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Interim Report 2005



Unity Investments Holdings Limited
合一投資控股有限公司
(Incorporated in the Cayman Islands with limited liability)



CORPORATE INFORMATION

DIRECTORS

Executive Directors

PANG Shuen Wai, Nichols (*Chairman*)

AU Shuk Yee, Sue

(*Chief Executive Officer*)

KITCHELL, Osman Bin

Independent Non-executive Directors

LAM Ping Cheung

WONG Ying Seung, Asiong

CHUNG Kong Fei, Stephen

TSANG Wing Ki

COMPANY SECRETARY

POON Suk Ching, CPA

REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681GT

George Town

Grand Cayman

British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

30th Floor, China United Center

28 Marble Road

North Point

Hong Kong

INVESTMENT MANAGER

CU Investment Management Limited

Office B, 31st Floor

China United Center

28 Marble Road

North Point

Hong Kong

AUDITORS

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

34th Floor, The Lee Gardens

33 Hysan Avenue

Causeway Bay

Hong Kong

PRINCIPAL BANK

Liu Chong Hing Bank

2nd Floor, New World Tower

16-18 Queen's Road Central

Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited

28th Floor, BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

The Board of Directors (the “Board”) of Unity Investments Holdings Limited (the “Company”) announces the interim results and condensed results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2005 (the “Period”). The consolidated income statement, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2005, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 2 to 13 of this report.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Note	Unaudited	
		Six months ended 30 June	
		2005	2004
		HK\$'000	HK\$'000
Turnover	3	101,312	61,774
Cost of sales		(111,083)	(72,983)
Realised loss on sale of investments held for trading		(9,771)	(11,209)
Unrealised holding gain on investments held for trading		3,419	1,748
Other revenues	3	1,774	1,017
Impairment loss on available-for-sale investments		(3,000)	–
Change in fair value of loan receivables		(4,846)	–
Administrative expenses		(2,244)	(1,611)
Loss from operations	4	(14,668)	(10,055)
Finance costs	4	(1,371)	(668)
Loss from ordinary activities before taxation	4	(16,039)	(10,723)
Taxation	5	–	–
Loss attributable to shareholders		(16,039)	(10,723)
Loss per share – Basic	6	(3.73) cents	(4.08) cents
Loss per share – Diluted	6	(4.13) cents	(4.08) cents



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Six months ended	
	30 June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening balance – Total equity at 1 January (audited)	106,914	97,778
Issuance of new shares, net of expenses	5,711	15,203
Issue of shares under share option scheme	3,990	–
Surplus (deficit) on available-for-sale investments	1,330	(9,123)
Loss for the Period	(16,039)	(10,723)
Closing balance – Total equity at 30 June (unaudited)	101,906	93,135

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005 and 31 December 2004

		Unaudited	Audited
		At 30 June	At 31 December
		2005	2004
	<i>Note</i>	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		57	142
Available-for-sale investments	7	52,544	56,753
Fair value loan receivables	8	20,336	–
		72,937	56,895
Current assets			
Investments held for trading	7	60,976	53,600
Deposits, prepayments and other receivables		498	109
Bank balances and cash		99	1,055
		61,573	54,764
Current liabilities			
Accruals and other payables		9,921	4,745
Interest-bearing borrowings	9	22,683	–
		32,604	4,745
Net current assets		28,969	50,019
NET ASSETS		101,906	106,914
CAPITAL AND RESERVES			
Issued capital	10	5,279	38,400
Reserves	11	96,627	68,514
		101,906	106,914



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Unaudited	
	Six months ended	
	30 June	
	2005	2004
	HK\$'000	HK\$'000
Net cash used in operating activities	(18,814)	(14,961)
Net cash (used in) from investing activities	(4,485)	1,681
Net cash generated from financing activities	22,343	16,035
Net (decrease) increase in cash and cash equivalents	(956)	2,755
Cash and cash equivalents at beginning of Period	1,055	(14,547)
Cash and cash equivalents at end of Period	99	(11,792)
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	99	633
Bank overdraft	–	(12,425)
	99	(11,792)

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 (the "Stock Exchange") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements 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"), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting Periods beginning on or after 1 January 2005. The adoption of new HKFRSs has resulted in changes to the Group's accounting policies in the following area which have a material effect on how the results for the current or prior accounting Periods are prepared and presented.

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. HKAS 39, which is effective for annual Periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and liabilities

In accordance with HKAS 32, the Group classified and measured its debt and equity securities depend on the purpose for which the assets are acquired. On 1 January 2005, investment securities under non-current assets with carrying amount of HK\$56,753,000 and trading securities under current assets with carrying amount of HK\$53,600,000 were reclassified to available-for-sale investments (at fair value through equity) and held-for-trading investments (at fair value through profit or loss) on 1 January 2005 retrospectively.

Financial assets and liabilities other than debt and equity securities

In accordance with HKAS 39, loan receivables which have fixed and determinable payments and are not quoted in an active market are initially measured at fair value plus transaction cost directly attributable to the acquisition of the loan receivables. Loan receivables are subsequently measured at amortised cost using the effective interest method, less accumulated impairment losses.

3. TURNOVER AND REVENUES

The Group is principally engaged in the investments in listed and unlisted securities in Hong Kong. Revenues recognised during the six months ended 30 June 2005 are as follows:

	Unaudited	
	Six months ended 30 June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Proceeds from sale of trading securities	101,312	61,774
Other revenues		
Dividend income from investments in securities	1,592	1,017
Amortisation of fair value of loan receivables	182	–
	1,774	1,017
Turnover and revenues	103,086	62,791

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

	Unaudited	
	Six months ended 30 June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
This is stated after charging:		
(a) Finance costs		
Interest on loans from financial institutions	240	170
Interest on other loans	1,131	12
Interest on bank overdraft	–	486
	1,371	668
(b) Other items		
Depreciation	82	86
Staff cost, including directors' remuneration	296	362
Operating lease charges in respect of office premises	300	360

5. TAXATION

Hong Kong Profits Tax has not been provided as the Group has no estimated assessable profit for the six months ended 30 June 2005 (2004: Nil).

6. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the Period of HK\$16,039,000 (2004: HK\$10,723,000) and on the weighted average number of 429,688,580 shares (2004: 262,725,279 shares) in issue during the Period. The weighted average number of shares in issue used in the basic loss per share calculation for the six months ended 30 June 2005 has been adjusted to reflect the effect of the reduction of the nominal value of share from HK\$0.1 to HK\$0.01 during the current Period, which is treated as became effective on 1 January 2005.

The calculation of the diluted loss per share is based on the loss for the six months ended 30 June 2005 of HK\$16,039,000 and on the weighted average number of 388,644,597 shares in issue during the Period. No diluted loss per share for the six months ended 30 June 2004 as there were no dilutive potential ordinary shares.

7. INVESTMENTS

	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
Available-for-sale investments		
Equity securities:		
Listed in Hong Kong, at fair value	52,544	56,753
Unlisted, at cost	23,000	20,000
Less: Provision for impairment loss	(23,000)	(20,000)
	—	—
	52,544	56,753
Investments held for trading		
Equity securities:		
Listed in Hong Kong, at fair value	52,876	53,600
Debt securities:		
Unlisted, at cost	8,100	—
	60,976	53,600

8. FAIR VALUE LOAN RECEIVABLES

	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
At amortised cost	20,336	–

During the period, the Company, through its wholly-owned subsidiary, (i) to acquire 5% equity interest in Found Macau Investments International Limited (“Found Macau”) at the consideration of US\$5 (included in available-for-sale investments); (ii) to become a party to a shareholders agreement relating to Found Macau (the “Found Macau Loan”); and (iii) to make a shareholders loan of HK\$25 million to Found Macau.

The Found Macau Loan is interest-free, unsecured and is repayable on demand after 8 years from 28 February 2005.

9. INTEREST-BEARING BORROWINGS

The amount represents the loans from third parties and is unsecured, interest-bearing and repayable within one year.

10. ISSUED CAPITAL

	<i>Note</i>	Number of ordinary shares of HK\$0.1 each	Number of ordinary shares of HK\$0.01 each	Nominal value HK\$'000
Authorised:				
At 1 January 2004, 31 December 2004 (audited) and 1 January 2005		400,000,000	–	40,000
Capital reduction	<i>10(i)(c)</i>	(400,000,000)	400,000,000	(36,000)
		–	400,000,000	4,000
Increase by creation of additional 49,600,000,000 shares of HK\$0.01 each	<i>10(i)(d)</i>		49,600,000,000	496,000
At balance sheet date (unaudited)			50,000,000,000	500,000
Issued and fully paid:				
At 1 January 2004, 31 December 2004 (audited) and 1 January 2005		384,000,005	–	38,400
Issuance of shares	<i>10(ii)</i>	15,998,000	–	1,599
Capital reduction	<i>10(i)(a)</i>	(399,998,005)	399,998,005	(35,999)
		–	399,998,005	4,000
Issuance of shares	<i>10(ii)</i>		87,978,000	880
Issuance of shares under share option scheme	<i>10(iii)</i>		39,900,000	399
At balance sheet date (unaudited)			527,876,005	5,279

10. ISSUED CAPITAL (CONTINUED)*Notes:*

- (i) At the extraordinary general meeting of the Company held on 28 February 2005, the resolutions in respect of the Capital Reorganisation including reduction of capital, adjustment of nominal value of the issued shares of the Company, cancellation and increase in authorised but unissued share capital ("Capital Reduction") and the increase in authorised share capital of the Company to HK\$500,000,000 were approved by the shareholders. The Capital Reduction was approved by the Grand Court of the Cayman Islands on 6 May 2005 ("Effective Date") and the effects of the Capital Reorganisation were as follows:
- (a) the paid-up and nominal value of the issued shares was reduced by HK\$0.09 per share by cancelling an equivalent amount of paid-up capital per share so that the nominal value of each such share will be reduced from HK\$0.1 to HK\$0.01. Based upon the number of shares in issue as at 28 February 2005, the issued share capital of the Company of HK\$39,999,000 consisting of 399,998,005 shares of HK\$0.1 each was reduced by HK\$35,999,000 to HK\$4,000,000 consisting of 399,998,005 shares of HK\$0.01 each;
 - (b) the credit amount of HK\$35,999,000 arising from the reduction referred to in (a) above was credited to the contributed surplus account of the Company. The amounts in the contributed surplus account can be applied to a distributable reserve of the Company at the discretion of the directors of the Company in accordance with the articles of association of the Company and all applicable laws, including to eliminate the accumulated losses of the Company as at the Effective Date;
 - (c) subject to and forthwith upon the Capital Reduction became effective, the authorised but unissued share capital of the Company has been sub-divided by sub-dividing each of the authorised but unissued shares of HK\$0.01 each in the capital of the Company.
 - (d) subject to the Capital Reduction became effective, the authorised share capital of the Company has been increased to HK\$500,000,000 by the creation of 49,600,000,000 shares of HK\$0.01 each.
- (ii) Pursuant to the subscription agreement dated 10 January 2005, the Company agreed conditionally to issue 15,998,000 shares of HK\$0.1 each of the Company to an independent investor at a price of HK\$0.14 per share.
- Pursuant to the subscription agreement dated 19 May 2005, the Company agreed conditionally to issue 87,978,000 shares of HK\$0.01 each of the Company to independent investors at a price of HK\$0.041 per share.
- (iii) By an ordinary resolution passed on 1 April 2005, 39,900,000 ordinary shares of HK\$0.01 each were issued to qualified individuals under share option scheme at an exercise price of HK\$0.1 each.

All the shares issued during the Period rank *pari passu* in all respects with the then existing shares.

11. RESERVES

	Share premium <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At beginning of Period (audited)	83,335	20,002	–	(34,823)	68,514
Shares issued at premium, net of issuing expenses	3,232	–	–	–	3,232
Shares issued under share option scheme	3,591	–	–	–	3,591
Creation of contributed surplus pursuant to the Capital Reorganisation	–	–	35,999	–	35,999
Contributed surplus set off against accumulated losses pursuant to the Capital Reorganisation	–	–	(20,250)	20,250	–
Surplus on valuation of investment securities	–	1,330	–	–	1,330
Loss for the Period	–	–	–	(16,039)	(16,039)
At balance sheet date (unaudited)	90,158	21,332	15,749	(30,612)	96,627

As mentioned in note 10 (i) (b), the credit amount of approximately HK\$35,999,000 arising from the Capital Reduction was transferred to the contributed surplus account of the Company. Accordingly, the credit amount of approximately HK\$20,250,000 included in the contributed surplus account has been used to eliminate the accumulated losses of the Company as at 30 April 2005.

12. SHARE OPTION SCHEME

- (i) Under the existing scheme mandate limit, the directors were only authorised to grant options to subscribe for up to 20,000,000 shares, representing 10% of the issued share capital of the Company as at the date of the adoption of the share option scheme. The Company has not granted any options under the share option scheme prior to the date of Capital Reorganisation.

Pursuant to the Capital Reorganisation, it was approved on 28 February 2005 by the ordinary resolution that the exercise of share options can be granted under the Refreshed Scheme Mandate Limit, the refreshment of the limit in respect of the granting of share options under the share option scheme of the Company adopted on 2 May 2003 up to a new 10 per cent limit (the "Refreshed Scheme Mandate Limit").

- (ii) On 1 April 2005, 39,900,000 share options were granted to and immediately vested by certain individuals under the share option scheme pursuant to the Refreshed Scheme Mandate Limit. The exercise price of the granted options was HK\$0.1 and the closing price of the share of the Company immediately before the date of grant was HK\$0.053.

13. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, the Company had total future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment, which are payable as follows:

	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
Within one year	21	741
In the second to fifth years inclusive	69	680
	90	1,421

14. PLEDGE OF ASSETS

As at 30 June 2005, the Company has pledged all its investments and trading securities to secure margin financing facilities obtained from financial institutions. As at 30 June 2005, a total amount of approximately HK\$9,750,000 (31 December 2004: approximately HK\$3,870,000) has been utilised against these facilities.

15. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, the Group had the following transactions with a related party during the six months ended 30 June 2005.

	<i>Note</i>	Unaudited Six months ended 30 June 2005 HK\$'000	2004 HK\$'000
Investment management fee paid to a related company	<i>(i)</i>	300	617

- (i) Pursuant to an investment management agreement ("the Agreement") dated 5 November 2004 between the Company and CU Investment Management Limited ("CUIM"), CUIM has agreed to provide the Group with investment management services with effect from 5 November 2004. Under this arrangement, CUIM is entitled to a monthly management fee payable at a flat rate of HK\$50,000.

Dr. Pang Shuen Wai, Nichols, an executive director of the Company, is a director of CUIM.

16. POST BALANCE SHEET EVENTS**(i) Issue of convertible notes**

Pursuant to a placing agreement dated 19 May 2005, the Company agreed conditionally to place convertible notes with principal sum of HK\$20,000,000 on a fully underwritten basis to independent investors. The convertible notes bear interest at 5% per annum and can be converted into shares of the Company in the amount or integral multiples of HK\$100,000 at any time from the date of issue of the new convertible notes up to 5 days prior to and excluding the maturity date at a conversion price of HK\$0.05. The convertible notes are redeemable and will mature on 20 July 2010.

The convertible notes were subsequently allotted and issued to independent investors on 21 July 2005.

(ii) Proposed Share Consolidation, change of board lot size, the Rights Issue and amendments to the articles

On 26 July 2005, the Company announced that it intended to put forward the proposals including the Share Consolidation, change of board lot size, the Rights Issue and amendments to the articles. Details of proposed Share Consolidation and the Rights Issue are listed as follows:

- (a) to consolidate every 10 issued shares and unissued shares of HK\$0.01 each in the capital of the Company into 1 Consolidation Share of HK\$0.10 each ("Share Consolidation"). The Share Consolidation is conditional upon, inter alia, the approval of the Shareholders at the extraordinary general meeting to be held on 13 September 2005 (the "EGM").
- (b) Subject to the Share Consolidation, the Company will propose to allot 10 Rights Shares for every Consolidated Share by way of the Rights Issue. The estimated net proceeds of the Rights Issue will be from approximately HK\$50.5 million (assuming no conversion of the Convertible Notes) to HK\$90.1 million (assuming full conversion of the Convertible Notes).

The proposals mentioned in the above will become effective subject to the fulfilment of the following conditions:

- (a) Approval of the Share Consolidation by Shareholders at the EGM to enable both the Share Consolidation and the Rights Issue becoming effective;
- (b) Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in the Consolidated shares and the Rights shares;
- (c) Compliance with obligations under the Underwriting Agreement by the Company for the Rights Issue.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period.

BUSINESS REVIEW

The Group reported a net loss of approximately HK\$16,039,000 for the Period, comparing to the net loss of approximately HK\$10,723,000 recorded for the corresponding Period last year. Proceeds from sale of trading securities increased to approximately HK\$101,312,000, representing a 64% year-on-year increase. The loss was principally attributed to the losses arising from trading of market securities.

During the Period, the Group retained its strategies of rebalancing its investment portfolio. As the Group principally invests in small to medium size market capitalisation stocks, which usually require longer time for the market to become aware of their intrinsic values, the Group does not make frequent unscheduled liquidation of its investments.

The relatively small equity base has prevented the Company from making diversified investments, frustrating the suitability and sustainability of its revenue and profit streams. In an effort to enhance its capital base and promote financial flexibility, the Company undertook three share placements during the Period, enhancing the Company's equity base. Together with the share options exercised by various parties during the Period, the Company's issued shares increased to 527,876,005 ordinary shares as at 30 June 2005. Additionally, the Company issued HK\$20,000,000 convertible notes exercisable into 400,000,000 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.05 per share. These exercises have successfully put the Company in a better position in terms of financial flexibility. Nevertheless, the financial resources do not facilitate timely investments, putting the Company in a less advantageous position in an economy witnessing steady and continuous recovery. Under these unfavourable circumstances, the Directors on 26 July 2005 further proposed a 10 for 1 rights issue for shareholders' approval.

Meanwhile, the Company undertook a series of corporate exercises to solidify the growth platform of the Group. In January 2005, the Directors made the proposals, inter alia, to increase the authorised share capital of the Company to HK\$500,000,000; to reduce the issued share capital of the Company by canceling the issued and paid-up capital to the extent of HK\$0.09 on each issued share; and to subdivide every unissued share into 10 unissued new shares. The proposals were subsequently approved by shareholders at the extraordinary general meeting held in February 2005. In compliance with Rule 13.64 of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong ("Listing Rules"), the Company proposed a 10 into 1 share consolidation and change of board lot size on 26 July 2005.

In terms of market value, the Group's shareholders' funds amounted to approximately HK\$101,906,000 as at 30 June 2005. The breakdown of the Group's portfolio of investment assets as at 30 June 2005 is as follows:

Item	Market value <i>HK\$'000</i>	Percentage of consolidated net asset value
Cash and deposits with banks	99	0.10%
Investments held for trading	60,976	59.84%
Available-for-sale investments	52,544	51.56%
Fair value loan receivables	20,336	19.96%

As at 30 June 2005, the Group had interests in ten items, covering a large array of industries and sectors, including investment holding, financial services, trading, industrial and manufacturing.

PROSPECTS

The popularity of the derivatives market to a certain extent has resulted in high level of volatility, leading to risks and opportunities. The Directors believe that those companies with high degree of financial flexibility would be able to capture such market opportunities created by the anticipated volatility. As such, the Directors put forward a proposal to raise additional funds through the Rights Issue, of which the details are disclosed in a circular dated 18 August 2005, and will seek shareholders' approval in the extraordinary general meeting to be held on 13 September 2005. While remaining optimistic towards the long-term prospect of the securities market, the Directors would exercise caution when making future investments and continue to work on its investment objective of achieving long-term capital appreciation.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

(i) Shares

As at 30 June 2005, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the equity and debt securities of the Company and its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive of the Company was taken or deemed 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 the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange. As at 30 June 2005, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

(ii) Share Option Scheme

In light of the requirements of Chapter 17 of the Listing Rules, the Company adopted a new share option scheme (the "Scheme") on 2 May 2003. Under the Scheme, the Directors may grant Options to those Participants who, in the opinion of the Board, have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest.

During the Period, the Company granted share options to 11 parties, including employees and officers of selected service providers and invested companies. These options were fully exercised and, as a result, a total of 39,900,000 ordinary shares of HK\$0.01 each were issued.

At no time during the Period was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

None of the Directors (including their spouse and children under 18 years of age) had any interests in, or had been granted, or exercised any rights to subscribe for, shares in the Company and its associated corporations within the meaning of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the register maintained by the Company pursuant to section 336 of the SFO recorded interests (as defined in the SFO) in the Company of the following corporations:

Name of shareholder	Capacity	Number of Shares	% of the relevant issued share capital
Heritage International Holdings Limited (<i>Note</i>)	Interest in controlled corporation	52,500,000	9.95%
Coupeville Limited (<i>Note</i>)	Interest in controlled corporation	52,500,000	9.95%
Dollar Group Limited (<i>Note</i>)	Beneficial owner	52,500,000	9.95%
Akathoottu Bava Ashraf	Beneficial owner	38,696,000	8.80%
Chau Tuk Shun	Beneficial owner	29,000,000	5.49%

* *Note:* Dollar Group Limited is owned as to 100% by Coupeville Limited, which in turn is owned as to 100% by Heritage International Holdings Limited.

All the interests stated above represent long positions. As at 30 June 2005, no short positions were recorded in the Register of Interests in Shares and Short Positions of Substantial Shareholders required to be kept under section 336 of the SFO.

POST BALANCE SHEET EVENTS

Subsequent to the extraordinary general meeting held on 30 June 2005, the Company had issued HK\$20,000,000 convertible notes exercisable into 400,000,000 ordinary shares of HK\$0.01 each to 11 independent parties on 21 July 2005 pursuant to the terms and conditions stipulated in the placing agreement entered into between the Company and Get Nice Investment Limited on 19 May 2005.

On 26 July 2005, the Company proposed to consolidate its shares on the basis of every 10 ordinary shares of HK\$0.01 each into 1 ordinary share of HK\$0.10, to change the board lot size from 2,000 to 20,000 and to raise additional funds through the Rights Issue. The proposals are subject to shareholders' approval at the extraordinary general meeting to be held on 13 September 2005.

The Directors also proposed to amend the articles 102 and 106 of the existing Articles of Association of the Company so that the Board will consist of a maximum of 7 directors.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its ordinary shares during the Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares during the Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Listing Rules have recently been amended by the Stock Exchange by replacing the Code of Best Practice in Appendix 14 by a new Code on Corporate Governance Practices ("Code") and adding a new Appendix 23 on the requirements for a Corporate Governance Report to be included in annual reports of listed issuers. Subject to certain transitional arrangements, the amendments took effect on 1 January 2005.

The Company has complied with the Code throughout the six months ended 30 June 2005, with deviations from code provisions A.4.1 and A.4.2 of the Code only in respect of the service term and rotation of directors.

Following a review of the Company's corporate governance practices with reference to the Code, the Directors proposed to amend the existing Articles of Association of the Company at the extraordinary general meeting to be held on 13 September 2005 to ensure compliance with the Code. Pursuant to code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Accordingly, the Articles of Association of the Company will also be amended to specify that notwithstanding any other provisions in the existing Articles of Association of the Company, at each annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than, instead of not greater than, one-third) shall retire from office by rotation. As a result of the said proposed amendment, every Director will be subject to retirement by rotation at least once every three years in

compliance with the code provision A.4.2. Code provision A.4.2 also provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Accordingly, the Articles of Association of the Company will be amended to specify that any director appointed to fill a casual vacancy shall hold office until the next following general meeting instead of the next following annual general meeting.

In compliance with code provision A.4.2 of the Code, the relevant amendments to the articles 123 and 157 of the Articles of Association were proposed for approval at the extraordinary general meeting of the Company to be held on 13 September 2005.

None of the existing non-executive directors (including independent non-executive directors) of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all the directors of the Company are subject to the retirement provisions under article 157 of the Articles of Association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Directors also proposed to amend the articles 102 and 106 the existing Articles of Association of the Company so that the Board will consist of a maximum of 7 directors.

CHANGE OF AUDITORS

On 25 April 2005, the Company appointed Messrs. Moores Rowland Mazars as its auditors.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2005, the Group had 7 employees, including 3 executive directors and 4 independent non-executive directors. The remuneration package of the Group is generally periodically reviewed based on performance appraisals and other relevant factors.

The total remuneration cost incurred by the Group for the six months ended 30 June 2005 was HK\$296,000. (2004: HK\$362,000).

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2005.

By Order of the Board
PANG Shuen Wai, Nichols
Chairman

Hong Kong 7 September 2005