



Willie International Holdings Limited

(Incorporated in Hong Kong with limited liability)

WILLIE INTERNATIONAL

INTERIM REPORT
2005

CORPORATE INFORMATION

DIRECTORS

Chuang Yueheng, Henry (*Chairman*)
King Phillip (*Managing Director*)
Lo Kan Sun
Wong Ying Seung, Asiong
Wong Wai Man, Raymond
Chung Wilson[#]
Lau Da Yip[#]
Lam Ping Cheung*
Miu Frank H.*
Nakajima Toshiharu*
Lin Wai Yi*
Pang Shuen Wai, Nichols*

[#] *Non-executive Directors*

* *Independent Non-executive Directors*

PRINCIPAL BANKERS

Liu Chong Hing Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank

SECRETARY

Yung Mei Yee

QUALIFIED ACCOUNTANT

Wong Wai Man, Raymond

AUDITORS

Moore Rowland Mazars

REGISTERED OFFICE

32nd Floor
China United Centre
28 Marble Road
North Point
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shop 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

INTERNET ADDRESS

<http://www.willie273.com>

RESULTS

The Board of Directors of Willie International Holdings Limited (the “Company”) (formerly China United International Holdings Limited) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2005 (the “Period”), together with comparative figures for the six months ended 30 June 2004, are as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2005

		Unaudited For the Six months ended 30 June	
	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	3	72,479	44,471
Other income	3	8,332	799
Cost of trading securities sold		(81,217)	(43,181)
Depreciation and amortisation expenses		(606)	(906)
Staff costs		(4,637)	(4,676)
Other operating expenses		(17,989)	(18,881)
Loss from operations		(23,638)	(22,374)
Gain on disposal of an investment held for trading		20,528	–
Gain on disposal of interests in subsidiaries		6,031	–
Impairment losses on available-for-sale financial asset		(15,738)	–
Gain on deemed disposal of interest in an associate		1,405	1,800
Loss on deemed acquisition of interest in an associate		(13,331)	–
Share of loss of an associate	7	(41,864)	(77,601)
Other finance costs		(4,736)	(7,024)
Loss from ordinary activities before taxation	4	(71,343)	(105,199)
Taxation	5	–	–
Loss attributable to shareholders		(71,343)	(105,199)
Loss per share – Basic	6	HK\$(0.038)	HK\$(0.100)
Loss per share – Diluted	6	HK\$(0.044)	N/A

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005

	Unaudited	
	For the Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Opening balance – Total equity at 1 January (audited)	91,451	303,782
Issue of new shares, net of expenses	45,298	73,600
Issue of shares on exercise of warrants	1,867	16,047
Issue of shares on conversion of convertible notes	100,000	5,040
Issue of shares under share option scheme	25,810	–
Change in fair value of convertible notes	27,862	–
Loss for the period	(71,343)	(105,199)
Closing balance – Total equity at 30 June (unaudited)	220,945	293,270

Condensed Consolidated Balance Sheet

As at 30 June 2005 and 31 December 2004

	Notes	Unaudited At 30 June 2005 HK\$'000	Audited At 31 December 2004 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		9,530	11,930
Property, plant and equipment		22,186	39,177
Interest in an associate	7	105,046	181,113
Available-for-sale financial asset	8	134,262	–
		<u>271,024</u>	<u>232,220</u>
Current assets			
Loans receivable	9	53,863	18,802
Other receivables		1,708	3,876
Investments held for trading		11,731	20,374
Bank balances and cash		1,225	10,663
		<u>68,527</u>	<u>53,715</u>
Current liabilities			
Other payables		7,495	13,350
Current portion of interest-bearing borrowings		22,659	104,683
Convertible notes	10	–	53,000
		<u>30,154</u>	<u>171,033</u>
Net current assets (liabilities)		<u>38,373</u>	<u>(117,318)</u>
Total assets less current liabilities		<u>309,397</u>	<u>114,902</u>
Non-current liabilities			
Long-term interest-bearing borrowings		14,727	23,451
Convertible notes	10	73,725	–
		<u>88,452</u>	<u>23,451</u>
NET ASSETS		<u>220,945</u>	<u>91,451</u>
CAPITAL AND RESERVES			
Issued capital	11	219,409	136,939
Reserves	13	1,536	(45,488)
		<u>220,945</u>	<u>91,451</u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	Unaudited	
	For the six months ended	
	30 June	
	2005	2004
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	(40,886)	24,957
Net cash used in investing activities	(445)	(68,260)
Net cash from financing activities	31,893	18,699
Net decrease in cash and cash equivalents	(9,438)	(24,604)
Cash and cash equivalents at beginning of period	10,663	25,173
Cash and cash equivalents at end of period, represented by bank balances and cash	1,225	569

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 under the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited.

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

The accounting policies and methods of computation used in preparation of these condensed consolidated financial statements 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 the new Hong Kong Financial Reporting Standards (“HKFRS”) and HKASs (collectively referred to as new “HKFRSs”) which are effective for accounting periods commencing on or after 1 January 2005. Details of these changes in the accounting policies are set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

HKFRS 2: “Share-based payment”

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the share options granted to individuals under the share option scheme did not result in an expense in the income statement. Effective from 1 January 2005, the Group expensed the cost of share options in the income statement. In accordance with the transitional provision of HKFRS 2, only the cost of share options granted after 7 November 2002 which had not yet been vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

All share options granted by the Group during the year ended 31 December 2004 had already been vested before 1 January 2005 and accordingly, no retrospective restatement is required.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

HKAS 17: "Leases"

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease and where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment losses.

Because of the allocation between the leasehold land and building elements owned by the Group cannot be made reliably, the leasehold interests in land are accounted for as properties within properties, plant and equipment.

HKAS 32: "Financial Instruments: Disclosure and presentation" and HKAS 39: "Financial instruments: Recognition and measurement"

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement and disclosure of financial instruments.

In accordance with HKAS 39, the investments, depending on the purpose for which the investments are held, are required to be classified into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. As a result, the trading securities held by the Group are reclassified as financial assets at fair value through profit or loss and carried at fair value at the balance sheet date with movements in fair value recognised in income statement.

Furthermore, HKAS 39 requires financial liabilities, except for those carried at fair value through profit or loss, to be carried at amortised cost using the effective interest method.

Therefore, the convertible notes in issue by the Group during the Period were split into the equity portion of the fair value of the conversion right by the noteholders, and the liability portion of the loan which is carried at amortised cost using the effective interest method.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

HKAS 40: Investment properties

In prior years, investment properties were stated at open market values on the basis of professional valuation. Changes in values are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement.

On adoption of HKAS 40, investment property is stated at fair value at balance sheet date, all changes in fair value of the investment property are recognised in the income statement. There is no impact on these financial statements as a result of this change in accounting policy because the Group's investment property had a net revaluation deficit position as at 30 June 2005 and 31 December 2004 and the changes in valuation of the Group's investment property during the six months ended 30 June 2005 and year ended 31 December 2004 would be recognised in the income statement irrespective of whether the old policy or the new policy is applied.

3. SEGMENT INFORMATION

The analysis of the Group's revenue and results by business segments are as follows:

Six months ended 30 June 2005 (unaudited)

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue						
Turnover						
External customers	65,407	6,980	92	-	-	72,479
Other revenue	-	5,050	-	1,754	1,528	8,332
Total revenue	<u>65,407</u>	<u>12,030</u>	<u>92</u>	<u>1,754</u>	<u>1,528</u>	<u>80,811</u>
Segment results	(26,249)	4,738	(359)	(3,222)	1,454	(23,638)
Gain on disposal of an investment held for trading						20,528
Gain on disposal of interests in subsidiaries						6,031
Impairment losses on available-for-sale financial asset						(15,738)
Gain on deemed disposal of interest in an associate						1,405
Loss on deemed acquisition of interest in an associate						(13,331)
Share of profit (loss) of an associate	(1,876)	(44,143)	-	2,893	1,262	(41,864)
Other finance costs						(4,736)
Loss attributable to shareholders						<u>(71,343)</u>

3. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2004 (unaudited)

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue						
Turnover						
External customers	36,400	7,862	209	-	-	44,471
Other revenue	-	-	121	-	678	799
Total revenue	<u>36,400</u>	<u>7,862</u>	<u>330</u>	<u>-</u>	<u>678</u>	<u>45,270</u>
Segment results	(6,855)	(7,220)	102	(2,072)	(6,329)	(22,374)
Gain on deemed disposal of interest in an associate						1,800
Share of profit (loss) of an associate	5,826	(1,517)	-	(59,381)	(22,529)	(77,601)
Other finance costs						<u>(7,024)</u>
Loss attributable to shareholders						<u>(105,199)</u>

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

	Unaudited	
	For the Six months ended	
	30 June	
	2005	2004
	HK\$'000	HK\$'000
This is stated after charging (crediting):		
Net unrealised holding loss on investment held for trading	10,367	-
Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of an associate)	-	23,721
Net (write-back of) provision for bad and doubtful debts	(5,050)	14,705
Loss (Gain) on disposal of investment properties	162	(121)
Release of negative goodwill to income		
– included in share of loss of an associate	-	(1,347)
Gain on disposal of property, plant and equipment	(122)	(678)
Gain on disposal of an investment held for trading	(20,528)	-
	<u> </u>	<u> </u>

5. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the six months ended 30 June 2005.

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the Period of HK\$71,343,000 (2004: HK\$105,199,000) and on the weighted average number of shares of 1,888,379,793 (2004: 1,038,348,610 shares) in issue during the Period.

The calculation of the diluted loss per share is based on the loss for the Period of HK\$71,343,000 and on the weighted average number of shares of 1,621,393,344.

7. INTEREST IN AN ASSOCIATE

		Unaudited At 30 June 2005 HK\$'000	Audited At 31 December 2004 HK\$'000
	Notes		
Share of net assets		49,385	128,827
Impairment loss		(49,384)	(75,036)
	(a)	<u>1</u>	<u>53,791</u>
Due from an associate	(b)	<u>105,045</u>	<u>127,322</u>
		<u>105,046</u>	<u>181,113</u>

7. INTEREST IN AN ASSOCIATE (Continued)

- (a) Interest in an associate represented the Group's 44.5% interest in Hennabun Management International Limited ("HMIL") (formerly Hennabun Management Inc.). During the Period, the Group's interest in HMIL was firstly reduced from 42.03% to 41.54% because of HMIL's issue of shares to third parties and then increased from 41.54% to 44.50% because of HMIL's repurchase of its own shares from a third party.
- (b) Details of the amount due from an associate is as follows:-

	Unaudited HK\$'000
Convertible note receivables from HMIL	
At 1 January 2005	127,322
Redemption	(25,300)
Interests accrued	3,023
	<hr/>
At 30 June 2005	<u>105,045</u>

Of the amounts due, HK\$95,000,000 is the principal amount of a convertible note issued by HMIL on 28 January 2004. Related interest receivable amounted to HK\$10,045,000 at the balance sheet date. The note, which will mature in three years from the date of issue, bears interest at 6% per annum and can be converted into shares of HMIL at a conversion price of HK\$1.00 per ordinary share at any time after the date of issue of the convertible and before its maturity date.

7. INTEREST IN AN ASSOCIATE (Continued)

Details of the consolidated operating results and financial position of HMIL based on unaudited financial statements, after adjusting the fair value of assets acquired at the date of acquisition, are as follows:-

	Unaudited Six months ended 30 June 2005 HK\$'000
Operating results for the six months ended 30 June 2005	
Turnover	<u>14,200</u>
Loss from ordinary activities before taxation	<u>(161,757)</u>
Share of loss of an associate	<u>(41,864)</u>
	Unaudited At 30 June 2005 HK\$'000
Financial position at the balance sheet date	
Total non-current assets	8,856
Total current assets	291,374
Total current liabilities	(94,253)
Total non-current liabilities	<u>(95,000)</u>
Shareholders' funds	<u>110,977</u>
Amount attributable to the Group	<u>49,385</u>

8. AVAILABLE-FOR-SALE FINANCIAL ASSET

	Unaudited At 30 June 2005 HK\$'000	Audited At 31 December 2004 HK\$'000
Unlisted, at fair value	134,262	-

During the six months ended 30 June 2005, the Group acquired 29.7% interest in Found Macau Investments International Limited ("Found Macau"). As the Group does not have any board representation and does not participate in the financial and operating policy decisions of Found Macau, accordingly, the Group does not account for Found Macau under the equity method.

9. LOANS RECEIVABLE

Loans granted to borrowers are repayable by installments or according to set maturity dates. The balance comprises of loans receivable from:

	Unaudited At 30 June 2005 HK\$'000	Audited At 31 December 2004 HK\$'000
Third parties	97,396	158,342
A related company	-	20,460
	97,396	178,802
Provision for bad and doubtful debts	(43,533)	(160,000)
Balances due within one year included in current assets	53,863	18,802

9. LOANS RECEIVABLE (Continued)

An aging analysis of loans receivable (before provision for bad and doubtful debts) as at the balance sheet date is set out below:

	Unaudited At 30 June 2005 HK\$'000	Audited At 31 December 2004 HK\$'000
Within maturity dates	84,108	65,386
Balances overdue for repayment:		
1 – 3 months	11,288	–
4 – 6 months	–	15,362
7 – 12 months	–	26,518
Over 12 months	2,000	71,536
	97,396	178,802

10. CONVERTIBLE NOTES

	Unaudited At 30 June 2005 HK\$'000	Audited At 31 December 2004 HK\$'000
At balance sheet date	73,725	53,000

Note:–

- (i) During the period, a convertible note with principal sum of HK\$53,000,000 was redeemed by the Group.
- (ii) During the period, the Company issued New Convertible Notes with principal amounts of HK\$100,000,000 to third parties and HK\$100,000,000 to Found Macau respectively. The New Convertible Notes are non-interest bearing, and can be converted into the ordinary shares of the Company at a conversion price of HK\$0.25 per share in amounts. The Company may redeem in whole or in part the notes in the amount or integral multiples of HK\$500,000 at any time from the date of issue up to 7 days before and excluding the maturity date on 28 February 2010.

10. CONVERTIBLE NOTES (Continued)

- (iii) During the period, convertible note with principal sum of HK\$100,000,000 was converted into 400,000,000 ordinary shares of HK\$0.1 each of the Company.
- (iv) As explained in note (2) above, the convertible notes issued by the Group during the period were split into the equity portion for the fair value of the conversion right by the noteholders (note 13), and the liability portion of the loan which was carried at amortised cost using the effective interest method.

11. ISSUED CAPITAL

	Note	Number of ordinary shares	Nominal value HK\$'000
Authorised:			
At balance sheet date		<u>20,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:			
At beginning of period (audited)		1,369,389,054	136,939
Exercise of warrants	(i)	13,338,925	1,334
Conversion of convertible notes	(ii)	400,000,000	40,000
Issuance of shares	(iii)	274,000,000	27,400
Issuance of shares under share option scheme	(iv)	<u>137,358,374</u>	<u>13,736</u>
At balance sheet date (unaudited)		<u>2,194,086,353</u>	<u>219,409</u>

Note:—

- (i) During the period, an aggregate of 13,338,925 new shares of HK\$0.1 each of the Company were issued to certain warrant holders upon exercise of warrants at the cash subscription price of HK\$0.14 per share.
- (ii) During the period, an aggregate of 400,000,000 ordinary shares of HK\$0.1 each of the Company were issued to Found Macau upon the conversion of convertible notes as set out in note 10(iii).
- (iii) Pursuant to the placing agreement dated 9 March 2005, the Company agreed to conditionally place 274,000,000 ordinary shares of HK\$0.1 each of the Company on a fully underwritten basis to independent investors at a price of HK0.168 each.

11. ISSUED CAPITAL (Continued)

- (iv) Pursuant to the ordinary resolutions passed during the period, an aggregate of 137,358,374 ordinary shares of HK\$0.1 each of the Company were issued to certain individuals under the share option scheme at the exercise price range from HK\$0.181 to HK\$0.203 each.

All these shares issued during the period rank pari passu in all respects with the then existing shares.

12. SHARE OPTION SCHEME

Movements in the number of share options outstanding are as follows:

	Notes	Unaudited	
		Six months ended 30 June	
		2005	2004
		Number	Number
At the beginning of period (audited)		-	-
Granted	12 (i)	137,358,374	-
Exercised	11 (iv)	(137,358,374)	-
At balance sheet date (unaudited)		-	-

Note:-

- (i) During the period, an aggregate of 137,358,374 share options were granted to certain individuals under the share option scheme. The exercise prices of the granted options ranged from HK\$0.181 to HK\$0.203 and the closing prices of the share of the Company immediately before the dates of grant ranged from HK\$0.175 to HK\$0.196. All granted share options were exercised immediately after the grant. No share option was outstanding at the end of the Period.

13. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Convertible notes – equity portion HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005 (audited)	24,485	18,273	-	(88,246)	(45,488)
Equity portion of convertible notes issued	-	-	55,725	-	55,725
Exercise of warrants	534	-	-	-	534
Share issued under share option scheme	12,074	-	-	-	12,074
Shares issued at premium, net of issuing expenses	77,897	-	-	-	77,897
Conversion of convertible notes	-	-	(27,863)	-	(27,863)
Loss for the period	-	-	-	(71,343)	(71,343)
Change in fair value of convertible notes – equity portion	-	-	(1,588)	1,588	-
At 30 June 2005 (unaudited)	114,990	18,273	26,274	(158,001)	1,536

14. CONTINGENT LIABILITIES

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK\$38,000,000 (31 December 2004: HK\$38,000,000) and HK\$75,000,000 (31 December 2004: HK\$75,000,000) for banking facilities granted to subsidiaries and an associate respectively, which were utilised by subsidiaries and an associate to the extent of HK\$19,387,000 (31 December 2004: HK\$32,054,000) and HK\$32,545,000 (31 December 2004: HK\$31,589,000) respectively.

15. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values have been pledged to secure general banking facilities granted to the Group:

	Unaudited At 30 June 2005 HK\$'000	Audited At 31 December 2004 HK\$'000
Land and buildings	21,520	38,725
Investment properties	9,250	11,930
	<u>30,770</u>	<u>50,655</u>

16. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, there are other related party transactions entered by the Group during the period, details of which are set out below:–

- (a) A property of the Group with net book value of HK\$21,520,000 (31 December 2004: HK\$21,724,000) is occupied by a brother of a director of the Company free of rental. The director's brother is a director of certain companies within the HMIL Group.
- (b) During the six months ended 30 June 2005, the Group granted securities margin loans, through HMIL Group, to a director of the Company with outstanding balance amounted to HK\$50,000 (31 December 2004: HK\$45,000). The loan carry interest at prime rate or prime rate plus 3% per annum and are repayable on demand.

17. POST BALANCE SHEET EVENTS

On 3 August 2005, the Company and HMIL entered into an agreement (“the Agreement”) whereby the Company agreed, inter alia, to:

- (i) procure a subsidiary of the Company to transfer a subsidiary and assign a shareholder loan in the principal amount of approximately HK\$41,410,000 to HMIL for a consideration of HK\$7.8 and HK\$41,000,000 respectively, to be satisfied by cash and the issue of a convertible note (“First New Note”) by HMIL to the Company respectively, and
- (ii) procure another subsidiary of the Company to surrender the 6% convertible note issued by HMIL with the outstanding principal amount of HK\$95,000,000 for a consideration of HK\$105,000,000 to be satisfied by the issue of a convertible note (“Second New Note”) by HMIL to the Company.

Both the First New Note and the Second New Note will bear interest at 8% per annum and will be due on the day immediately preceding the tenth anniversary of the date of issue.

The completion of the Agreement is conditional upon:

- (i) the approval of shareholders at an extraordinary general meeting in compliance with the Listing Rules;
- (ii) HMIL procuring that an unsecured standby credit facility in the amount of HK\$50,000,000 is made available to the Company by HMIL or its subsidiaries or independent parties at an interest rate per annum equal to the prime rate.

INTERIM DIVIDEND

The Board of directors does not recommend any interim dividend for the six months ended 30 June 2005 (2004: Nil).

BUSINESS REVIEW AND PROSPECTS

Results

During the six months ended 30 June 2005, the Group recorded an unaudited loss attributable to shareholders of approximately HK\$71.3 million, as compared with a loss of approximately HK\$105.2 million for the corresponding six months ended 30 June 2004. The loss per share was HK\$0.038 for the current Period as compared with a loss per share of HK\$0.100 for the corresponding six months ended 30 June 2004. Turnover was approximately HK\$72.5 million, an increase of approximately 63% from 2004's level of approximately HK\$44.5 million, which was mainly due to the increase of approximately 79.7% in the income for investment in trading securities (approximately HK\$65.4 million in this Period versus approximately HK\$36.4 million in 2004) during the Period.

Review

The first half of 2005 was a difficult and volatile Period for investment. While short term interest rate in the US rose gradually from 2.25% to 3.25% over the Period, the benchmark 10-year treasury yield shot up sharply in March before easing back in the second quarter. Global stock markets also experienced significant swings in the first six months of 2005. However, recent data showed that the global economy is still in relatively good shape amid rising interest rates and high oil prices.

In order to stabilize our earnings and make better use of the Group's resources, we have reorganized our Company's structure to support the development of our fee generating business and improve our ability to capitalize on cross selling opportunities among divisions (and in some instances within divisions) in the future. As a result, we are pleased to announce that the Group has realigned themselves and is now focused in four lines of businesses: business of providing financial services, trading and principal investments, formation of real estate investment projects and investment in gaming and entertainment partnerships.

Liquidity and Capital Resources

As at 30 June 2005, the Group's total shareholders' funds amounted to approximately HK\$220.9 million compared with HK\$91.4 million at 31 December 2004. The gearing ratio (calculated by aggregated interest-bearing borrowings divided by shareholders' funds at the balance sheet date) and current ratio of the Group was approximately 16.9% and approximately 2.27 times at 30 June 2005, compared to approximately 198% and approximately 0.31 times respectively at 31 December 2004.

As at 30 June 2005, the Group has bank loans and other borrowings of approximately HK\$37.4 million (31 December 2004: approximately HK\$128.1 million) and convertible notes, with an aggregate principal amount of approximately HK\$73.7 million excluding the equity component under HKAS 39 (31 December 2004: approximately HK\$53 million).

As most of the Group's transactions and bank deposits were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

Pledge of Assets

As at 30 June 2005, certain assets of the Group with an aggregate net book value of approximately HK\$30.8 million (31 December 2004: approximately HK\$50.7 million) were pledged to banks to secure credit facilities granted to the Group.

Contingent Liabilities

As at 30 June 2005, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK\$38,000,000 (31 December 2004: HK\$38,000,000) and HK\$75,000,000 (31 December 2004: HK\$75,000,000) for banking facilities granted to subsidiaries and an associate respectively, which were utilised by subsidiaries and an associate to the extent of HK\$19,387,000 (31 December 2004: HK\$32,054,000) and HK\$32,545,000 (31 December 2004: HK\$31,589,000) respectively.

Employees

As at 30 June 2005, the total number of employees of the Group was 24. The Group remunerates its employees based on their performance, working experience and prevailing market standards and reviews their remuneration annually. Staff benefits include a medical insurance coverage, provident fund and a share option scheme. As at 30 June 2005, there are no share options outstanding.

Prospects

The Hong Kong economy continued to improve with gross domestic product increasing by 6%. The employment situation improved gradually and consumers regained confidence, while the property market became active again. With the Group developing new business strategies to turn around the Group's operating performance and the realignment of the Group's new business focus, we are ready to step ahead into a new era. The Group will continue to take a conservative approach in investing and evaluating projects in Hong Kong, Macau and China as we believe improving domestic economies, strong liquidity flow will continue to underpin these markets.

POST BALANCE SHEET EVENTS

On 3 August 2005, the Company and HMIL entered into an agreement ("the Agreement") whereby the Company agreed, inter alia, to:

- (i) procure a subsidiary of the Company to transfer a subsidiary and assign a shareholder loan in the principal amount of approximately HK\$41.41 million to HMIL for a consideration of HK\$7.8 and HK\$41 million respectively, to be satisfied by cash and the issue of a convertible note ("First New Note") by HMIL to the Company respectively, and
- (ii) procure another subsidiary of the Company to surrender the 6% convertible note issued by HMIL with the outstanding principal amount of HK\$95 million for a consideration of HK\$105 million to be satisfied by the issue of a convertible note ("Second New Note") by HMIL to the Company.

Both the First New Note and the Second New Note will bear interest at 8% per annum and will be due on the day immediately preceding the tenth anniversary of the date of issue.

The completion of the Agreement is conditional upon:

- (i) the approval of shareholders at an extraordinary general meeting in compliance with the Listing Rules;
- (ii) HMIL procuring that an unsecured standby credit facility in the amount of HK\$50 million is made available to the Company by HMIL or its subsidiaries or independent parties at an interest rate per annum equal to the prime rate.



DIRECTORS

Mr. Chung Wilson has resigned as the Managing Director of the Company with effect from 15 September 2005 and will continue to act as a Non-executive Director of the Company. Mr. King Phillip has been appointed as the Managing Director of the Company with effect from 15 September 2005.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2005, none of the Directors or chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

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

As at 30 June 2005, the following shareholders had interests of 5% or more of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

Name	Number of ordinary shares of HK\$0.10 each held in the Company	Number of warrants held	Principal amount of convertible notes held (HK\$)	Ordinary shares	Percentage of holding Warrants	Convertible notes
Heritage International Holdings Limited	199,758,163	-	32,000,000	9.10	-	5.83
Radford Capital Investment Limited	182,959,363	-	-	8.34	-	-
Kwok Wai Ming	180,900,000	-	-	8.24	-	-
Unity Investments Holdings Limited	160,296,000	-	-	7.31	-	-

Save as disclosed herein, as at 30 June 2005, the Company was not notified of any interests in more than 5% of the issued share capital of the Company as recorded in the register maintained under section 336 of the SFO, and no person was interested in or had a short position in the shares or underlying shares which would fall to be disclosed to the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2005.

AUDIT COMMITTEE

The Audit Committee, is comprised of five independent non-executive directors, Mr. Lam Ping Cheung, Mr. Miu Frank H., Mr. Nakajima Toshiharu, Ms. Lin Wai Yi and Mr. Pang Shuen Wai, Nichols. The Audit Committee meets with the Group's management regularly to review the accounting principles and practices adopted by the Group, the effectiveness of the internal control systems and the interim and annual reports of the Company. The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

Code provision A.4.1 and A.4.2

The Company has complied with the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, with deviations from code provisions A.4.1 and A.4.2 of the Code in respect of the service term and rotation of directors.

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Following a review of the Company's corporate governance practices with reference to the Code, the amendments to the relevant articles of the Articles of Association of the Company were approved at the extraordinary general meeting held on 16 September 2005 to ensure compliance with the Code.

Pursuant to the Articles of Association of the Company, at each annual general meeting one third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election. The chairman of the Board, the managing director and/or deputy chairman of the Company shall not, whilst holding office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire each year. Accordingly, the Articles of Association of the Company have been amended to specify that each Director will be subject to retirement by rotation at least once every three years in compliance with the code provision A.4.2. The Articles of Association of the Company have also been 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. Directors appointed as an addition to the Board shall be subject to election at the next annual general meeting after their appointment.

The non-executive directors of the Company are not appointed for specific terms but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

Remuneration Committee

The Company has established a remuneration committee on 28 June 2005 with a majority of members of independent non-executive directors and specific written terms of reference in accordance with the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all Directors of the Company confirmed that they had complied with the required standard as set out in the Model Code throughout the Period.

By Order of the Board
Chuang Yueheng, Henry
Chairman