亞洲資產（控股）有限公司
ASIAN CAPITAL RESOURCES (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8025

Interim Report **2008**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Asian Capital Resources (Holdings) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Asian Capital Resources (Holdings) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

As at the date of this report, the executive directors of the Company are Mr. Xie Xuan and Mr. Yang Qiulin; the non-executive director is Mr. Lo Mun Lam Raymond and the independent non-executive directors are Mr. Wu Jixue, Mr. Yang Zhenhong and Mr. Zhang Daorong.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") of Asian Capital Resources (Holdings) Limited (the "Company") present the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and six months ended 30 June 2008 together with the comparative figures for the corresponding periods in 2007 as follows:

		For the three months ended 30 June		For the six months ended 30 June	
		2008	2007	**2008**	2007
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**36,158**	50,177	**62,729**	91,368
Cost of services		**(33,122)**	(46,486)	**(56,236)**	(84,596)
Gross profit		**3,036**	3,691	**6,493**	6,772
Other revenue		**(366)**	(178)	**(240)**	(80)
Interest income		**4**	9	**12**	14
Staff costs		**(2,949)**	(3,269)	**(5,761)**	(7,194)
Operating lease rentals		**(775)**	(964)	**(1,559)**	(1,938)
Other operating expenses		**(1,602)**	(3,371)	**(4,112)**	(5,729)
Depreciation and amortization		**(134)**	(186)	**(292)**	(465)
Loss from operating activities		**(2,786)**	(4,268)	**(5,459)**	(8,620)
Finance costs		**(95)**	(189)	**(168)**	(355)
Loss before taxation		**(2,881)**	(4,457)	**(5,627)**	(8,975)
Taxation	*3*	**—**	—	**—**	—
Loss for the period		**(2,881)**	(4,457)	**(5,627)**	(8,975)
Attributable to:					
Equity holders of the Company		**(2,881)**	(4,457)	**(5,627)**	(8,975)
Minority interests		**—**	—	**—**	—
		(2,881)	(4,457)	**(5,627)**	(8,975)
Loss per share					
— Basic	*4*	**(0.45 cents)**	(0.79 cents)	**(0.88 cents)**	(1.74 cents)

CONSOLIDATED BALANCE SHEET

	Notes	**Unaudited As at 30 Jun 2008** *HK$'000*	Audited As at 31 Dec 2007 *HK$'000*
Non-current assets			
Property, plant and equipment		**1,039**	939
		1,039	939
Current assets			
Trade receivables	*5*	**16,737**	21,811
Other receivables		**12,576**	12,642
Cash and cash equivalents		**5,365**	2,658
		34,678	37,111
Current liabilities			
Bank overdraft - unsecured		**—**	(169)
Trade payables	*6*	**(27,739)**	(26,833)
Other payables		**(13,743)**	(16,494)
Obligations under finance leases		**(16)**	(40)
		(41,498)	(43,536)
Net current assets/(liabilities)		**(6,820)**	(6,425)
Total assets less current liabilities		**(5,781)**	(5,486)

	Unaudited As at 30 Jun 2008 *HK$'000*	Audited As at 31 Dec 2007 *HK$'000*
Non-current liabilities		
Amount due to a director	**(6,256)**	(6,256)
Amount due to ultimate holding company	**(9,089)**	(4,552)
	(15,345)	(10,808)
Net (liabilities)/assets	**(21,126)**	(16,294)
Capital and reserves		
Share capital	**63,933**	63,933
Reserves	**(85,876)**	(81,044)
(Deficit)/Equity attributable to shareholders of the Company	**(21,943)**	(17,111)
Minority interests	**817**	817
Total (deficit)/equity	**(21,126)**	(16,294)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited Consolidated Statement of Changes in Equity for the six months ended 30 June 2008 and the six months ended 30 June 2007:

	Attributable to equity holders of the Company							
	Share capital	Share premium	Capital reserves	Translation reserve	Accumulated losses	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2007	47,624	87,707	26,020	(93)	(183,148)	(21,890)	817	(21,073)
Movement for the period	9,100	—	(3,295)	(147)	(8,975)	(3,317)	—	(3,317)
As at 30 June 2007	56,724	87,707	22,725	(240)	(192,123)	(25,207)	817	(24,390)
As at 1 January 2008	63,933	97,008	26,020	(775)	(203,297)	(17,111)	817	(16,294)
Movement for the period	—	—	1,018	(223)	(5,627)	(4,832)	—	(4,832)
As at 30 June 2008	63,933	97,008	27,038	(998)	(208,924)	(21,943)	817	(21,126)

UNAUDITED CONSOLIDATED CASHFLOW STATEMENT

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Net cash (outflow) from operating activities	**(2,245)**	(10,307)
Net cash inflow/(outflow) from investing activities	**830**	(3,941)
Net cash (outflow) before financing activities	**(1,415)**	(14,248)
Net cash inflow from financing activities	**4,345**	11,810
Increase/(Decrease) in cash and cash equivalents	**2,930**	(2,438)
Cash and cash equivalents at 1 January	**2,658**	6,237
Effect of foreign exchange rate changes	**(223)**	(147)
Cash and cash equivalents at 30 June	**5,365**	3,652
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**5,365**	3,652

Notes:

1. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA"), and accounting principles general accepted in Hong Kong and the GEM Listing Rules. The principal accounting policies adopted in preparing these financial statements are consistent with those followed in the Group's annual audited consolidated financial statements for the year ended 31 December 2007.

2. TURNOVER

The Group's turnover represents the invoiced value of (1) project fees from the provision of project consultancy services; (2) distribution fees from the provision of content information; (3) service fees from the provision of internet solution services; and (4) service fees from the provision of logistics services and excludes intra-Group transactions as follows:

	For the three months ended 30 June		**For the six months ended 30 June**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Content solution service				
— project fees	**—**	51	**—**	102
— distribution fees	**—**	193	**27**	383
Internet solution service fees	**—**	(3)	**—**	13
Logistics service fees	**36,158**	49,936	**62,702**	90,870
Total turnover	**36,158**	50,177	**62,729**	91,368

(a) Business segments

	Content solution 2008	Content solution 2007	IT enabling technology 2008	IT enabling technology 2007	Logistics services 2008	Logistics services 2007	Others 2008	Others 2007	Total 2008	Total 2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER										
Sales to external customers	**27**	485	**—**	13	**62,702**	90,870	**—**	—	**62,729**	91,368
RESULT										
Segment results	**8**	296	**(3)**	(13)	**448**	(5,662)	**—**	—	**453**	(5,379)
Interest income									**12**	14
Unallocated expenses									**(5,924)**	(3,255)
Loss from operating activities									**(5,459)**	(8,620)
Finance costs									**(168)**	(355)
Loss before taxation									**(5,627)**	(8,975)
Taxation									**—**	—
Loss for the period									**(5,627)**	(8,975)
Depreciation and amortisation	**—**	37	**—**	3	**183**	272	**109**	153	**292**	465

(b) Geographical segments

	Six months ended 30 June 2008	Six months ended 30 June 2007
	HK$'000	*HK$'000*
Turnover		
Hong Kong	**27**	498
The PRC	**62,702**	90,870
	62,729	91,368

3. TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong profits tax	**—**	—	**—**	—
PRC income tax	**—**	—	**—**	—
	—	—	**—**	—

No Hong Kong profits tax and PRC income tax has been provided for the six months ended 30 June 2008 as the Group has no assessable profit for the period.

4. LOSS PER SHARE

The calculation of basic loss per share for the three months and six months ended 30 June 2008 is based on the net loss from ordinary activities attributable to shareholders of approximately HK$2,881,000 (2007: HK$4,457,000) and HK$5,627,000 (2007: HK$8,975,000) and the weighted average number of ordinary shares of approximately 639,335,418 (2007: 516,175,934) during the periods.

5. TRADE AND OTHER RECEIVABLES

	As at 30 June 2008	As at 31 December 2007
	HK$'000	*HK$'000*
Ageing analysis of the Group's receivable as at 30 June 2008 is as follows:		
0 to 30 days	**9,547**	3,947
31 to 60 days	**4,286**	1,708
61 to 90 days	**1,021**	452
91 to 150 days	**809**	1,278
Over 150 days	**7,117**	20,469
	22,780	27,854
Less: Impairment losses	**6,043**	6,043
	16,737	21,811

6. TRADE AND OTHER PAYABLES

	As at 30 June 2008 *HK$'000*	As at 31 December 2007 *HK$'000*
Ageing analysis of the Group's payable as at 30 June 2008 is as follows:		
0 to 30 days	**9,953**	2,871
31 to 60 days	**5,415**	1,396
61 to 90 days	**1,836**	552
91 to 150 days	**897**	728
Over 150 days	**9,638**	21,286
	27,739	26,833

DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 30 June 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and loss attributable to shareholders

The total turnover of the Group for the six months ended 30 June 2008 was approximately HK$62,729,000 (2007: HK$91,368,000) which was decreased by approximately 31% as compared to that of the previous financial year. The Board noticed one of the significant reasons for the decrease in the total turnover of the Group was a result of the severe weather conditions and natural disasters in the PRC, the poor global economic outlook and global increases in the cost of oil during the period which affected the entire transportation industry in the PRC. This factor, in turn, led to a reduction in the turnover achieved from the logistics division of the Group.

The Group's gross profit margin is increased from 7.41% for the six months ended 30 June 2007 to 10.35% for the current period. The increase in gross profit margin is due to the closure of the non-profitable operations in Hong Kong and the USA.

The unaudited consolidated loss from operations for the six months ended 30 June 2008 was approximately HK$5,627,000, which was significantly reduced as compared with the corresponding period last year, HK$8,975,000. It was mainly due to the increase in gross profit margin and reduction in staff costs and other administrative expenses of the Group.

Financial cost

The financial cost of the Group for the six months ended 30 June 2008 was approximately HK$168,000 (2007: HK$355,000) which was decreased by approximately 53% as compared to that of the same period of last year.

Liquidity, financial resources and capital structure

For the six months ended 30 June 2008, the Group's borrowing consists of a loan from the ultimate holding company of HK$9,089,000. The Group had a cash balance of approximately HK$5,365,000 (2007: HK$3,652,000).

The Group continues to adopt a prudent treasury policy to maintain its cash balance either in Hong Kong Dollars, or in the local currencies of the operating subsidiaries, maintaining a minimum exposure to foreign exchange risks.

The issued share capital of the Group for the six months ended 30 June 2008 has increased from HK$56,724,000 to HK$63,933,000 as compared with that for the same period last year.

Gearing Ratio

For the six months ended 30 June 2008, the gearing ratio of the Group, expressed as a percentage of total borrowings over total assets, was 25.49% (2007: 21.82%).

Employee and remuneration policies

For the six months ended 30 June 2008, the Group employed a total of 164 employees (as at 30 June 2007: 161), of which 10 were located in Hong Kong and the remaining 154 were located in the PRC. The Group's remuneration policies are in line with the prevailing market practices and formulated on the basis of performance and experience of the employees. The salary and related benefits of the employees are rewarded on a performance related basis and the general remuneration structure of the Group is subject to review annually.

Material acquisitions and disposals of subsidiaries and affiliated companies

Acquisition of a Media Company

On 11 January 2008, the Board announced that the Company entered into an agreement pursuant to which the Company conditionally agreed to purchase the 100% equity interest of a media company in the PRC at the consideration of HK$157 million (the "Consideration"). The Consideration shall be financed by (i) the issue and allotment of 324,082,568 new Shares at HK$0.218 per Consideration Share; and (ii) the issue in aggregate of HK$86,350,000 of zero-coupon Convertible Notes convertible at the initial Conversion Price of HK$0.218 per Share with 24-month maturity. Details of the purchase are set out in the circular of the Company dated 28 February 2008.

The acquisition was approved by the independent shareholders by way of poll at the EGM held on 14 March 2008. Details are set out in the announcement dated 14 March 2008.

On 20 June 2008 the Company issued a further disclosure announcement whereby it announced that the Company and the Vendors have agreed that it is highly unlikely that the Acquisition will be completed by 24 June 2008, being six months from the date of the execution of the Agreement, as all the conditions precedent set out in clause 8 of the Agreement, and restated on page 13 of the Circular, have not been fulfilled. Therefore, pursuant to clause 9 of the Agreement, the Company and the Vendors entered into a supplemental agreement on 20 June 2008 whereby the Company and the Vendors agreed to extend the closing period for the completion of the Acquisition to 24 September 2008.

Material Litigation and Contingent Liabilities

As at 30 June 2008 the Directors consider that the Group is not involved in any material litigation nor is it exposed to any contingent liabilities of material significance.

OPERATIONAL REVIEW

During the period under review, the Group continued its focuses on core business in logistics services and information technology. The Group continues to explore investment opportunities which are strategic to the Group's business operations and which will contribute significantly to the return of the Company's shareholders.

The Company has a sufficient level of operations in logistics services and has sufficient assets to operate its business as a going concern. Currently, the Company does not have any financial difficulties to an extent which may seriously impair the Company's ability to continue its business. The Company also has sufficient assets to operate its business due to the continuing support of the major shareholder of the Company. Furthermore, as set out in the section "Material acquisitions and disposals of subsidiaries and affiliated companies", above, the Company resolved and was given approval by the independent shareholders on 14 March 2008 to acquire the 100% equity interest of a media company in the PRC at the consideration of HK$157 million (the "Acquisition"). The Directors estimate that the Acquisition will generate sufficient working capital to support the Company's operations as a going concern.

The Company shall continue to focus its efforts in building up its profits through the logistics services, information technology and corporate finance businesses by way of achieving further expansion, and anticipates the coming year will provide exciting opportunities for the Group. In particular the Directors are of the view that the Acquisition presents an exciting opportunity for the Group to expand its existing business structure and provides an opportunity to enlarge the revenue base of the Group, particularly in the information technology sector, with regards to the provision of internet protocol television services to the southern China region, and the returns that can be generated therefrom.

The Board continues the process of reviewing all the operations of the Group to ensure that the returns from those operations can be justified. The Board intends to dispose of all non-profitable operations within the Group. Furthermore, the Board will continue to strive to reduce the operating costs of the Group, and is aiming towards achieving profitability from all of the divisions within the Group.

Performance of operating divisions

Logistics Services

Notwithstanding the management's efforts in rationalizing the Group's operations and enhancing the Group's cost efficiency during the period, the aim to attain profitability is yet to be achieved. In the year ahead, the Group will continue to strengthen its ability to meet the growing demand for quality logistics services and allocate sufficient resources to develop the high potential of the PRC market.

Considering the importance of the business and the issues encountered by the Group during the period in respect of its logistics operations, the management of the Company has put a great deal of effort into improving the operation and control of the logistics division through the division's branches and subsidiaries. The effort includes but is not limited to increasing marketing efforts, widening, improving efficiency of the Group's logistics services including freight forwarding services and keeping tighter control on the accounting records. With continued efforts of the management, the Company will continue to increase quality clients for the coming year, leading to an increasing contribution to the Group.

Unfortunately, the severe weather conditions and other natural disasters in the PRC, combined with the poor global economic outlook and the global rise in the cost of oil in the early part of the period under review have had a significant impact on the total turnover that has been achieved from the logistics division. Furthermore, coupled with the rising costs of oil, and the general downturn in the worldwide economy, the Directors believe the negative impact on the logistics division will have an enduring effect for the year to come. These negative influences have affected the entire transportation sector in the PRC.

Information Technology

The Directors have been seeking investment opportunities to broaden the Group's income base and to expand the Group's existing business operations from the information technology division. The Board has considered the following factors, including, but not limited to, the Group's existing investments in the information technology division, and the returns that are currently achieved therefrom. The Board has reviewed the terms of the agreement dated 24 December 2007, as set out in the circular of the Company dated 28 February 2008, and is satisfied that the proposed Acquisition is in line with its existing information technology platform and will provide a basis for the expansion of this platform in the area of the provision of internet protocol television services to the southern China region. The Acquisition presents an exciting opportunity for the Group to expand its existing business structure and to enlarge the revenue base of the Group derived from the information technology division.

Financial Consultancy

The Group has decided to explore further opportunities for development in the corporate finance sector. Hence the acquisition of Vega International Group Limited ("Vega"), which is principally engaged in the provision of services in corporate finance and investment, project planning and development, technology project brokerage services, corporate development services, management consulting and post-acquisition advisory and professional management services. The Directors consider that the acquisition represents a good attempt to expand its existing business portfolio into the area of corporate finance and development, and provides opportunities for the Group to expand its existing businesses. The Group is now in the process of negotiating a number of contracts for the provision of financial consultancy services by Vega with companies in the southern China region. In terms of these consultancy services, they will be negotiated in the normal course of business and shareholders will be kept informed of this division as it progresses.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, none of the Directors and the chief executive of the Company had registered an interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER THE SFO

As at 30 June 2008, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity	Nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Asian Dynamics International Limited *(Note 1)*	Beneficial Owner	Corporate	327,685,431	51.25%
Aldgate Agents Limited *(Note 2)*	Beneficial Owner	Corporate	66,120,000	10.34%
Mongolia Energy Corporation Limited	Interest of a controlled corporation	Corporate	66,120,000	10.34%
Bonus Gain Limited	Beneficial Owner	Corporate	35,860,262	5.61%

Notes:

1. Asian Dynamics International Limited is a company incorporated in the British Virgin Islands and beneficially owned by Asian Wealth Incorporated, Denwell Enterprises Limited, Glamour House Limited, Mr. Chan Chi Ming and Mr. Chau Tak Tin.

2. Aldgate Agents Limited is a wholly owned subsidiary of Mongolia Energy Corporation Limited, previously known as New World Cyberbase Limited, a company listed on the Stock Exchange (stock code 276). Their interests in the shares of the Company duplicate with each other.

Save as disclosed above, as at 30 June 2008, no persons, other than the Directors and chief executive of the Company, whose interests are set out under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in any shares, underlying shares or debentures of the Company that was required to be recorded under Section 336 of the SFO.

COMPETING INTERESTS

None of the Directors or management shareholders of the Company or their respective associates had an interest in a business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

MANAGEMENT SHAREHOLDER

As far as the Directors are aware of, other than Asian Dynamics International Limited, Mongolia Energy Corporation Limited, Aldgate Agents Limited, and Bonus Gain Limited, as disclosed above, there was no other person during the six months ended 30 June 2008 who was directly or indirectly interested in 5% or more of the shares then in issue of the Company and who was able, as a practicable matter, to direct or influence the management of the Company.

SHARE OPTIONS

For the six months ended 30 June 2008, there are outstanding 97,840,073 ordinary shares of HK$0.10 each in the capital of the Company ("the Option Share(s)") granted by the Company and fall to be issued upon exercise of the Option Shares at the exercise price of HK$0.275 per Option Share.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2008.

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board recognizes that such commitment is essential in upholding the accountability and transparency and to achieve a balance of interests between the shareholders, customers, creditors, employees as well as other stakeholders.

To ensure compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 to the GEM Listing Rules, the Board will continue to monitor and revise the Company Code to bring our corporate governance practices in line with the changes in the environment and requirements of the Code.

In the opinion of the Directors, the Company has complied with all the provisions of the Code for the six months ended 30 June 2008, except:

(i) under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company has set out in written terms the responsibilities between the chairman and chief executive officer. However, Mr. Ho Wing Yiu resigned as the chief executive officer with effect from 7 December 2006. Hence Mr. Xie Xuan, chairman of the Company, takes up the responsibilities of the chief executive officer until a replacement for the chief executive officer is found. The Company considers that under the supervision of its Board and its Independent Non-executive Directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

(ii) under code provision A.4.1 of the Code, 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 are appointed for a specific term. This constitutes a deviation from the code provision. However, all the Non-executive Directors of the Company are subject to retirement by rotation at annual general meetings pursuant to the articles of association of the Company.

(iii) under code provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting to answer questions at the annual general meeting. The Chairman of the Company, Mr. Xie Xuan, had not attended the Company's annual general meeting for 2008 due to other business commitments.

Breach of the GEM Listing Rules

Breach of Rule 18.51 of the GEM Listing Rules: Warning Letter

On 17 June 2008 the GEM Listing Division concluded that the Company had breached Rule 18.51 of the GEM Listing Rules by failing to disclose in the Company's final results announcement for the year ended 31 December 2007 the modified auditor's report relating to the fundamental uncertainty which was later disclosed in the company's annual report for the year ended 31 December 2007 (the "Breach").

Given the facts of the case, the GEM Listing Division decided to refrain from taking formal action in respect of the Breach. In coming to the decision, the Listing Division noted that the Company's auditors conceded that an omission on their part caused the Breach. This factor together with the otherwise good compliance record of the Company was significant in the Listing Divisions decision to dispose of the case by way of issuing a warning letter to the Directors. The Directors have recognized the findings of the Listing Division and will endeavour in future to seek legal and compliance advice in handling similar transactions.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors.

The Company has made specific enquiry of all Directors and the Directors have confirmed that they have complied with all the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the six months ended 30 June 2008.

AUDIT COMMITTEE

In compliance with Rule 5.28 of the GEM Listing Rules, the Company has established an audit committee comprising independent non-executive Directors, namely Mr. Zhang Daorong, Mr. Wu Jixue and Mr. Yang Zhenhong and has adopted terms of reference governing the authorities and duties of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

On behalf of the Board
Xie Xuan
Chairman

Hong Kong, 7 August 2008