2005 INTERIM REPORT

和寶國際控股有限公司

Wealthmark International (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

CONTENTS

INTERIM RESULTS

The Board of Directors (the "Board") of Wealthmark International (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2005. These interim results have been reviewed by RSM Nelson Wheeler, the auditors of the Company, in accordance with the Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" ("SAS 700") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and by the Audit Committee of the Company, comprising three independent non-executive directors of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Note	(Unaudited) Six months ended 30 June 2005 HK$'000	Restated 2004 HK$'000
Turnover		**52,328**	141,568
Cost of sales		**(57,066)**	(122,329)
Gross (loss)/profit		**(4,738)**	19,239
Other operating income		**795**	435
Distribution, administrative and other operating expenses		**(13,969)**	(12,208)
Operating (loss)/profit	4	**(17,912)**	7,466
Finance costs	5	**(1,183)**	(1,142)
(Loss)/profit before taxation		**(19,095)**	6,324
Taxation credit/(charge)	6	**1,248**	(1,013)
(Loss)/profit for the period		**(17,847)**	5,311
Attributable to:			
Equity holders of the Company		**(17,728)**	5,311
Minority interests		**(119)**	–
		(17,847)	5,311
Dividend	7	**–**	–
(Loss)/earnings per share – basic	8	**(8.9) cents**	2.7 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2005 AND 31 DECEMBER 2004

	Note	(Unaudited) 30 June 2005 HK$'000	Restated (Audited) 31 December 2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**23,152**	26,156
Prepaid land leases		**6,550**	6,635
Interests in an associated company		**(299)**	(299)
		29,403	32,492
Current assets			
Inventories		**11,865**	24,104
Trade and other receivables	10	**21,006**	21,144
Tax recoverable		**2,021**	1,464
Bank balances and cash		**6,160**	11,465
		41,052	58,177
Total assets		**70,455**	90,669
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	11	**20,000**	20,000
Other reserves		**32,654**	32,654
Accumulated losses		**(86,699)**	(68,971)
		(34,045)	(16,317)
Minority interests		**–**	119
Total equity		**(34,045)**	(16,198)

	Note	(Unaudited) 30 June 2005 HK$'000	Restated (Audited) 31 December 2004 HK$'000
LIABILITIES			
Non-current liabilities			
Amount due to a shareholder	12	**69,336**	–
Deferred tax liabilities		**288**	288
		69,624	288
Current liabilities			
Trade and other payables	13	**28,306**	25,831
Trust receipt loans – unsecured		**–**	26,867
Short-term bank loans and overdrafts – unsecured		**2**	22,983
Current portion of interest-bearing borrowings	14	**114**	23,196
Provision for taxation		**6,454**	7,702
		34,876	106,579
Total liabilities		**104,500**	106,867
Total equity and liabilities		**70,455**	90,669
Net current assets/(liabilities)		**6,176**	(48,402)
Total assets less current liabilities		**35,579**	(15,910)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	(Unaudited)										
	Attributable to equity holders of the Company										
	Share capital	Share premium	Properties revaluation reserve	Merger reserve	Statutory reserve	Exchange difference	Retained earnings/ (accumulated losses)	Proposed final dividend	Sub–total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$000	HK$'000
At 1 January 2004	20,000	27,645	296	2,150	2,223	202	31,603	5,500	89,619	–	89,619
Effect of adopting Hong Kong Accounting Standard 17	–	–	–	–	–	–	3,538	–	3,538	–	3,538
At 1 January 2004, as restated	20,000	27,645	296	2,150	2,223	202	35,141	5,500	93,157	–	93,157
Profit for the period	–	–	–	–	–	–	5,311	–	5,311	–	5,311
Dividend paid	–	–	–	–	–	–	–	(5,500)	(5,500)	–	(5,500)
At 30 June 2004	20,000	27,645	296	2,150	2,223	202	40,452	–	92,968	–	92,968
At 1 January 2005, as previously reported as equity	20,000	27,645	1,568	2,150	2,223	202	(72,787)	–	(18,999)	–	(18,999)
At 1 January 2005, as previously reported as minority interests	–	–	–	–	–	–	–	–	–	119	119
Effect of adopting Hong Kong Accounting Standard 17	–	–	(1,134)	–	–	–	3,816	–	2,682	–	2,682
At 1 January 2005, as restated	20,000	27,645	434	2,150	2,223	202	(68,971)	–	(16,317)	119	(16,198)
Loss for the period	–	–	–	–	–	–	(17,728)	–	(17,728)	(119)	(17,847)
At 30 June 2005	**20,000**	**27,645**	**434**	**2,150**	**2,223**	**202**	**(86,699)**	**–**	**(34,045)**	**–**	**(34,045)**

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 generated from/(used in) operating activities	**581**	(11,390)
Net cash used in investing activities	**(684)**	(4,411)
Net cash used in financing activities	**(5,132)**	(4,443)
Net decrease in cash and cash equivalents	**(5,235)**	(20,244)
Cash and cash equivalents at 1 January	**11,393**	53,350
Cash and cash equivalents at 30 June	**6,158**	33,106
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**6,160**	33,106
Bank overdrafts	**(2)**	–
	6,158	33,106

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA.

These condensed consolidated financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the accounting policies of the Group under the new HKFRS do not have a material impact as a whole and particulars of these changes are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

In 2005, the Group adopted the following new/revised standards of HKFRS:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Change in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS – Int 12	Scope of HKAS – Int 12 Consolidation – Special Purpose Entities

HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost or valuation less accumulated depreciation. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Prepaid land leases are expensed in the income statement on a straight-line basis over the period of the lease. HKAS 17 has been applied retrospectively.

The adoption of other new/revised HKFRS did not result in substantial changes to the Group's accounting policies.

3. SEGMENT INFORMATION

The Group continues to engage in manufacturing and sale of handbag products and related accessories and garments, provision of related subcontracting services and trading of raw materials.

Primary reporting format – business segments

The Group is organised into three main business segments:

Handbag products and related accessories	–	manufacture and sale of handbag products and related accessories and provision of related subcontracting services
Garments	–	manufacture and sale of garments and provision of related subcontracting services
Raw materials	–	trading of raw materials

Despite the fact that the Group did not generate any income from trading of raw materials, the Directors do not regard the trading of raw materials as a discontinued operation.

Secondary reporting format – geographical segments

The Group's principal markets are located in four main geographical areas:

United States of America	–	sale of manufactured handbag products and related accessories
Europe	–	sale of manufactured handbag products and related accessories
The People's Republic of China (the "PRC")	–	trading of raw materials
	–	sale of manufactured handbag products and related accessories
Asian region except the PRC	–	sale of manufactured handbag products and related accessories
	–	subcontracting fee income from garments

3. SEGMENT INFORMATION (Continued)

An analysis of the Group's revenue and results for the period by business segment is as follows:

	Six months ended 30 June 2005			
	Handbag products and related accessories HK$'000	Garments HK$'000	Raw materials HK$'000	Group HK$'000
Turnover	50,446	1,882	–	52,328
Segment results	(2,630)	(2,108)	–	(4,738)
Other operating income				795
Unallocated costs				(13,969)
Operating loss				(17,912)
Finance costs				(1,183)
Loss before taxation				(19,095)
Taxation credit				1,248
Loss for the period				(17,847)

3. SEGMENT INFORMATION (Continued)

	Restated Six months ended 30 June 2004			
	Handbag products and related accessories HK$'000	Garments HK$'000	Raw materials HK$'000	Group HK$'000
Turnover	106,247	14,040	21,281	141,568
Segment results	18,452	289	498	19,239
Other operating income				435
Unallocated costs				(12,208)
Operating profit				7,466
Finance costs				(1,142)
Profit before taxation				6,324
Taxation charge				(1,013)
Profit for the period				5,311

There are no sales or other transactions between the business segments. Unallocated costs represent corporate expenses.

3. SEGMENT INFORMATION (Continued)

An analysis of the Group's revenue and results for the period by geographical segment is as follows:

	Turnover Six months ended 30 June		Segment results Six months ended 30 June	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States of America	**29,892**	69,098	**(1,163)**	10,298
Europe	**2,588**	39,561	**(106)**	5,804
The PRC	**17,966**	31,328	**(1,361)**	3,042
Asian region except the PRC	**1,882**	1,581	**(2,108)**	95
	52,328	141,568	**(4,738)**	19,239

Sales are based on the country in which the ultimate customers are located. Sales or transactions between the geographical segments are eliminated on presentation of segment information of the Group.

4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging the following:

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Depreciation:		
Owned assets	**3,659**	4,839
Leased assets	**53**	13
Amortisation of prepaid land leases	**85**	84
Amortisation of goodwill	**–**	37
Staff costs	**14,804**	14,986
Cost of inventories sold	**37,436**	101,235

5. FINANCE COSTS

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**1,180**	1,139
Interest element of finance leases	**3**	3
	1,183	1,142

6. TAXATION

No provision for Hong Kong profits tax is required since the Group has no assessable profits for the period. The amount provided for the six months ended 30 June 2004 was calculated at 17.5% based on the estimated assessable profit for that period.

Taxation on overseas profits for the six months ended 30 June 2004 has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the subsidiaries operate.

The amount of taxation (credited)/charged to the consolidated income statement represents:

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Hong Kong profits tax		
Current period	**–**	1,147
Overseas taxation		
Current period	**–**	651
Overprovision in prior years	**(1,248)**	(692)
Deferred taxation relating to the origination and reversal of temporary differences	**–**	(93)
Taxation (credit)/charge	**(1,248)**	1,013

7. DIVIDEND

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

8. (LOSS)/EARNINGS PER SHARE

The calculation of loss per share is based on the Group's loss attributable to equity holders of the Company of HK$17,728,000 (2004: profit of HK$5,311,000) and 200,000,000 (2004: 200,000,000) ordinary shares in issue during the period.

Diluted (loss)/earnings per share for the periods ended 30 June 2005 and 2004 were not disclosed as there were no dilutive potential ordinary shares.

9. CAPITAL EXPENDITURE

	Property, plant and equipment HK$'000
Opening net book amount as at 1 January 2005	26,156
Additions	720
Write off	(12)
Depreciation charge	(3,712)
Closing net book amount as at 30 June 2005	23,152
Opening net book amount as at 1 January 2004	34,061
Additions	4,216
Depreciation charge	(4,852)
Closing net book amount as at 30 June 2004	33,425

10. TRADE AND OTHER RECEIVABLES

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade receivables	**25,108**	64,316
Less: provision for impairment of receivables	**(5,138)**	(43,693)
Trade receivables – net	**19,970**	20,623
Prepayments, deposits and other receivables	**1,036**	521
	21,006	21,144

Customers are generally granted credit terms of 45 to 120 days. At 30 June 2005, the ageing analysis of the trade receivables was as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Current to 30 days	**8,717**	6,772
31 to 60 days	**5,073**	5,062
61 to 90 days	**364**	1,148
Over 90 days	**5,816**	7,641
	19,970	20,623

11. SHARE CAPITAL

	30 June 2005 HK$'000	31 December 2004 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
200,000,000 ordinary shares of HK$0.1 each	**20,000**	20,000

12. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest free and not repayable within the next twelve months.

13. TRADE AND OTHER PAYABLES

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade payables	4,543	3,241
Other payables	23,763	22,590
	28,306	25,831

At 30 June 2005, the ageing analysis of the trade payables was as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Current to 30 days	3,976	1,284
31 to 60 days	215	1,046
61 to 90 days	109	652
Over 90 days	243	259
	4,543	3,241

14. INTEREST-BEARING BORROWINGS

	30 June 2005 HK$'000	31 December 2004 HK$'000
Bank loans – unsecured	–	23,000
Obligations under finance leases	114	196
	114	23,196
Current portion of interest-bearing borrowings	(114)	(23,196)
	–	–

At 30 June 2005, the Group's bank loans and present value of finance lease liabilities were repayable as follows:

	Bank loans – unsecured		Obligations under finance leases	
	30 June 2005 HK$'000	31 December 2004 HK$'000	30 June 2005 HK$'000	31 December 2004 HK$'000
Within one year	–	23,000	114	196
In the second year	–	–	–	–
In the third to fifth year	–	–	–	–
	–	23,000	114	196

At 30 June 2005, the Group's finance lease liabilities were repayable as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Within one year	119	207
Future finance charges on finance leases	(5)	(11)
Present value of finance lease liabilities	114	196

15. EVENTS AFTER THE BALANCE SHEET DATE

On 8 July 2005, the Directors announced that the Company proposed to effect a rights issue at HK$0.54 per rights share, payable in full on acceptance (in the proportion of one rights share for every two shares held). Under the rights issue, 100,000,000 new ordinary shares of HK$0.1 each were allotted and issued at HK$0.54 per rights share. These shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment. The rights issue was completed on 18 August 2005.

INDEPENDENT REVIEW REPORT OF THE AUDITORS

TO THE BOARD OF DIRECTORS OF
WEALTHMARK INTERNATIONAL (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 2 to 18.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" ("SAS 700") issued by the HKICPA, except that the scope of our review was limited as explain below.

A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited as set out below:

1. OPENING BALANCE SHEET

Our report on the financial statements of the Group for the year ended 31 December 2004 was disclaimed in view of the significance of the possible effect of the limitation in evidence available to us, details of which were set out in our report dated 28 April 2005. Any adjustments to the opening balances of the Group as at 1 January 2005 would have a consequential effect on the net liabilities of the Group at 30 June 2005 and the results of the Group for the six months then ended. Also the comparative figures to the condensed consolidated balance sheet as at 31 December 2004 shown on pages 3 and 4 may not be comparable with the figures as at 30 June 2005.

2. INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2004

The Group's interim financial report for the six months ended 30 June 2004 was neither reviewed in accordance with SAS 700 nor audited and consequently we were unable to perform a review of the comparatives in accordance with SAS 700.

MODIFIED REVIEW CONCLUSION ARISING FROM LIMITATION OF REVIEW SCOPE

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments to the information for the opening balance sheet as at 1 January 2005 and the comparative period ended 30 June 2004 that might have been determined to be necessary had the above limitation not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
22 September 2005

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2005 (the "Period"), the Group's turnover decreased by 63% against the same period last year to approximately HK$52.3 million. Loss attributable to shareholders was HK$17.7 million (2004: profit attributable to shareholders of HK$5.3 million). Loss per share for the period was HK$8.9 cents (2004: earnings per share of HK$2.7 cents).

The substantial decrease in turnover during the period, especially in the first quarter of 2005, was mainly attributable to the loss of confidence of the Group's customers as a result of our former Chairman Mr. Wong Chor Wo's being charged of misappropriating funds by the Independent Commission Against Corruption ("ICAC") on 24 November 2004 (the "Incident"). The Incident has led to a decrease in orders from our customers and the freezing of banking facilities by the Group's ex-bankers. Consequently, handbag and accessories sales decreased by HK$55.8 million, raw materials trading decreased by HK$21.3 million and garment sales decreased by HK$12.2 million.

During the period, the loss attributable to shareholders was due mainly to:

(1) A gross loss of HK$4.7 million (2004: gross profit of HK$19.2 million) due to principally the increase in production costs, in particularly raw material costs and factory overheads allocated over shorter production runs; and

(2) Increase in legal and professional fees to HK$4.6 million (2004: HK$0.3 million), due to principally the litigation related to the Incident and the takeover of the Company by Orientelite Investments Limited ("Orientelite") on 12 April 2005.

CHANGE OF SUBSTANTIAL SHAREHOLDER

On 12 April 2005, Orientelite, which is owned as to 80% by China Enterprise Capital Limited, as to 10% by Starauto Investment Limited and as to 10% by Rackham Holdings Limited, entered into a sale and purchase agreement with Wisechoice Assets Limited ("Wisechoice") and Accuport Development Limited ("Accuport"), the Company's substantial shareholders, for acquiring from Wisechoice 135 million shares and from Accuport 15 million shares, which is equivalent to 75% of the Group's issued share capital on that day, at a consideration of HK$4 million. On the same day, Orientelite had entered into a deed of assignment with Standard Chartered Bank (Hong Kong) Limited ("Coordinating Bank") and 10 of the bank creditors of the Group ("Assigning Banks") whereby the Coordinating Bank and the Assigning Banks agreed to assign their rights, title and interest under the banking facilities, which in aggregate approximately HK$69.3 million, to Orientelite (the "Debt Assignment").

The change in shareholding immediately alleviated the Group's financial stress and customers previously lost started returning. Sales orders began to resume, with the sales of "DAPHNE" brand products catching up reasonably well.

CHANGE OF DIRECTORS

In order to restore the creditability of the Board and safeguard the interests of the shareholders of the Company, the Company had restructured its Board by changing its directorship. The directors of the Company during the period were:

Executive directors:

Peter Lo	(appointed on 26 May 2005)
David Lee Sun	(appointed on 26 May 2005)
Peter Jeva Au	(appointed on 26 May 2005)
Chan Wai Kin, Benito	(appointed on 25 January 2005 and resigned on 24 June 2005)
Tse Chung Sing, Eddie	(appointed on 25 January 2005 and resigned on 24 June 2005)
Wong Chor Sang	(resigned on 24 June 2005)
Kwok Kee Ho, Danny	(resigned on 24 June 2005)
Wong Chor Wo	(resigned on 21 February 2005)
Rosita Andres	(resigned on 21 February 2005)

Non-executive directors:

Chau Wai-Kau	(appointed on 26 May 2005)
Derek Emory Ting-Lap Yeung	(appointed on 26 May 2005)
Thomas Greer	(appointed on 26 May 2005)

Independent non-executive directors:

Dr. Leung Kwan-Kwok	(appointed on 26 May 2005)
Sam Zuchowski	(appointed on 26 May 2005)
Loke Yu	(appointed on 24 June 2005)
Yue Kwai Wa, Ken	(appointed on 25 January 2005 and resigned on 24 June 2005)
Chan Sheung Kwan	(resigned on 24 June 2005)
Yang Xi	(resigned on 24 June 2005)

The biographical details of the new directors are set out in the announcements dated 26 May 2005 and 24 June 2005.

PROGRESS OF THE INCIDENT

In the light of the Incident, the Group has prepared an Internal Control and Accounting Manual for adoption by the Group. This manual was prepared by the Accounts Manager of the Group in conjunction with its legal advisers. On 19 January 2005, HLB Hodgson Impey Cheng ("HLB") was appointed to review, supervise and monitor its implementation and to see whether there are any compliance shortcomings and to advise the independent board committee. On 22 February 2005, the Group formed an independent committee comprising all of the independent non-executive directors to conduct a review of the financial and system control of the Group.

During the period, the Group has devoted to improving its internal control and accounting procedures. The Group has fully implemented HLB's suggested changes to the Group's internal control systems and HLB is currently conducting an onsite visit to verify the Group's implementation of HLB's suggestions.

On the other hand, HLB has been instructed by the Group to trace the fund flow for the year 2001, during which the alleged misappropriation of funds took place. This exercise is still in progress and HLB is not yet in a position to release any finding.

The review by both HLB and the Independent Committee on the Incident is ongoing and periodic announcements are made to update the shareholders. The ICAC has not yet released those books and records of the Group it seized in connection with the Incident, however, the Group has been able to make copies of certain books and records for its internal purposes. The Independent Committee is in the process of reviewing these books and records. No conclusive findings on the Incident can yet be announced. HLB and the Independent Committee are expected to conclude their findings by end of September 2005 and end of October 2005, respectively.

POST BALANCE SHEET EVENTS

On 8 July 2005, the Group had proposed to effect a rights issue in the proportion of one rights share for every two shares held. Under the rights issue, 100,000,000 new ordinary shares of HK$0.1 each were allotted and issued at HK$0.54 per rights share. These shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment. The rights issue was completed on 18 August 2005. The net proceeds from the rights issue amounted to HK$54 million, before issue expenses of approximately HK$1 million.

On 31 August 2005, the Group has, through a wholly-owned subsidiary, entered into a sale and purchase agreement with independent third parties, to acquire 70% equity interests in Bei Lei (Tianjin) Dairy Co., Ltd. ("Bei Lei"), at a consideration of RMB55 million (equivalent to approximately HK$52.9 million) (the "Acquisition"). Bei Lei was established in the PRC in 1994 to engage in the production and sale of dairy products in the PRC. The Acquisition is subject to the approval of the Company's shareholders and the fulfillment of certain conditions.

PROSPECTS

The Group has been principally engaged in the manufacturing and sale of handbag products and related accessories and garments, provision of related sub-contracting services and trading of raw materials in Hong Kong, the PRC and Cambodia. The Group intends to continue to pursue such activities as its principal business.

It has been the Group's strategy to seek additional manufacturing opportunities and identify suitable investment opportunities to further develop the Group's business. The directors consider that the PRC dairy industry presents promising growth potential and that the Acquisition will provide the Group with the opportunity to benefit from participating in that industry as an additional line of business.

Looking ahead, apart from strengthening its existing business and seeking opportunities to diversify its income stream, the Group will continue to improve its financial and system control and further enhance its corporate governance, acting in the best interest of its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2005, the Group had no outstanding bank borrowing due to the aforesaid Debt Assignment. As at 30 June 2005, the Group's total available banking facilities amounted to HK$10 million and none had been utilized as at 30 June 2005.

As at 30 June 2004, the Group had outstanding bank borrowings of approximately HK$74.2 million including mainly trust receipt loans and packing loans of approximately HK$27.3 million, short-term bank loans of approximately HK$23.6 million, short-term portion of long-term bank loans of approximately HK$11.7 million and long-term portion of long-term bank loans of approximately HK$11.6 million.

As at 30 June 2005, the gearing ratio of the Group, calculated as total debts divided by total assets, was approximately 98.6%. Excluding the shareholder's loan (loan from Orientelite) of HK$69.3 million, the gearing ratio is reduced to 0.2%.

As at 30 June 2005, the Group's current assets and current liabilities were approximately HK$41.1 million (31 December 2004: HK$58.2 million) and HK$34.9 million (31 December 2004: HK$106.6 million), respectively, resulting in net current assets of HK$6.2 million (31 December 2004: net current liabilities of HK$48.4 million).

CHARGE ON ASSETS

As at 30 June 2005, there was no charge on the Group's assets (2004: Nil).

EXPOSURE TO FOREIGN EXCHANGE RISKS

The Group has little exposure to foreign exchange fluctuations, as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, US dollars and Renminbi. It is the Group's treasury policy to manage its foreign currency exposure, if any, only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will hedge its foreign currency exposure by forward foreign exchange contracts.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2005, the Group had approximately 2,319 (2004: 2,522) employees with total staff costs amounted to approximately HK$14.8 million (2004: HK$15.0 million). The Group reduced the number of employees after the takeover of the Company by Orientelite to reflect the smaller number required to match the declined sales. Thereafter, the decrease in payroll costs started to take effect and real benefits are expected in the second half of 2005.

Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2005, none of the directors and the chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period were rights to acquire shares in or debentures of the Company granted to any director or his spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Group has adopted a share option scheme under which executive directors and full-time employees of the Group may be given options, which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time. No options have been granted up to the date of this report.

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

As at 30 June 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Long positions:

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
Orientelite Investments Limited *(Note)*	150,000,000	75%
China Enterprise Capital Limited *(Note)*	150,000,000	75%

Note:

Orientelite Investments Limited is owned as to 80% by China Enterprise Capital Limited, as to 10% by Starauto Investment Limited and as to 10% by Rackham Holdings Limited. China Enterprise Capital Limited is deemed to have an interest in the shares in which Orientelite Investments Limited is interested under the SFO.

Save as disclosed above, as at 30 June 2005, no other person had an interest or short position in the shares or underlying shares of the Company recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company had not adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code"), or any similar code, as the Company's code of conduct for dealings in securities of the Company by the directors during the period covered by the interim report. However, based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the period covered by the interim report. On 15 September 2005, the Company adopted a code on ethics and securities transactions which incorporates a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Model Code.

AUDIT COMMITTEE

The Company has an audit committee since 2001 which was established in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The unaudited interim financial statements of the Company for the six months ended 30 June 2005 have been reviewed by the audit committee.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, except for the following code provisions:

Code Provisions A.5.4

There were no written guidelines issued by the Board for relevant employees in respect of their dealings in the securities of the Company. On 15 September 2005, the Company adopted a code on ethics and securities transactions, on no less exacting terms than the Model Code, to regulate securities dealings of the Company by certain employees of the Company and its subsidiaries who are considered likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

Code Provisions B.1.1

The Company did not have in place a remuneration committee with specific terms of reference during the six months ended 30 June 2005. The remuneration committee was subsequently established on 15 September 2005 comprising one executive director and two independent non-executive directors.

On behalf of the Board
David Lee Sun
Executive director

Hong Kong, 22 September 2005