



CHINA NORTHERN ENTERPRISES INVESTMENT FUND LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT 2004

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INTERIM FINANCIAL STATEMENTS

The board of directors (the "Board") of China Northern Enterprises Investment Fund Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2004 (the "Period"). The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") have not been reviewed by the Company's auditors but have been reviewed by the Company's audit committee (the "Audit Committee").

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Notes	Six months ended 31 December 2004 (Unaudited) HK\$	Six months ended 31 December 2003 (Unaudited) HK\$
TURNOVER	2	27,254,979	35,775,040
Cost of sales		(28,155,667)	(34,105,791)
Gross (loss)/profit		(900,688)	1,669,249
Other revenues	2	244,831	35,405
Unrealized holding gains on other investments		2,838,759	79,046
Administrative expenses		(5,035,040)	(2,512,495)
LOSS FROM OPERATIONS	4	(2,852,138)	(728,795)
Finance costs		(22,181)	—
Loss before taxation		(2,874,319)	(728,795)
Taxation	5	—	—
LOSS ATTRIBUTABLE TO THE SHAREHOLDERS		(2,874,319)	(728,795)
DIVIDEND	6	—	—
LOSS PER SHARE			
Basic	7	(5.3 cents)	(3.8 cents)
Diluted	7	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2004

	<i>Notes</i>	31 December 2004 (Unaudited) HK\$	30 June 2004 (Audited) HK\$
NON-CURRENT ASSETS			
Plant and equipment	8	350,666	635,302
Interests in associated companies		179,460	156,750
Investment securities	9	10,500,000	7,000,000
		11,030,126	7,792,052
CURRENT ASSETS			
Other investments	10	11,220,272	12,913,320
Prepayments, deposits and other receivables		9,347,904	9,412,101
Bank balances		4,366,694	3,465,426
		24,934,870	25,790,847
CURRENT LIABILITIES			
Accruals and other payables		712,698	363,552
NET CURRENT ASSETS			
		24,222,172	25,427,295
TOTAL ASSETS LESS CURRENT LIABILITIES			
		35,252,298	33,219,347
CAPITAL AND RESERVES			
Share capital	11	636,000	530,000
Reserves		34,616,298	32,689,347
SHAREHOLDERS' FUNDS			
		35,252,298	33,219,347

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Issued capital HK\$	Share premium HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2004 (Audited)	530,000	46,320,000	(13,630,653)	33,219,347
Issuance of shares	106,000	4,876,000	–	4,982,000
Share issue expenses	–	(74,730)	–	(74,730)
Net loss for the Period	–	–	(2,874,319)	(2,874,319)
At 31 December 2004 (Unaudited)	636,000	51,121,270	(16,504,972)	35,252,298
	Issued capital HK\$	Share premium HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2003 (Audited)	–	–	(151,328)	(151,328)
Issuance of shares	530,000	52,470,000	–	53,000,000
Share issue expenses	–	(6,150,000)	–	(6,150,000)
Net loss for the Period	–	–	(728,795)	(728,795)
At 31 December 2003 (Unaudited)	530,000	46,320,000	(880,123)	45,969,877

CONDENSED CONSOLIDATED CASHFLOW STATEMENT
 FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Six months ended 31 December 2004 (Unaudited) HK\$	Six months ended 31 December 2003 (Unaudited) HK\$
Net cash outflow from operating activities	(3,803,656)	(1,051,286)
Net cash outflow from investing activities	(202,346)	(25,768,721)
Net cash inflow from financing activities	4,907,270	46,663,240
INCREASE IN CASH AND CASH EQUIVALENTS	901,268	19,843,233
CASH AND CASH EQUIVALENTS AT 1 JULY	3,465,426	5,432
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4,366,694	19,848,665
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank Balances	4,366,694	19,848,665

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The Interim Financial Statements of the Group for the Period have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies adopted in the preparation of these Interim Financial Statements are consistent with those used in the Company's audited financial statements for the year ended 30 June 2004.

(b) Basis of consolidation

The Interim Financial Statements include the financial statements of the Group for the six months ended 31 December 2004. The results of subsidiaries acquired during the Period are consolidated from their effective dates of acquisition. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries are those entities in which the Company, directly or indirectly controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital of the entities.

(c) Interests in associated companies

An associated company is a company not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management. The consolidated profit and loss account includes the Group's share of the post-acquisition results of its associated company for the period. In the consolidated balance sheet, interests in associated companies are stated at the Group's share of the net assets of the associates plus goodwill on acquisition in so far as it has not already been amortised, less any identified impairment loss.

(d) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives at 25% per annum using the straight line method.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

(e) Investment in securities

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities are held for long-term and are stated at cost less any provision for impairment losses.

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account.

(f) Impairment

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and the new circumstances and events will persist for the foreseeable future.

2. TURNOVER AND REVENUE

The Group is principally engaged in investments in listed and unlisted companies. An analysis of turnover and other revenues is as follows:

	Six months ended 31 December 2004 (Unaudited) HK\$	Six months ended 31 December 2003 (Unaudited) HK\$
Turnover		
Proceeds from sale of other investments	27,254,979	35,775,040
Other revenues		
Dividend income	190,384	33,720
Interest income	41,637	1,685
Other income	12,810	-
	244,831	35,405
Total revenues	27,499,810	35,810,445

3. SEGMENT INFORMATION

The Group is principally engaged in investments in listed and unlisted companies, no analysis by business segment for the Period is provided.

As all of the turnover and contributions to operating results of the Group are attributable to investment in equity securities listed in Hong Kong, no geographical analysis of the Group's performance for the Period is provided.

4. Loss from operations

The loss from operations has been arrived at after charging and crediting the following:

	Six months ended 31 December 2004 (Unaudited) HK\$	Six months ended 31 December 2003 (Unaudited) HK\$
<u>Charging:</u>		
Staff costs (inclusive of directors' remuneration)	1,359,800	488,000
Depreciation of plant and equipment	93,809	63,023
Operating lease rentals of land and building	138,216	150,000
Loss on disposal of plant and equipment	370,464	-
<u>Crediting:</u>		
Unrealized holding gains on other investments	2,838,759	79,046

5. Taxation

No provision for Hong Kong profits tax has been made in the Interim Financial Statements as the Group did not generate any assessable profits during the Period (2003: Nil).

6. Interim dividend

The directors do not recommend the payment of an interim dividend for the Period (2003: Nil).

7. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to the shareholders of HK\$2,874,319 (2003: HK\$728,795) and on the weighted average number of 54,613,043 (2003: 19,146,740) ordinary shares of the Company in issue during the Period.

There were no dilutive potential shares during the periods ended 31 December 2004 and 31 December 2003, therefore, no diluted loss per share have been presented.

8. PLANT AND EQUIPMENT

	Leasehold Improvement	Furniture & Fixtures	Office Equipment	Computer Equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
COST					
At 1 July 2004 (audited)	371,550	250,050	66,989	111,676	800,265
Additions	213,464	27,185	8,919	1,858	251,426
Disposals	(371,550)	(226,510)	(27,755)	(30,000)	(655,815)
	<u>213,464</u>	<u>50,725</u>	<u>48,153</u>	<u>83,534</u>	<u>395,876</u>
At 31 December 2004 (unaudited)					
ACCUMULATED DEPRECIATION					
At 1st July 2004 (audited)	89,938	48,946	8,579	17,500	164,963
Charge for the period	45,011	27,185	8,132	13,481	93,809
Disposals	(128,641)	(70,203)	(5,968)	(8,750)	(213,562)
	<u>6,308</u>	<u>5,928</u>	<u>10,743</u>	<u>22,231</u>	<u>45,210</u>
At 31 December 2004 (unaudited)					
NET BOOK VALUES					
At 31st December 2004 (unaudited)	<u>207,156</u>	<u>44,797</u>	<u>37,410</u>	<u>61,303</u>	<u>350,666</u>
At 30 June 2004 (audited)	<u>281,612</u>	<u>201,104</u>	<u>58,410</u>	<u>94,176</u>	<u>635,302</u>

9. INVESTMENTS SECURITIES

	31 December 2004 (Unaudited) HK\$	30 June 2004 (Audited) HK\$
Unlisted equity securities at cost	<u>10,500,000</u>	<u>7,000,000</u>

At 31 December 2004, the details of unlisted equity securities are as follows:

Name	Place of incorporation	Particulars of equity interest held	% equity interest held
Connelly Investments Limited (Note)	British Virgin Islands	Registered capital	12
Beijing Illumination (Hong Kong) Limited	Hong Kong	Registered capital	0.5
Four Gold OG Limited	British Virgin Islands	Registered capital	1.7

Note: Connelly Investments Limited holds 100% equity interest in Mellow Anti-Counterfeit Net System Company Limited ("Mellow"), which is a company established in the PRC and principally engaged in the development and application of a digit anti-counterfeiting business, and the provision of digital anti-counterfeiting services for consumables, such as cigarettes, wine and retail goods in the PRC.

10. OTHER INVESTMENTS

	31 December 2004 (Unaudited) HK\$	30 June 2004 (Audited) HK\$
Equity listed securities in Hong Kong at market value	<u>11,220,272</u>	<u>12,913,320</u>

11. SHARE CAPITAL

	No. of Shares	HK\$ (Unaudited)
Authorised: ordinary share of HK\$0.01 each At 1 July 2004 and 31 December 2004	<u>200,000,000</u>	<u>2,000,000</u>
Issued and fully paid: ordinary share of HK\$0.01 each At 1 July 2004	53,000,000	530,000
Allotted and issued fully paid on 3 December 2004	<u>10,600,000</u>	<u>106,000</u>
At 31 December 2004	<u>63,600,000</u>	<u>636,000</u>

On 3 December 2004, 10,600,000 ordinary shares of HK\$0.01 each were issued at a premium of HK\$0.46 each to increase the working capital of the Group.

12. OPERATING LEASES COMMITMENTS

At 31 December 2004, the Group had future aggregate minimum commitments for lease payments under non-cancellable operating lease as follows:

	31 December 2004 (Unaudited) HK\$	30 June 2004 (Audited) HK\$
Land and building:		
Within one year	505,958	294,536
In the second to fifth year inclusive	<u>971,916</u>	<u>3,512</u>
	<u>1,477,874</u>	<u>298,048</u>

13. RELATED PARTY AND CONNECTED TRANSACTIONS

During the Period, the Group had the following significant related party and connected transactions:

	Six months ended 31 December 2004 (Unaudited) HK\$	Six months ended 31 December 2003 (Unaudited) HK\$
Investment management fees paid to Pegasus Fund Managers Limited	–	189,916
Investment management fees paid to Guotai Junan Assets (Asia) Limited	300,000	–
Company secretarial fee paid to Mr. Yau Chung Hong, executive director	90,000	–
Custodian fee paid to Standard Chartered Bank	35,070	–

14. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved by the Board on 23 March 2005.

MANAGEMENT DISCUSSION AND ANALYSIS**Business Overview**

During the Period, the Group continued to seek and identify appropriate investment opportunities for the portfolio. While it took time for the Group to evaluate quality projects, the Group maximised the gain through the investment in listed securities. At 31 December 2004, 31.8% of the Group's total net assets were in listed investments, 29.8% in unlisted investments and 12.4% in cash.

The Company's initial public offering was completed in October 2003, and commenced its operations as investment company since then. The loss incurred for the six months ended 31 December 2003 represented the Company's results for the first two months of its investment company operations.

During the Period, the Group recorded gains from its investments in listed securities. Such gains contributed to significant reduction in the Group's loss.

After the listing of its shares on the Main Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on 27 October 2003, the Group was in a more advantageous position to recruit experts in the market. The Group appointed one non-executive director and one independent non-executive director in August 2004 in replacement of the resignations of two former directors. In addition, one independent non-executive director was appointed in September 2004. The newly appointed directors have substantial experiences in corporate finance, commercial law and accounting fields to strengthen the expertise of the Group's management team.

The Company entered into a placement agreement on 18 November 2004 under which the Company placed 10,600,000 new shares at a price of HK\$0.47 per placing share. The net proceeds from the placing of approximately HK\$4.8 million has been allocated for investment in accordance with the Company's investment objectives and policies of investing in listed and unlisted companies mainly in Hong Kong and the PRC to earn returns in the form of short to medium term capital appreciation, dividend income and interest income.

Investment Portfolio

Mellow Anti-Counterfeit Net System Company Limited

The Group currently holds 12% interest in Mellow Anti-Counterfeit Net System Company Limited ("Mellow") on the mainland through the Group's wholly-owned subsidiary. Mellow is engaged principally in the development and application of patented anti-counterfeiting systems and devices in the PRC. Currently with 23 sales representative offices in the PRC. Mellow is committed to applying and integrating the state-of-the-art anti-counterfeiting techniques to effectively protect the intellectual property of branded and quality products, especially consumer products such as cigarettes, wines and other consumer products.

Beijing Illumination (HK) Limited

The Group currently owns a 0.5% interest in Beijing Illumination (HK) Limited ("Beijing Illumination"). Beijing Illumination is principally engaged in the R&D, manufacture and distribution of a variety of industrial and specialty lighting source products and accessories under its own brand names of AIHUA and AHP, as well as on an OEM basis. Its products can be classified under four main categories, namely, (1) metal halide lamps; (2) high-pressure sodium lamps; (3) ultra high-pressure mercury lamps; and (4) lighting accessories.

Four Gold OG Limited

During the Period, the Group acquired approximately 1.7% interest in Four Gold OG Limited ("FGOG"), which develops, owns, and operates the only real time metering and billing infrastructure for digital content distribution in the PRC. FGOG is a Singapore based company that specializes in the development, licensing, and distribution of digital content such as online computer games, music, financial data, and education content, etc. in the PRC. It is also the intellectual property owner of the FGOG L7 Platform which enables third parties content providers to distribute their digital content across the PRC while being able to monitor the sales and payment collection status online and real time from any where in the world. The FGOG L7 Platform is currently the only operating platform available in the PRC today which can handle content and application based billing scenarios on a real time basis for any type of IP based network and any type of digital content, and hence FGOG is well positioned to benefit from the explosive growth of e-commerce and internet content services in the PRC.

The Group believes that the above projects have already established a proven revenue model and are in pipeline to seek capital-raising initiatives in local and overseas markets. The eventual listing of these projects will not only provide capital gain for the Group but also demonstrate our unique management skills and investment focus which will differentiate the Group from other investment funds.

Investment in Securities

The Group also invested in a portfolio of securities and many of them are listed companies engaged in different unique and high-growth industries in the PRC market. Against a backdrop of the upward stock market during the Period, the Group's investment in securities amounted to HK\$11,220,272 as at 31 December 2004, resulting an unrealised gain of HK\$2,838,759 for the Group.

Prospects

The vision of the Group is to become the world's premier listed absolute return fund focused on alternative investment opportunities in North Asia. In particular, the Group will eye on the direct investment opportunities brought by the evolving regulatory and economic environment in the PRC.

In January 2005, the Group appointed one executive director and one non-executive director to further strengthen the management team. The new management team will build on their expertise across fund management, finance and corporate finance, together with their industry knowledge, to help those novice companies in the PRC to compete in the international market.

The Group will actively seek direct investment opportunities in four key sectors in the PRC and Hong Kong markets, including financial services, telecommunications, education and hospitality industries. Under the Group's direct investment initiatives, the investment projects must fulfill several prerequisites: (i) ownership of government-backed or exclusive operating rights, (ii) prospects of rapid expansion in revenue or income; and (iii) ownership of proprietary technologies or intellectual properties. The Group believes that these direct investment projects are on track to grow rapidly and their valuations are likely to rise, IPOs or trade sales. These will have positive impact on the Group's net asset value in the short to medium term as well as generating consistent investment return in the long run.

To strengthen the shareholder base and financial resources for potential direct investment projects, the Company, on 18 February 2005, entered into a placement agreement under which the Company agreed to place 10,600,000 new shares at a price of HK\$0.56 per placing share, raising net proceeds of approximately HK\$5.8 million.

The Group distinguishes itself through its profound understanding of the PRC investment opportunities which are not easily assessable by other investors. The Group is uniquely positioned to act as the platform for investors to participate in unique and alternative investment opportunities in the PRC.

Financial Results

The Group reported a turnover of HK\$27,254,979 and net loss attributable to shareholders of HK\$2,874,319 during the Period (2003: turnover of HK\$35,775,000 and loss attributable to shareholders of HK\$728,795).

The net asset value ("NAV") per share of the Company was HK\$0.55 as of 31 December 2004.

The Board has resolved not to recommend the payment of any interim dividend for the Period.

Financial review

Liquidity and financial resources

The Group continued to maintain a healthy balance sheet. At 31 December 2004, the Group had bank balances of approximately HK\$4.37 million (30 June 2004: HK\$3.4 million) which accounted for 17.5% (30 June 2004: 13.4%) of the Group's total current assets. The Board believes that the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Foreign currency fluctuation

The Group's investments may be denominated in currencies other than Hong Kong dollars, and thus is exposed to fluctuation of the exchange rate. It is expected that a portion of the distributions and payments to the Group from the invested companies will be denominated in Renminbi.

Employees

At 31 December 2004, the Group had 5 employees excluding directors. Total staff costs excluding directors' remuneration amounted to approximately HK\$458,800 (2003: HK\$254,000). They perform clerical, research, business development and administrative function for the Group. The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience of individual employees.

Capital structure

10,600,000 shares were allotted at HK\$0.47 each on 3 December 2004. The total number of shares in issue at 31 December 2004 was 63,600,000.

Subsequent to the Period end, 10,600,000 Shares were further allotted at HK\$0.56 each on 4 March 2005 and there has not been any change in capital structure since then.

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

At 31 December 2004, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) 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 or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares or underlying shares of the Company

Name	Type of Interests	Capacity	Number of issued ordinary shares held	Approximate % of the issued share capital
Yau Chung Hong ("Mr. Yau")	Corporate	Interest of a controlled corporation	4,500,000 (Note)	7.08

Note:

3,800,000 and 700,000 totaling 4,500,000 shares are owned by Sellwell Enterprises Limited ("Sellwell") and CNI Capital Limited ("CNI Capital"), which are incorporated in the British Virgin Islands and Hong Kong respectively. CNI Capital was 33.33% owned by Sellwell, which was 100% owned by Mr. Yau. By virtue of the SFO, Mr. Yau was taken to be interested in the shares held by each of Sellwell and CNI Capital.

Save as disclosed above, at 31 December 2004, none of the Directors and chief executives had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have such provisions of the SFO); or b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors or chief executives of the Company, at 31 December 2004, other than the interests and short positions of the Directors or chief executives of the Company as disclosed above, the parties who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Long positions in the shares or underlying shares of the Company

Name	Capacity	Number of issued ordinary shares held	Approximate % of the issued share capital
Li Yiu Keung	Beneficial owner	8,000,000	12.58
Worldwide Opportunity Fund (Cayman) Limited	Interest of a controlled corporation	9,700,000 (Note 1)	15.25
Yau Chung Hong	Interest of a controlled corporation	4,500,000 (Note 2)	7.08
Chan Lai Keung	Beneficial owner	5,800,000	9.12
Chui Tak Keung, Duncan	Beneficial owner	300,000	0.47
	Interest of a controlled corporation	2,900,000 (Note 3)	4.56

Notes:

1. 9,700,000 shares are held by Herma Investments Company Limited ("Herma"), which is wholly owned by Worldwide Opportunity Fund (Cayman) Limited ("Worldwide Opportunity"). By virtue of the SFO, Worldwide Opportunity was taken to be interested in the Shares held by Herma.
2. This shareholding has also been included as corporate interests of directors under the section headed "Directors' interests and short position in shares, underlying shares and debentures" above.
3. 2,900,000 shares are held by Four Gold Avtech (Hong Kong) Limited ("Four Gold"), which is wholly owned by Mr. Chui. By virtue of the SFO, Mr. Chui is taken to be interested in the shares held by Four Gold.

Save as disclosed above, at 31 December 2004, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the written resolutions passed by all of the then shareholders of the Company on 30 September 2003, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, the Directors of the Company may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive directors (including independent non-executive directors), any supplier of goods or services, any customer and any person or entity that provides research, development or other technological support to the Company to take up options to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders' approval.

Up to the date hereof, no share options have been granted pursuant to the Scheme.

PURCHASE, Sale and REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of the listed shares during the Period. Neither the Company nor any of its subsidiaries has repurchased or sold any of the Company's listed securities during the six months ended 31 December 2004.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Set out below is information disclosed pursuant to paragraph 8.10(2) of the Listing Rules.

Mr. Pong Po Lam holds directorships in the following investment companies:

Pegasus Midas Managed Fund Limited
Kallista Credit Arbitrage Fund Limited
Kallista CB Arbitrage Fund Limited
Kallista Arbitrage Strategies Fund Limited
Prime Investments (Holdings) Limited
Kallista Quant Arbitrage Fund Limited
Kallista Management Limited
Kallista Master Fund Limited

The businesses of the above companies are deemed to constitute a competing business to the Group.

Mr. Chan Ming Sun, Jonathan holds a position as an Investment Manager of Go-To-Asia Investment Limited. The business of Go-To-Asia Investment Limited is deemed to constitute a competing business to the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the code of best practise contained in the former Appendix 14 to the Listing Rules at any time during the Period, except that Mr. Chan Ming Sun, Jonathan, an independent non-executive director of the Company, is not appointed for a specific term but is subject to rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company established an audit committee on 27 October 2003 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

The audit committee consists of three independent non-executive directors, namely, Mr. Lam Kwan, Mr. Chan Ming Sun, Jonathan and Mr. Shiu Siu Tao. The audit committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 31 December 2004.

By order of the Board

Yau Chung Hong

Executive Director

Hong Kong, 23 March 2005