Interim Report 06

FORTUNA 廣益 國際集團有限公司

Stock Code : 530 INTERNATIONAL HOLDINGS LIMITED

CONTENTS

FORTUNA INTERNATIONAL HOLDINGS LIMITED (STOCK CODE: 530)

The board of directors (the "Board" or "Directors") of Fortuna International Holdings Limited (the "Company") announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 ("Period") together with comparative figures for the corresponding period in 2005 as set out below.

These interim financial statements have not been audited nor reviewed by the Company's auditors, Moore Stephens, but have been reviewed by the audit committee of the Company on 18 September 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
			(Restated)
	Notes	***HK$'000***	*HK$'000*
CONTINUING OPERATIONS			
TURNOVER	*4*	**35,037**	95,426
Cost of sales		**(26,261)**	(90,909)
Gross profit		**8,776**	4,517
Other revenue and gains	*5*	**6,913**	13,239
Write back of allowance for bad and doubtful debts		**103**	713
Selling and distribution expenses		**(472)**	(392)
Administrative expenses		**(12,304)**	(17,268)
Other operating expenses		**(1,728)**	–
Loss on disposal of investment properties		**(119)**	–
Impairment losses of goodwill arising from acquisitions of subsidiaries		**–**	(33,008)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*6*	**1,169**	(32,199)
Finance costs		**(291)**	(1,809)
PROFIT/(LOSS) BEFORE TAX		**878**	(34,008)
Tax	*7*	**(1,572)**	(954)
LOSS FROM CONTINUING OPERATIONS		**(694)**	(34,962)
DISCONTINUED OPERATION			
Profit/(loss) from discontinued operation	*8*	**11,133**	(21,332)
PROFIT/(LOSS) FOR THE PERIOD		**10,439**	(56,294)
ATTRIBUTABLE TO:			
Equity holders of the parent		**10,350**	(56,794)
Minority interest		**89**	500
		10,439	(56,294)
EARNINGS/(LOSS) PER SHARE	*9*		
Basic			
– Continuing operations		**(0.01) cents**	(0.27) cents
– Discontinued operation		**0.15 cents**	(0.16) cents
		0.14 cents	(0.43) cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**30 June 2006 (Unaudited)** *HK$'000*	31 December 2005 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**1,407**	3,956
Investment properties	*12*	**148,380**	33,170
Goodwill		**443**	455
		150,230	37,581
CURRENT ASSETS			
Inventories		**660**	859
Trade receivables	*13*	**924**	3,960
Prepayments, deposits and other receivables		**10,720**	10,151
Short term investments		**–**	759
Current tax refundable		**–**	181
Cash and bank balances		**20,493**	41,764
		32,797	57,674
CURRENT LIABILITIES			
Trade payables	*14*	**3,141**	7,283
Accrued liabilities and other payables		**79,476**	32,171
Current tax payable		**1,510**	–
Interest-bearing bank and other borrowings - due within one year		**2,804**	4,547
Finance lease payables		**–**	1,053
Due to minority shareholders		**601**	750
		87,532	45,804
NET CURRENT (LIABILITIES)/ASSETS		**(54,735)**	11,870
TOTAL ASSETS LESS CURRENT LIABILITIES		**95,495**	49,451
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings – due after one year		**9,743**	13,567
Deferred tax liabilities		**13,952**	475
		23,695	14,042
		71,800	35,409
CAPITAL AND RESERVES			
Share capital	*15*	**4,081**	136,018
Reserves		**67,491**	(100,788)
Equity attributable to equity holders of the parent		**71,572**	35,230
Minority interest		**228**	179
Total equity		**71,800**	35,409

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium Account	Translation Reserve	PRC Statutory Reserves	Capital Reserve	Contributed Surplus	Accumulated Losses	Minority Interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	130,018	562,543	(3,238)	910	31	191,389	(702,275)	1,078	180,456
Released upon disposal of subsidiaries	–	–	(173)	(910)	–	–	–	–	(1,083)
Exercise of share options	1,000	980	–	–	–	–	–	–	1,980
Minority interest movement	–	–	–	–	–	–	–	500	500
Net loss for the period	–	–	–	–	–	–	(56,794)	–	(56,794)
At 30 June 2005	131,018	563,523	(3,411)	–	31	191,389	(759,069)	1,578	125,059
At 1 January 2006	136,018	564,123	(3,416)	–	31	191,389	(852,915)	179	35,409
Capital reorganisation	(134,658)	(564,123)	–	–	–	698,781	–	–	–
Set off accumulated losses	–	–	–	–	–	(688,054)	688,054	–	–
Open offer, net of expenses	2,721	23,271	–	–	–	–	–	–	25,992
Minority interest movement	–	–	–	–	–	–	–	49	49
Net profit for the period	–	–	–	–	–	–	10,350	–	10,350
At 30 June 2006	4,081	23,271	(3,416)	–	31	202,116	(154,511)	228	71,800

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**2,355**	(23,039)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	**(93,707)**	48,268
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	**70,840**	(16,080)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(20,512)**	9,149
Cash and cash equivalents at beginning of period	**40,164**	29,306
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**19,652**	38,455
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**20,493**	47,818
Bank overdrafts	**(841)**	(9,363)
	19,652	38,455

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 2005.

The following new standards and interpretations which are relevant to the Group's operations have been issued and effective as at the time of preparing this information:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

The adoption of such standards or interpretations did not result in substantial changes to the Group's accounting policies.

The following new standards and interpretations which are relevant to the Group's operations have been issued but not effective for 2006 and have not been early adopted:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

2. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise bank loans and overdrafts, other interest-bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operation. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group does not have any written risk management policies and guidelines. The Directors monitor the financial risk of the Group and take such measures as considered necessary from time to time to minimise such financial risks.

The Group's activities are exposed to the following risks:

(a) Fair value and cash flow interest rate risks
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's debt obligations with floating interest rates.

(b) Foreign currency risk
Most of the Group's monetary assets and liabilities are denominated in Hong Kong dollars, and the Group conducted its business transactions principally in Hong Kong dollars. The exchange rate risk of the Group is not significant.

(c) Credit risk
Trade debtors of the Group are managed in accordance with the credit policies. The credit risk of the Group is not significant.

(d) Liquidity risk
The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank overdrafts and bank loans.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill
The Group tests whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

4. **SEGMENT INFORMATION**

Segment information about the Group's continuing operations is presented below. Segment information about the Group's discontinued operation is presented in note 8.

	Segment turnover Six months ended 30 June		**Segment results Six months ended 30 June**	
	2006	2005	**2006**	2005
	(Unaudited)	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited) (Restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
Property investment	**454**	552	**6,563**	6,375
Trading of jewellery	**–**	3,652	**(562)**	(10,571)
Trading of steel	**–**	86,597	**–**	1,585
Trading of wine	**1,480**	967	**(98)**	(405)
Artwork design	**–**	1,092	**(1,816)**	(12,767)
Trading of other products	**–**	28	**(49)**	(10,702)
Japanese restaurant	**7,955**	2,538	**524**	201
Trading of glass eel	**25,148**	–	**877**	–
	35,037	95,426	**5,439**	(26,284)
Unallocated income			**231**	3,360
Unallocated expenses			**(4,501)**	(9,275)
Profit/(loss) from operating activities			**1,169**	(32,199)

5. **OTHER REVENUE AND GAINS**

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited) (Restated)
	HK'000	*HK'000*
Other revenue		
Bank interest income	**97**	12
Dividend income	**3**	280
Others	**203**	1,906
	303	2,198
Gains		
Gain on disposal of investment properties	**–**	6,184
Gain on disposal of short term investments	**227**	188
Gain on disposal of subsidiaries	**–**	2,804
Fair value changes of investment properties	**(217)**	1,865
Negative goodwill arising on acquisition of subsidiaries	**6,600**	–
	6,610	11,041
	6,913	13,239

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities was determined after charging:

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation	**437**	1,223
Loss on disposal of property, plant and equipment		
- Continuing operations	**1,728**	–
- Discontinued operation	**–**	3
	1,728	3

7. TAX

Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profits for the Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profits tax		
Hong Kong Profits Tax	**1,721**	(64)
Deferred taxation	**(149)**	1,018
	1,572	954

8. DISCONTINUED OPERATION

On 30 May 2006, the Group disposed of its entire 100% interest in Profit Team Consultants Limited and its subsidiaries (the "Profit Team Group") and the shareholder's loan due from Profit Team Group at a consideration of HK$2. Profit Team Group principally engaged in skin and health care business.

The profit/(loss) from discontinued operation is analysed as follows:

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
		(Restated)
	HK$'000	*HK$'000*
Loss of skin and health care operation for the Period	**(27)**	(21,332)
Gain on disposal of skin and health care operation *(see note 11)*	**11,160**	–
	11,133	(21,332)

8. DISCONTINUED OPERATION *(continued)*

The results of the skin and health care operation for the period from 1 January 2006 to 30 May 2006 are as follows:

	Period ended 30.5.2006 (Unaudited)	Period ended 30.6.2005 (Unaudited) (Restated)
	HK$'000	*HK$'000*
Turnover	**–**	156
Cost of sales	**–**	(203)
Gross profit	**–**	(47)
Other revenue	**19**	167
Operating expenses	**(46)**	(222)
	(27)	(102)
Impairment of goodwill	**–**	(21,230)
	(27)	(21,332)
Net cash (used in)/generated from operating activities	**(68)**	263
Net cash generated from investing activities	**–**	3
Net cash generated from/(used in) financing activities	**64**	(230)
Total cash (outflow)/inflow	**(4)**	36

The carrying amounts of the assets and liabilities of Profit Team Group at the date of disposal are disclosed in note 11.

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the unaudited net profit/(loss) from ordinary activities attributable to shareholders of HK$10,350,000 (2005: Loss of HK$56,794,000) and the weighted average number of 7,642,568,583 (2005: 13,098,503,309) ordinary shares in issue during the Period, as adjusted to reflect the exercise of share options.

Diluted earnings/(loss) per share is not presented as there were no dilutive potential shares in issue during the six-month periods ended 30 June 2005 and 30 June 2006.

10. ACQUISITIONS OF SUBSIDIARIES

During the Period, the Group acquired 100% of the issued share capital of State Empire Limited.

The following summarises the effect of the acquisition:

	Carrying amount	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Investment properties	112,000	8,000	120,000
Property, plant and equipment	7	–	7
Utility deposits and other receivables	1,750	–	1,750
Bank balances and cash	2,502	–	2,502
Accrued liabilities and other payables	(1,986)	–	(1,986)
Deferred tax	(12,226)	(1,400)	(13,626)
	102,047	6,600	108,647
Negative goodwill arising on acquisition			(6,600)
Total consideration, satisfied by cash			102,047

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(102,047)
Cash and bank balances acquired	2,502
	(99,545)

11. DISPOSAL OF SUBSIDIARIES

As explained in note 8, on 30 May 2006, the Group discontinued its skin and health care operation at the time of the disposal of Profit Team Group.

The net liabilities of Profit Team Group at the date of disposal and as at 31 December 2005 are as follows:

	30.5.2006	31.12.2005
	HK$'000	*HK$'000*
Other receivables	**48**	48
Bank and cash balances	**2**	6
Accounts payable	**(4,278)**	(4,278)
Other payable and accruals	**(6,320)**	(6,353)
Amount due to fellow subsidiaries and holding company	**(12,487)**	(12,431)
Tax payable	**(23)**	(23)
	(23,058)	(23,031)
Assignment of amount due from subsidiaries	**11,898**	
	(11,160)	
Gain on disposal	**11,160**	
Total consideration	**–**	

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash consideration	–
Cash and bank balance disposed	(2)
	(2)

12. CAPITAL EXPENDITURE

The movements in investment properties and property, plant and equipment during the Period were summarised as follows:

	Investment properties (Unaudited)	**Property, plant and equipment (Unaudited)**
	HK$'000	***HK$'000***
Net book value as at 1 January 2006	33,170	3,956
Additions	4,207	658
Acquired on acquisition of subsidiaries	120,000	7
Fair value changes of investment properties	(217)	–
Disposal	(8,780)	(2,777)
Depreciation	–	(437)
Net book value as at 30 June 2006	148,380	1,407

Investment properties were revalued on 30 June 2006 by an independent firm of surveyors, Dudley Surveyors Limited, on an open market value basis.

13. TRADE RECEIVABLES

Trading terms with customers are largely on credit and credit periods range from 30 days to 150 days. Overdue balances are regularly reviewed by senior management.

The following is an aging analysis of trade receivables, net of provisions, at the balance sheet date based on the invoice date, which is when the goods are delivered and services are rendered.

	30 June 2006 (Unaudited) ***HK$'000***	31 December 2005 (Audited) *HK$'000*
Current to 3 months	**920**	3,781
3 to 6 months	**4**	72
Over 6 months	**–**	107
	924	3,960

14. TRADE PAYABLES

The following is an aging analysis of trade payables at the balance sheet date based on the date of the goods purchased and services rendered.

	30 June 2006 (Unaudited) ***HK$'000***	31 December 2005 (Audited) *HK$'000*
Current to 3 months	**1,382**	1,003
3 to 6 months	**104**	439
Over 6 months	**1,655**	5,841
	3,141	7,283

15. SHARE CAPITAL

	30 June 2006 (Unaudited) ***HK$'000***	31 December 2005 (Audited) *HK$'000*
Authorised:		
250,000,000,000 ordinary shares of HK$0.001 each (2005: 25,000,000,000 ordinary shares of HK$0.01 each)	**250,000**	250,000
500 convertible preference shares of HK$100,000 each (2005: 50 convertible perference shares of HK$1,000,000 each)	**50,000**	50,000
Issued and fully paid:		
4,080,545,466 ordinary shares of HK$0.001 each (2005: 13,601,818,226 ordinary shares of HK$0.01 each)	**4,081**	136,018

During the Period, the following movements in the Company's share capital were recorded:

(a) By a special resolution passed by the shareholders of the Company on 20 March 2006, the share capital of the Company reorganised as follows with effect from 20 March 2006:

(i) cancelled paid up capital to the extent of HK$0.0099 on each ordinary share of the Company so that the nominal value of each issued share was reduced from HK$0.01 to HK$0.0001 ("Capital Reduction");

15. **SHARE CAPITAL** *(continued)*

(ii) subdivided each of the authorised but unissued share of HK$0.01 into 100 ordinary shares of nominal value of HK$0.0001 each;

(iii) subdivided each of the authorised but unissued convertible preference share of the Company of HK$1,000,000 each into 100 convertible preference shares of nominal value of HK$10,000 each;

(iv) cancelled the entire amount standing to the credit of the share premium account of the Company as at 20 March 2006 ("Share Premium Reduction"); and

(v) transferred the credit arising from the Share Premium Reduction and the Capital Reduction to the contributed surplus account of the Company and applied the amount therein to set off against the Company's accumulated losses of HK$688,054,000 in accordance with the applicable laws, including the laws of Bermuda and the bye-laws of the Company.

(b) By an ordinary resolution passed by the shareholders of the Company on 20 March 2006, every 10 of the ordinary shares of the Company (both issued and unissued) of HK$0.0001 each were consolidated into one new share of HK$0.001 each and every 10 of the convertible preference shares of the Company of HK$10,000 each were consolidated into one new convertible perference share of HK$100,000 each ("Share Consolidation").

(c) On 25 April 2006, 2,720,363,644 ordinary shares ("Offer Shares") of HK$0.001 were issued at the price of HK$0.01 per share by way of open offer ("Open Offer") to the shareholders of the Company. The Offer Shares rank pari passu in all respects with the existing shares of the Company. The premium arose from the issue of the Offer Shares of approximately HK$24,483,000, net of share issuing expenses of approximately HK$1,212,000, was credited to the share premium account. The Company used the net proceeds from the Open Offer of approximately HK$25,992,000 for the Group's general working capital and settlement of consideration for acquisition of State Empire Limited.

A summary of the movements in the Company's share capital is presented as follows:

	Number of shares	*HK'000*
At 1 January 2006	13,601,818,226	136,018
Capital Reduction	–	(134,658)
	13,601,818,226	1,360
Share Consolidation	1,360,181,822	1,360
Open Offer	2,720,363,644	2,721
At 30 June 2006	4,080,545,466	4,081

16. **LEASE COMMITMENTS**

(a) As lessor

The Group leases its investment properties under operating lease arrangements with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits.

As at 30 June 2006, the Group had total future minimum lease receivable under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2006 (Unaudited) ***HK$'000***	31 December 2005 (Audited) *HK$'000*
Within one year	**4,535**	288
In the second to fifth years, inclusive	**1,578**	7
	6,113	295

16. LEASE COMMITMENTS *(continued)*

(b) As lessee

The Group leases certain properties under operating lease arrangements. These leases are negotiated for terms ranging from one to two years.

As at 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) *HK$'000*	31 December 2005 (Audited) *HK$'000*
Within one year	**2,075**	725
In the second to fifth years, inclusive	**2,034**	–
	4,109	725

17. RELATED PARTY TRANSACTIONS

(a) During the Period, an aggregate amount of HK$1,066,500 had been advanced to a wholly-owned subsidiary of the Company by the Directors in respect of expenditure incurred by the wholly-owned subsidiary. Such advances are unsecured, interest free and have no fixed repayment terms. As at 30 June 2006, such amounts remained unpaid and were included in accrued liabilities and other payables in the consolidated balance sheet.

The aforesaid directors had resigned as directors of the Company with effect from 1 June 2006.

(b) During the Period, amount of HK$51,000,000 had been advanced to the Company by Byford Group Limited in respect of the acquisition of 100% equity interest of State Empire Limited. Such advance is unsecured, interest free and has no fixed repayment terms. As at 30 June 2006, such amount remained unpaid and was included in accrued liabilities and other payables in the consolidated balance sheet.

Byford Group Limited had become a substantial shareholder of the Company on 9 August 2006 and was interested in 16.17% of the then issued share capital of the Company.

18. POST BALANCE SHEET EVENTS

(a) The Directors were informed by a non-wholly owned subsidiary of the Company that it had on 24 August 2006 agreed with the mortgagee bank of certain investment properties of the Group of an aggregate value of HK$6,500,000 that the bank would exercise its power of sale to dispose of the properties for settlement of outstanding indebtedness of that subsidiary. Provisional sale and purchase agreements were entered into subsequently. The Directors were not informed of the arrangement in advance while the Directors were still seeking opportunities to dispose of the properties. The Directors will liaise with the necessary parties for further information and will investigate into the matter.

(b) On 16 September 2006, the Group entered into a provisional sale and purchase agreement with an independent third party to dispose of the Right Emperor Commercial Building at a consideration of HK$159,800,000. The estimated profit on disposal before expenses was approximately HK$39,800,000.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with current Period's presentation.

20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the board of directors on 20 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group recorded for the Period a turnover of approximately HK$35.0 million (2005: HK$95.4 million) with net profit attributable to shareholders of approximately HK$10.4 million (2005: net loss of HK$56.8 million). Turnover has decreased by 63.3% as compared to that of the six months ended 30 June 2005 due to the deconsolidation of the results of Jafoon Limited and its subsidiaries ("Jafoon Group") with effect from 1 January 2005. Despite the decrease in turnover, the Group recorded a profit for the Period due to the gain derived from its property investment and the disposal of the skin and health care business and as a result of the satisfactory performance of the glass eel trading and the restaurant business.

Business review

Active steps were taken by the Directors since last year to restructure the Group's business, and the result of the restructuring was satisfactory. The Directors had allocated resources to develop business with stable profit and to acquire high quality asset, while disposing of and trimming down unsatisfactory business. As a result of the continuous effort of the Directors, it was the first time the Group recorded a profit after several loss-making years and the gearing position of the Group had improved during the Period.

During the Period, the Company had raised approximately HK$26 million by way of open offer in April 2006. The proceeds were used as general working capital of the Group and settlement of consideration for acquiring State Empire Limited in June 2006.

Property investment

On 19 June 2006, the Group has acquired State Empire Limited, an investment holding company holding the entire interests in Right Emperor Commercial Building. Right Emperor Commercial Building is a 24-storey commercial building situated in Central, Hong Kong. It was the intention of the Directors to hold the property as long-term investment as the property provided stable rental income to the Group. In September 2006, the Directors have resolved to dispose of Right Emperor Commercial Building. Details are stated in the paragraph "Prospects" below. Other than Right Emperor Commercial Building, the Group was also holding a few residential and commercial premises for long-term investment.

The Directors were informed by a non-wholly owned subsidiary of the Company that it had on 24 August 2006 agreed with the mortgagee bank of certain investment properties of the Group of an aggregate value of HK$6,500,000 that the bank would exercise its power of sale to dispose of the properties for settlement of outstanding indebtedness of that subsidiary. Provisional sale and purchase agreements were entered into subsequently. The Directors were not informed of the arrangement in advance while the Directors were still seeking opportunities to dispose of the properties. The Directors will liaise with the necessary parties for further information and will investigate into the matter.

Restaurant operation

The restaurant operation continued to contribute stable income and profit for the Group. The Group acquired the operation in April 2005. Innovative food variety and improving food quality enabled the Group to maintain a stable clientele during the Period. As the business became more stable after acquired by the Group, the Directors were confident of the future of the business and therefore the Group acquired a further 5% interests in Pacific Glory Limited, the holding company of the restaurant operation, in May 2006. The Group is now interested in 80% of the restaurant operation.

Trading of glass eel
The trading of glass eel business was still a growing and developing business of the Group. With the employment of experienced staff, the Group was able to achieve a turnover of approximately HK$25.1 million with a positive segment result of HK$877,000 in six months' time. The results of glass eel trading were subject to seasonal fluctuation as trading season usually started from October until April. After the Group had set up the business last year, the Group had dedicated resources to improve the environment of the packing station in order to increase the survival rate of young eels.

Skin and health care business
The Group discontinued its skin and health care business at the end of May 2006 as Mr. Kwok Ying Chuen ("Mr. Kwok") and Mr. Yu Won Kong, Dennis ("Mr. Yu") resigned from the board of directors of the Group and the subsidiaries. Despite the continuous effort of the Directors to maintain the skin and health care business in the past, there were no new business opportunities, but only increasing operating costs.

Trading of jewellery and other products and artwork design business
No turnover was recorded for the Period in relation to the trading of jewellery and other products and artwork design business of the Group. The profit margin of the jewellery trading business was getting slim and it was not able to attract new investment funding. On the other hand, no new business partner or alliance had shown interests to the artwork design business of the Group and therefore, without external funding, the Directors considered that the business was difficult to maintain.

Trading of steel
The results of Jafoon Group had been excluded from the consolidated financial statements of the Group since the audited result of the Group for the year ended 31 December 2005 due to the non-cooperation of the managerial level of Jafoon Group and the loss of control over Jafoon Group. As Mr. Kwok and Mr. Yu resigned in May 2006, the change of Board members even made the communication between the management of Jafoon Group and the Board more difficult during the preparation of the interim report for the Period. No financial information in relation to Jafoon Group had been provided to the Board since last year and therefore, the Board had no alternative but to exclude Jafoon Group's result from the Group's result for the Period.

Prospects
The Group's strategy of trimming and restructuring poorly performed operations since last year's interim period was proven to be satisfactory as reflected by the profit gained during the Period. As such, the Directors would continue to follow this strategy in the future. The Directors will also strengthen the management of its subsidiaries and the members of the Board as well as seeking new investors so as to cater for future expansion. In August 2006, Mr. Wong Ching Ping, Alex had become a new substantial shareholder of the Company and the Board had successfully invited Mr. Wong be the chairman of the Company. Mr. Wong will assist the Board in overviewing the business development and corporate restructuring of the Group's business in the future. The Group will continue to focus on stablising the profit of the Group's glass eel trading and its restaurant operation, and at the same time restructured those poorly performed business and Jafoon Group.

The Group has on 16 September 2006 entered into a provisional sale and purchase agreement to dispose of its entire interests in Right Emperor Commercial Building to an independent third party. Completion is expected to be on or before the end of this year. With the sale proceeds, the Group will improve its gearing position as well as develop new business in the future.

Financial information
The Group generally financed its operations by cash generated from operations, proceeds from issue of shares and banking facilities granted by its principal bankers.

As at 30 June 2006, the Group's gearing ratio was 0.18 (as at 31 December 2005: 0.51) (calculated on the basis of total bank and other borrowings over shareholders' funds). The decrease in the gearing ratio is attributable to the restructuring of the Group's business by disposing of the poorly performed skin and health care business.

The Group's total bank borrowings was approximately HK$13 million. The bank borrowings were secured by investment properties, guarantees granted by directors of certain subsidiaries and third party and properties owned by directors of certain subsidiaries.

Since the Group's core operation was in Hong Kong, it was expected that the Group had limited exposure to the fluctuation in exchange rates. Bank balances and borrowings were mainly denominated in Hong Kong dollars.

Employees and remuneration policy
As at the balance sheet date, the Group employed a work force of 54 (2005: 57) employees. The employee costs (excluding directors' emoluments) amounted to approximately HK$4.4 million (2005: HK$4.7 million). Employee remuneration was in accordance with individual's responsibility and performance. Staff benefits include contribution to Mandatory Provident Fund Scheme, share option scheme, medical allowances and other fringe benefits.

Capital structure
(a) By a special resolution passed by the shareholders of the Company on 20 March 2006, the share capital of the Company reorganised as follows:

(i) cancelled paid up capital to the extent of HK$0.0099 on each ordinary share of the Company so that the nominal value of each issued share was reduced from HK$0.01 to HK$0.0001 ("Capital Reduction");

(ii) subdivided each of the authorised but unissued share of HK$0.01 into 100 ordinary shares of nominal value of HK$0.0001 each;

(iii) subdivided each of the authorised but unissued convertible preference share of the Company of HK$1,000,000 each into 100 convertible preference shares of nominal value of HK$10,000 each;

(iv) cancelled the entire amount standing to the credit of the share premium account of the Company as at 20 March 2006 ("Share Premium Reduction"); and

(v) transferred the credit arising from the Share Premium Reduction and the Capital Reduction to the contributed surplus account of the Company and applied the amount therein to set off against the entire accumulated losses of the Company as from time to time.

(b) By an ordinary resolution passed by the shareholders of the Company on 20 March 2006, every 10 of the ordinary shares of the Company (both issued and unissued) of HK$0.0001 each were consolidated into one new share of HK$0.001 each and every 10 of the convertible preference shares of the Company of HK$10,000 each were consolidated into one new convertible preference share of HK$100,000 each.

(c) By an ordinary resolution passed by the shareholders of the Company on 20 March 2006, the issue by way of open offer of 2,720,363,644 offer shares of HK$0.001 each to the shareholders of the Company was approved.

Charge of assets
As at 30 June 2006, the Group's investment properties of HK$13 million were pledged as security for banking facilities.

INTERIM DIVIDEND

The Directors did not recommend the payment of an interim dividend for the Period (2005: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2006, none of the Directors or chief executives of the Company nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) as recorded in the register maintained by the Company, pursuant to Section 352 of the Securities and Futures Ordinance ("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 ("Model Code") of the Listing Rules.

SHARE OPTION SCHEME

The share option scheme (the "Scheme") of the Company was adopted on 28 January 2004. The purpose of the Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest. The key terms of the Scheme had been summarized under Note 32 of the Notes to Financial Statements from page 85 to 87 of our 2005 Annual Report published in April 2006.

At the annual general meeting of the Company held on 25 May 2006, an ordinary resolution was duly passed by the shareholders of the Company to refresh the limit in respect of the granting of share options under the Scheme up to 10% of the issued share capital of the Company as at 25 May 2006 ie. 408,054,546 shares.

There is no outstanding options remain un-exercised at the beginning and at the end of the Period. No options was granted, exercised, cancelled nor lapsed during the Period. As at 30 June 2006, the total number of shares available for issue under the Scheme was 408,054,546 shares which represented 10% of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, so far as is known to any Director or chief executive of the Company, the following persons or corporations (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or as otherwise notified to the Company were as follows:-

Long position in ordinary shares of the Company

Name of shareholder	Nature of interests	Number of ordinary shares held	Approximate percentage holding
Ample Glory Limited	Beneficial	617,829,573 *(note 1)*	15.14%
Mr. Kwok Ying Leung ("Mr. Kwok")	Interest in a controlled corporation	617,829,573 *(note 1)*	15.14%
Ms. Cheung Lai Sheung, Winnie ("Ms. Cheung")	Family	617,829,573 *(note 1)*	15.14%

Notes:

1. The 617,829,573 shares are held by Ample Glory Limited, a company wholly-owned by Mr. Kwok. Accordingly, Mr. Kwok is deemed to be interested in the 617,829,573 shares. Ms. Cheung, the spouse of Mr. Kwok, is also deemed to be interested in the 617,829,573 shares by virtue of the interest in such shares of her spouse. Both Mr. Kwok and Ms. Cheung do not hold any office in the Group and they are not directors nor chief executive of the Company and/or any of its subsidiaries or any associates of any of them.

Save as disclosed above, as at 30 June 2006, so far as is known to the Directors or chief executives of the Company, no other person or corporation (not being a Director or chief executive of the Company) had any interests or short positions in shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or as otherwise notified to the Company.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices
The Company has complied throughout the Period with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except with the following deviation:-

Code Provision A.2.1
This code stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company has appointed Mr. Wong Ching Ping, Alex as the Chairman and executive director of the Company with effect from 9 August 2006. Accordingly, Mr. Wong has assumed the responsibility to manage the Board and overview the strategic development of the Group. The day to day management of the Company's business is shared between the executive directors. The Company has not appointed chief executive officer but the executive role of managing the operations of the Group is mainly carried out by Mr. Wong Tak Chung, Andrew. The current Board constitution functions well within the Group and the Board will review its constitution to cope with the Group's future business development.

Code Provision A.4.1
This code stipulates that non-executive Directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive Directors of the Company is appointed for a specific term. However, in accordance with the provisions of the Bye-laws of the Company, any Director appointed by the Board during the year shall retire and offer himself for re-election at the next following annual general meeting following his appointment. Further, at each annual general meeting one-third of the Directors for the time being shall retire from office. The Board is of the opinion that the current practice of appointing non-executive Directors without specific term but otherwise subject to rotation and re-election by shareholders is fair and reasonable.

Code Provision A.4.2
This code stipulates that all Directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

At the annual general meeting of the Company held on 25 May 2006, a special resolution was passed to amend certain bye-laws of the Bye-laws of the Company, amongst which, bye-law 99(B) was amended and provides that every Director shall be subject to retirement at least every three years.

Code Provision A.4.2 has been fully complied with since 25 May 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company had adopted the code of conduct regarding securities transactions by Directors and senior executives on terms no less exacting than the required standard as set out in Appendix 10 of the Listing Rules – Model Code for Securities Transactions by Directors of Listed Issuers. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings and the code of conduct during the Period.

PURCHASES, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

By Order of the Board
Wong Ching Ping, Alex
Chairman

Hong Kong, 20 September 2006

Executive Directors
Mr. Wong Ching Ping, Alex
Mr. Wong Tak Chung, Andrew

Independent Non-executive Directors
Mr. Tso Hon Sai, Bosco
Ms. Hui Wai Man, Shirley
Mr. Tang Yiu Wing