six months ended 31 December	
	2004 HK\$'000	2003 HK\$'000
Current – Hong Kong	—	6
Deferred – Hong Kong	—	310
	<u>—</u>	<u>316</u>

No Hong Kong profits tax has been provided as there are no assessable profits arising in Hong Kong for the period. Hong Kong profits tax for the six months ended 31 December 2003 has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the period under review of the individual companies within the Group.

Deferred taxation is accounted for at the current taxation rate.

6. (Loss)/earnings per share

The basic (loss)/earnings per share for the three months and six months ended 31 December 2004 are calculated based on the unaudited consolidated loss attributable to shareholders of the Company of approximately HK\$8,976,000 and HK\$12,653,000 respectively (2003: approximately profit of HK\$801,000 and HK\$1,046,000 respectively) and on a weighted average number of 400,000,000 shares in issue during the periods (2003: 400,000,000 shares).

Diluted (loss)/earnings per share for the three months and six months ended 31 December 2004 and 2003 has not been disclosed as no diluting event existed during these periods.

7. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2004 (2003: Nil).

8. Capital expenditure

	Fixed assets HK\$'000
Six months ended 31st December 2004	
Opening net book amount	30
Disposals	(14)
Depreciation charge (note 3)	(16)
	<u>—</u>
Closing net book amount	<u>—</u>

9. Film rights and films in progress

	31 December 2004 (unaudited) HK\$'000	30 June 2004 (audited) HK\$'000
Film rights	4,297	5,211
Films in progress	17,243	19,172
Sub-licensing rights	4,347	4,749
	<u>25,887</u>	<u>29,132</u>
Less: Amounts classified as current assets	<u>(22,142)</u>	<u>(25,186)</u>
Non-current portion	<u>3,745</u>	<u>3,946</u>

10. Accounts receivable

The credit terms offered by the Group are in accordance with the terms specified in the agreements entered into with the customers. An ageing analysis of accounts receivable at the balance sheet date, based on invoice date, is as follows:

	31 December 2004 (unaudited) HK\$'000	30 June 2004 (audited) HK\$'000
Within 30 days	–	2,545
Between 31 to 60 days	–	2,400
Between 61 to 90 days	–	1,950
Between 91 to 120 days	–	1,300
Over 120 days	4,610	843
	<u>4,610</u>	<u>9,038</u>

11. Accounts payable

An ageing analysis of accounts payable at the balance sheet date, based on invoice date, is as follows:

	31 December 2004 (unaudited) HK\$'000	30 June 2004 (audited) HK\$'000
Within 30 days	–	–
Between 31 to 60 days	–	–
Between 61 to 90 days	–	–
Over 90 days	92	89
	<u>92</u>	<u>89</u>

12. Bank overdrafts, secured

The bank overdrafts were secured by corporate guarantees from the Company and pledge of the Group's bank deposits of HK\$5 million (As at 30 June 2004: HK\$10 million).

13. Share capital

	Number of ordinary shares of HK\$0.01 each	Value HK\$
Authorised:		
At 30 June 2004 and at 31 December 2004	<u>3,000,000,000</u>	<u>30,000,000</u>
Issued and fully paid:		
At 30 June 2004 and at 31 December 2004	<u>400,000,000</u>	<u>4,000,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

The Group's unaudited turnover for the six months ended 31 December 2004 amounted to approximately HK\$1.4 million (2003: approximately HK\$10.2 million), representing a decrease of around 86%. This was mainly due to no movie has launched during the period.

There was a gross loss during the period, compared with a gross profit for the corresponding period in 2003. Such gross loss was mainly contributed by the amortization of film costs of existing film rights while there was no new movie has launched during the period.

Administrative expenses increased by approximately HK\$1.4 million to approximately HK\$4.0 million, while selling and distribution costs dropped by 75% which was due to the decrease in distribution fee paid during the period. During the period, provision for irrecoverable deposit paid in respect of acquisition of equipment and doubtful debts of HK\$1,500,000 and HK\$3,946,000 was made on the accounts.

Due to the net effect of the above, the Group encountered a loss attributable to shareholders for the period under review.

Outlook

The Group will continue to expand its distribution network in order to capture a larger market share in this field. With our experience and expertise, we will continue to achieve the objective to become an active movie producer and distributor of Chinese language movies in the Greater China region and other countries. The Group will also continue to expand our distribution network both in local and overseas markets.

COMPARISON BETWEEN PLANNED BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS OF THE COMPANY DATED 29 JULY 2002 (THE "PROSPECTUS") AND ACTUAL BUSINESS PROGRESS FOR THE PERIOD FROM 1 JULY 2004 TO 31 DECEMBER 2004

Proposed plans as stated in the Prospectus

Actual progress

- | | | | | |
|----|---|---|----|--|
| 1. | Enhancement of production equipment | | | |
| | a. | Continue to expand the production capacity by procurement of equipment with the latest technologies at the relevant time | a. | not yet implemented as the Group has adopted the strategy of engaging new production subcontractors with up-to-date production equipment and movie technology |
| | b. | Procure equipment for implantation of special effects for the movies to be produced by the Group | b. | not yet proceeded as feasibilities studies concluded that these equipment would not suite the Group's production needs in view of the cost, performance, and the Group's present filming technology requirements |
| 2. | Improvement of the cast quality of movies | | | |
| | a. | Continue to employ additional cast on project basis for the Group's movies to be produced | a. | implemented as planned |
| 3. | Sales and marketing | | | |
| | a. | Continue to attend tradeshows and film festivals | a. | attended various tradeshows and films festivals in Europe and Asia |
| | b. | Expand the distribution networks for the distribution of the copyright/film rights to the Group's movies to North America, the PRC and Europe through licensing of movies copyright/film rights | b. | discussed with several distributors through tradeshows to explore co-operation opportunity, no agreement has yet been reached |
| | c. | Continue to expand the sales and distribution teams by employing two additional staff | c. | employed one new staff only as lack of suitable candidate with relevant experience |
| | d. | Continue to expand the network for distribution of the movies produced by the Group to cable television channel in Europe, the PRC and North America | d. | implemented as planned |

**Proposed plans as stated
in the Prospectus**

Actual progress

- | | |
|--|---|
| <p>4. Development and training of human resources</p> <p>a. Continue to organise training courses which are relevant to the development of the films industry</p> | <p>a. not yet implemented as the Group has adopted the expansion strategy by engaging new production sub-contractors with quality staff, production crews and actors/actresses</p> |
| <p>5. Enhancement of broadcasting in cinemas and development of new business</p> <p>a. Continue to negotiate with not less than three additional cinema operators in Hong Kong for investment in DV screening equipment</p> <p>b. Continue to invest in DV screening equipment jointly with cinema operators</p> | <p>a. negotiated with cinemas in Hong Kong but without significant progress as the cooperation terms were not favorable to the Group</p> <p>b. not yet commenced as no agreement with cinema operator was concluded</p> |

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

The actual net proceeds from issuance of new shares in August 2002 was approximately HK\$24 million which is equal to the estimate as stated in the Prospectus. During the period from 6 August 2002 (date of listing) to 31 December 2004, the Group has applied the following amounts to achieve the business objectives as set out in the Prospectus.

	Proposed application of fundings up to 31 December 2004 HK\$'million	Actual fundings utilised up to 31 December 2004 HK\$'million	<i>Notes</i>
Enhancement of production equipment	5.5	–	<i>(i)</i>
Improvement of the cast quality of movies	2.5	0.7	<i>(iii)</i>
Sales and marketing	4.5	1.9	<i>(iv)</i>
Development and training of human resources	3.0	–	<i>(i)</i>
Enhancement of broadcasting in cinemas and development of new business	4.5	–	<i>(ii)</i>
	<hr/>	<hr/>	
Total	<u>20.0</u>	<u>2.6</u>	

Notes:

- (i) The Group has adopted the expansion strategy by engaging new production subcontractors with up-to-date production equipment, movie technology, quality staff, production crews and actors/actresses, the funds for enhancement of production equipment and training of human resources have not been applied.
- (ii) The Group has negotiated with cinemas in Hong Kong but without significant progress.
- (iii) The Group has produced fewer movies than as scheduled.
- (iv) The Group has discussed with several distributors to expand the distribution network, but no agreement has yet been reached. Also, only one new staff was employed due to lack of suitable candidate with relevant experience.

In response to the rapid changes in market conditions and opportunities, the Group has entered into several contracts with independent film production companies to enlarge the Group's production base of both DV format and 35mm format movies. These contracts were financed by the net proceeds from the issuance of new shares.

FINANCIAL POSITION

The Group mainly financed its operations with its internally generated resources, bank overdraft facilities provided by its bankers and other short-term loans provided by its finance companies.

As at 31 December 2004, the Group had total current assets of approximately HK\$40.3 million (June 2004: HK\$54.8 million), including cash and bank balances of approximately HK\$0.1 million (June 2004: HK\$0.6 million), pledged deposits of HK\$5.0 million (June 2004: HK\$10.0 million), accounts receivable of HK\$4.6 million film rights and films in progress of approximately HK\$22.1 million (June 2004: HK\$25.2 million) and prepayment, deposits and other receivables of approximately HK\$8.5 million (June 2004: HK\$10 million). The Group has total borrowings of approximately HK\$27.7 million (June 2004: HK\$32.4 million). It comprised of bank overdrafts of approximately HK\$12.0 million (June 2004: HK\$17.4 million) at an interest rate ranged from 1.25% over Hong Kong dollars deposit rate to 2.25% over prevailing Hong Kong dollars prime rate per annum, short-term loan of HK\$3.7 million (June 2004: HK\$6.0 million) and amounts due to a Director and a shareholder of approximately HK\$11.0 million and HK\$1 million respectively (June 2004: HK\$9.0 million and nil respectively).

GEARING RATIO

The gearing ratio, representing borrowings divided by shareholders equity, was about 1.47 as at 31 December 2004 (June 2004: 1.03).

FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICIES

Since most of the Group's borrowings, cash balances and income are primarily denominated in Hong Kong dollars, no hedging or other alternatives have been implemented. The Group has not experienced any material difficulty or effect on its operations of liquidity as a result of fluctuations in currency exchange rates.

The Group continues to adopt a conservative treasury policy with all bank deposits and overdrafts in Hong Kong Dollars, keeping minimum exposure to foreign exchange risk.

CHARGES ON GROUP ASSETS

The Group has pledged bank deposit of HK\$5.0 million for banking facilities granted (June 2004: HK\$10.0 million). At 31 December 2004, all the undertaking, property and assets of the Company were pledged to an independent third party as security for a short-term borrowing amounting to HK\$5.0 million for working capital of the Group. These facilities are also supported by corporate guarantees executed by the ultimate holding company and personal guarantees executed by certain directors of the Company.

CONTINGENT LIABILITIES

Best Faith (Hong Kong) Limited and B & S Film Distribution Company Limited, subsidiaries of the Company, have been named as the defendants in a High Court action in respect of an alleged breach of contractual undertakings. The directors of the Company, after having consulted its legal counsel, are of the opinion that the two subsidiaries have good grounds to defend on the case and they should not be liable to the claims and, accordingly, no provision for any potential liability has been made in the results for the three months ended 31 December 2004.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not have any significant investments as at 31 December 2004. Other than those disclosed in the Prospectus under the section headed "Statement of Business Objectives", the Company did not have any plan for material investments and acquisition of material capital assets as at 31 December 2004. There had been no material acquisitions and disposals of subsidiaries during the three months ended 31 December 2004.

EMPLOYEES

Employee remuneration, including that of the Directors, for the period under review amounted to approximately HK\$2.4 million. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Employees are also entitled to benefits including bonus and mandatory provident fund. The Company had adopted a share option scheme under which full time employees, including directors, of the Company and its subsidiaries, might be granted options to subscribe for the Company's ordinary shares.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2004, the interests and short positions of the Directors in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or take to have 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 Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Exchange, were as follows:

Long positions in the shares of the Company

Name of director	Corporate interest	Percentage of shareholding
Mr. Lee Man Kwong	170,400,000*	42.6%
Ms. Xiong Jingling	170,400,000*	42.6%

* Mr. Lee Man Kwong and Ms. Xiong Jingling have beneficial interests of 70% and 30% respectively in Sparkle China Development Limited, which owns 170,400,000 ordinary shares of the Company.

Save as disclosed above, the directors do not have any interests or short positions in the shares of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading “Share option scheme” below, at no time during the period under review was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

On 22 July 2002, a share option scheme (the “Scheme”) was approved by the Company. The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include directors of the Company or any of its subsidiaries, non-executive directors and employees of the Group, and suppliers of goods or service to the Group.

No share option has been granted by the Company under the Scheme up to the date of this announcement.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director of the Company, as at 31 December 2004, shareholders (other than Directors of the Company) who had interests and short positions in the securities of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or who were deemed to be directly and indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Number of shares held	Percentage of shareholding
Sparkle China Development Limited (<i>Note i</i>)	170,400,000	42.6%
Mr. Fu Hau Ching	20,012,000	5.0%

Note:

- (i) The 170,400,000 shares are charged to Kingston Securities Limited for a loan facility granted for financing the mandatory conditional cash offer for all the issued shares of the Company not already owned or agree to be acquired by Sparkle China Development Limited or parties acting in concert with it at HK\$0.0117 per Share to be made by Shen Yin Wanguo Capital (H.K.) Limited on behalf of Sparkle China Development Limited in accordance with the Hong Kong Code on Takeovers and Mergers.

Save as disclosed above and in “Directors’ Interests and Short Positions in Shares”, the Company had no notice of any interests and short positions to be recorded pursuant to Section 336 of the SFO.

SPONSOR'S INTEREST

On 10 November 2004, South China Capital Limited ("South China") tendered its notice of resignation to the Company and Kingston Corporate Finance Limited (the "Sponsor") has been appointed to replace South China and act as the continuing sponsor to the Company with effective from 7 December 2004. The Sponsor has confirmed that, as at 31 December 2004, to its best knowledge, none in the Sponsor or its associates, directors or employees have or may have any interest in any class of securities of the Company or any of member company of the Group (including options of rights to subscribe for such securities).

Pursuant the sponsor agreement between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 7 December 2004 to 30 June 2005.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or and of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group during the three months and six months ended 31 December 2004.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months and six months ended 31 December 2004.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group.

By order of the Board
Siu Luen Fat
Chairman

Hong Kong, 7 February 2005

The Board comprises of:

Mr. Siu Luen Fat (*Executive Director*)
Mr. Siu Kin Fat (*Executive Director*)
Mr. Siu Kuen Fat (*Executive Director*)
Mr. Lee Man Kwong (*Executive Director*)
Ms. Xiong Jingling (*Executive Director*)
Mr. Chan Kwok Sun, Dennis (*Executive Director*)
Mr. Law Kwok Keung (*Executive Director*)
Ms. Chiu Kam Hing, Kathy (*Independent Non-executive Director*)
Dr. Cheung Wai Bun, Charles (*Independent Non-executive Director*)
Mr. Li Chi Fai (*Independent Non-executive Director*)