Artel Group
宏 通 集 團

ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
宏 通 集 團 控 股 有 限 公 司

INTERIM REPORT 2005
二零零五年中期報告

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INDEPENDENT REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

Introduction

We have been instructed by Artel Solutions Group Holdings Limited to review the interim financial report set out on pages 3 to 15.

Directors' responsibilities

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

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

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June, 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 23 September 2005

The board of directors (the "Board") of Artel Solutions Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 (the "period") together with the comparative figures for the previous corresponding period prepared in accordance with generally accepted accounting principles in Hong Kong.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**Six months ended 30 June** **2005** **HK$'000** **(Unaudited)**	2004 HK$'000 (Unaudited)
Turnover	3	**853,792**	830,283
Cost of sales		**(811,408)**	(785,023)
Gross profit		**42,384**	45,260
Other operating income		**6,381**	2,891
Distribution costs		**(3,010)**	(4,288)
Administrative expenses		**(13,390)**	(16,372)
Profit from operations	4	**32,365**	27,491
Finance costs		**(9,190)**	(6,046)
Share of results of associates		**13**	–
Impairment loss recognised in respect of goodwill of associates	5	**(10,605)**	–
Profit before taxation		**12,583**	21,445
Taxation	6	**(4,185)**	(398)
Profit for the period attributable to equity shareholders of the Company		**8,398**	21,047
Dividends	7	**–**	7,200
Earnings per share (HK cents)			
Basic	8	**0.5**	1.3
Diluted	8	**0.5**	1.3

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**30 June 2005 HK$'000 (Unaudited)**	31 December 2004 HK$'000 (Audited)
Non-current assets			
Plant and equipment		**9,995**	11,353
Interests in associates		**4,935**	14,653
		14,930	26,006
Current assets			
Inventories		**319,425**	361,288
Trade receivables, prepayments and deposits	9	**523,116**	452,473
Taxation recoverable		**7,081**	10,532
Pledged bank deposits	12	**88,956**	67,493
Bank balances and cash		**8,382**	50,753
		946,960	942,539
Current liabilities			
Trade payables, sales deposits and accrued charges	10	**87,339**	97,839
Bank overdrafts and short-term bank borrowings	11	**397,329**	387,487
Derivative financial instruments		**271**	–
		484,939	485,326
Net current assets		**462,021**	457,213
Total assets less current liabilities		**476,951**	483,219
Capital and reserves			
Share capital		**16,000**	16,000
Reserves		**444,251**	435,853
Equity attributable to equity shareholders of the Company		**460,251**	451,853
Non-current liabilities			
Long-term bank borrowings	11	**15,400**	30,800
Deferred taxation		**1,300**	566
		16,700	31,366
		476,951	483,219

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2004 (Audited)	16,000	122,357	9,370	278,104	425,831
Profit for the period	–	–	–	21,047	21,047
At 30 June 2004 (Unaudited)	16,000	122,357	9,370	299,151	446,878
2004 interim dividend paid	–	–	–	(7,200)	(7,200)
Profit for the period	–	–	–	12,175	12,175
At 31 December 2004 (Audited)	16,000	122,357	9,370	304,126	451,853
Profit for the period	–	–	–	8,398	8,398
At 30 June 2005 (Unaudited)	**16,000**	**122,357**	**9,370**	**312,524**	**460,251**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities		
Cash used in operations	**(8,382)**	(185,098)
Tax paid	**–**	(1,595)
Interest paid	**(9,110)**	(5,635)
	(17,492)	(192,328)
Net cash (used in) from investing activities		
Increase in pledged bank deposits	**(21,463)**	(12,631)
Acquisition of associates	**–**	(15,000)
Other investing cash flows	**1,874**	207
	(19,589)	(27,424)
Net cash (used in) from financing activities		
Net (decrease) increase in bank borrowings	**(5,022)**	180,120
	(5,022)	180,120
Net decrease in cash and cash equivalents	**(42,103)**	(39,632)
Cash and cash equivalents at beginning of the period	**50,485**	81,561
Cash and cash equivalents at end of the period, representing bank balances and cash	**8,382**	41,929

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair value.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2004 except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005.

The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied restrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for current or prior accounting periods are prepared and presented.

Business combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" and the principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised/amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously included in interests in associates, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated. The application of HKFRS 3 has had no significant impact to the Group's financial statements.

Share-based payment

In the current period, the Group has applied HKFRS 2 "Share-based Payment", which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors', employees' and other participants' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. Because there were no unvested share options at 1 January 2005, the application of HKFRS 2 has had no impact to the results of the Group in the current or prior periods.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no impact on the presentation of financial instruments in the Group's financial statements. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit and loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The application of HKAS 39 has had no material effect on the recognition and measurement of financial assets and financial liabilities of the Group.

Derivatives and hedging

By 31 December 2004, the Group's derivative financial instruments, mainly comprised interest rate and currency swaps were used to manage the Group's exposure to interest rate and currency fluctuations. The derivatives were previously recorded off balance sheet except for the net interest settlement of the interest rate and currency swaps, which were previously accounted for on an accrual basis.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The gain or loss on changes in fair value is recognised in the income statement unless the derivative financial instruments qualified for hedge accounting. The interest rate and currency swaps are deemed as held for trading, change in fair values of such derivatives are recognised in the income statement for the period in which they arise.

As the difference between the previous carrying amount recognised on the balance sheet and fair value on 1 January 2005 is immaterial, therefore no adjustment is made to the Group's accumulated profits as at 1 January 2005.

The Group has not early applied the following new Standards or Interpretations ("Int") that have been issued but are not yet effective. The directors anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

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
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. Segment information

Business segments

The Group's primary format for reporting segment information is business segments:

Six months ended 30 June 2005:

	Distribution of computer components and information technology products HK$'000 (Unaudited)	Provision of integrated e-enabling solutions HK$'000 (Unaudited)	Consolidated HK$'000 (Unaudited)
TURNOVER			
External sales	**823,736**	**30,056**	**853,792**
SEGMENT RESULT	**23,341**	**4,539**	**27,880**
Other operating income			**6,381**
Unallocated corporate expenses			**(1,896)**
Profit from operations			**32,365**
Finance costs			**(9,190)**
Share of results of associates			**13**
Impairment loss recognised in respect of goodwill of associates			**(10,605)**
Profit before taxation			**12,583**
Taxation			**(4,185)**
Profit for the period attributable to equity shareholders of the Company			**8,398**

Six months ended 30 June 2004:

	Distribution of computer components and information technology products HK$'000 (Unaudited)	Provision of integrated e-enabling solutions HK$'000 (Unaudited)	Consolidated HK$'000 (Unaudited)
TURNOVER			
External sales	803,445	26,838	830,283
SEGMENT RESULT	27,563	804	28,367
Other operating income			2,891
Unallocated corporate expenses			(3,767)
Profit from operations			27,491
Finance costs			(6,046)
Profit before taxation			21,445
Taxation			(398)
Profit for the period attributable to equity shareholders of the Company			21,047

Geographical segments

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Turnover by geographical market		
The People's Republic of China (the "PRC")	**701,128**	519,236
Hong Kong	**152,664**	311,047
	853,792	830,283

4. Profit from operations

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit from operations has been arrived at after charging (crediting):		
Allowance for inventories	**10,379**	–
Depreciation of plant and equipment	**1,485**	513
Interest income	**(2,906)**	(301)
Share of tax of associates included in share of results of associates	**4**	–

5. Impairment loss recognised in respect of goodwill of associates

Due to the changes in current market condition and probable future volatility, the Group has taken a prudent step to revise its cash flow forecasts for the associates. The goodwill included in interests in associates has therefore been reduced to its estimated recoverable amount through recognition of an impairment loss of HK$10,605,000.

The recoverable amount of the goodwill included in interests in associates are determined from value in use calculations.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management. The rate used in discounting the forecast cash flows from the associates is 5.2%.

6. Taxation

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
The charge comprises:		
Hong Kong Profits Tax:		
Current year	**3,451**	398
Deferred tax	**734**	–
Taxation attributable to the Company and its subsidiaries	**4,185**	398

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the period.

No provision for taxation has been made in respect of the Company's subsidiaries operating in other jurisdictions as they did not have assessable profits for both periods.

7. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: HK0.45 cent per share).

8. Earnings per share

The calculation of the basic earnings per share for the period is based on the net profit for the period of HK$8,398,000 (2004: HK$21,047,000) and on the 1,600,000,000 (2004: 1,600,000,000) shares in issue.

The calculation of the diluted earnings per share is the based on the net profit for the period of HK$8,398,000 (2004: HK$21,047,000) and on the 1,600,000,000 (2004: weight average of 1,606,283,400) shares in issue and issuable on the assumption that the outstanding options are exercised on the date on which they are granted.

The computation of diluted earnings per share in 2005 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during the period.

9. Trade receivables, prepayments and deposits

The credit terms of the Group range from 30 to 180 days. The aged analysis of trade receivables at the reporting date is as follows:

	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Audited)
Aged:		
0 to 30 days	**102,797**	114,548
31 to 60 days	**123,640**	62,355
61 to 90 days	**87,312**	65,310
91 to 180 days	**206,894**	207,238
Total trade receivables	**520,643**	449,451
Prepayments, deposits and other receivables	**2,473**	3,022
	523,116	452,473

10. Trade payables, sales deposits and accrued charges

The aged analysis of trade payables at the reporting date is as follows:

	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Audited)
Aged:		
0 to 30 days	**81,308**	88,480
31 to 60 days	**–**	–
61 to 90 days	**–**	–
over 90 days	**1,007**	561
Total trade payables	**82,315**	89,041
Sales deposits	**89**	3,483
Accrued charges	**4,935**	5,315
	87,339	97,839

11. Bank overdrafts and bank borrowings

	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Audited)
Bank borrowings	**412,729**	418,019
Bank overdrafts	**–**	268
	412,729	418,287
Less: Amount due within one year included under current liabilities	**(397,329)**	(387,487)
Amount due after one year	**15,400**	30,800
Secured	**276,424**	350,622
Unsecured	**136,305**	67,665
	412,729	418,287

12. Pledge of assets

In accordance with the terms of the distribution agreement entered into between the Group and a major supplier, the Group has granted the major supplier a security interest in the inventories supplied and in any proceeds (including trade receivables) as security for any outstanding amount due by the Group. The aggregate amount of relevant assets pledged at the balance sheet date is as follows:

	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Audited)
Assets pledged	**83,380**	77,748

In addition, the Group's bank deposits at the balance sheet date pledged to bankers to secure certain banking facilities are as follows:

	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Audited)
Bank deposits pledged	**88,956**	67,493

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months ended 30 June 2005, the Group's turnover rose 3% to HK$854 million while net profit dropped 60% to HK$8.4 million.

During the period under review, distribution of central processing units ("CPU") was still the Group's main revenue. Together with other computer components, these products contributed 96% of our total turnover. The provision of integrated e-enabling solutions business accounted for the other 4%.

As distribution of Intel's CPU is the Group's main business, we always pay heed to the results and contribution of this core business. In the first half of 2005, it was hardly to boost the sales of CPU. Nevertheless, despite the adverse situation, the Group still achieved a similar takings as last corresponding period in this category. A steady turnover was recorded with a slight increase from HK$803 million to HK$824 million for the period under review.

In retrospect, there was an over-supply of thin film transistor liquid crystal display ("LCD") panels in 2004. Prices were dwindling throughout the year and we were able to procure enough LCD panels for our business. On the contrary, during the reviewed period, the supply of LCD panels was relatively tight and as a result we were far from easy to get sufficient LCD panels for distribution. Moreover, coupled with price competition in the Mainland China, revenue from LCD products was to some extent affected and dropped 28% to HK$88 million.

Provision of integrated e-enabling solutions is the Group's fast-growing business, including Digital Home and Digital Enterprise solutions just penetrated into the Mainland China. Its turnover grew 12% for the reporting six-month period. To support the solutions business, we have set up 17 customer service centers and strategically located them in different major cities in the Mainland China. These service centers directly provide technical solutions to business and individual customers. Their proximity to major cities of the Mainland China also drives up our market share and customer base, which in turn helps boost the sales of computer components.

The Group has been constantly reviewing the distribution processes and procedures, and maintaining an optimum inventory level to achieve favourable order fill rates. During the period under review, with the similar turnover level, we were able to cut down our inventory level by 7% at the period end. This achievement helped reduce relevant operating costs, such as inventory insurance and warehouse rent.

The Group acquired 30% of issued share capital of a well-established logistics company in Hong Kong in June 2004. This investment paid off as we have been fully utilising the logistics facilities of this associated company. The Group's distribution costs were considerably lower under the reviewed period and the cost reduction directly improved the overall operating margins.

Financial review

The Group's turnover for the six months ended 30 June 2005 amounted to HK$854 million, increased 3% when comparing with last year's HK$830 million. CPU and other computer components sales increased 3% to HK$824 million while revenue from provision of integrated e-enabling solutions rose 12% to HK$30 million.

The Group's gross margin recorded a decrease from 5.5% to 5.0% for the six months ended 30 June 2005.

The Group successfully implemented effective cost control measures. Compared with last corresponding period, the distribution costs and administrative expenses for the reporting period were HK$4 million less.

During the period under review, the Group entered into several forward contracts and recorded an income of HK$3 million.

The savings in operating costs and gain on forward contracts improved the overall operating profit. However, the advancement in operating profit was offset. Due to the changes in current market condition and probable future volatility, the Group has taken a prudent step to revise its cash flow forecasts for the associates. The goodwill included in interests in associates has therefore been reduced to its estimated recoverable amount through recognition of an impairment loss of HK$10.6 million. As a result, net profit for the period was down 60% to HK$8.4 million and net margin decreased from 2.5% to 1.0%.

Interest rate has been increasing since second quarter of 2005. During the reviewed period, finance costs were inevitably affected and increased by HK$3 million.

Liquidity and financial resources

The Group's current assets and current liabilities as at 30 June 2005 were HK$947 million and HK$485 million, respectively (31 December 2004: HK$943 million and HK$485 million, respectively). The current ratio was 2.0 as at 30 June 2005, which was almost the same as the ratio as at 31 December 2004.

As at 30 June 2005, the Group's cash and bank deposits, including pledged bank deposits, amounted to HK$97 million (31 December 2004: HK$118 million). Total utilised banking facilities at the period end were HK$413 million while the figure was HK$418 million as at 31 December 2004. The gearing ratio, calculated as a ratio of total bank loans to total assets, was 43% as at both 30 June 2005 and 31 December 2004.

Transactions of the Group are mainly denominated either in Hong Kong dollar or United States dollar. The risk of exposure to fluctuations in exchange rates is therefore low.

Prospects

The traditional information technology distribution industry continues to undergo changes due to a number of factors. As margins have narrowed on hardware and software products, suppliers and resellers have gone through a transition from a product-focused to a more solution-oriented business model. Reseller customers adjust their business models from selling products to selling solutions, however, they still continue to depend on our services, such as products and services, marketing, credit and technical support. As a value-added solutions provider, the Group plans to expand more solutions service centers in order to widen geographic reach in the PRC and respond with more enhanced value-added solutions and services that customized to the needs of our customers. We believe that the Group is able to enlarge our solutions business in original equipment manufacturer ("OEM") market and consumer electronic ("CE") market and enhance the profitability under our efficient channel management and customer satisfaction.

In respect of LCD product line, LCD design-in television ("TV") is still the fastest growing segment of LCD products. In view of the enormous potential in LCD TV market in the PRC, the Group actively seeks more new digital technology suppliers in order to meet the robust demand for LCD products in the huge PRC market. In the third quarter of 2005, the Group successfully obtained the distribution rights of LCD products in the PRC and Hong Kong from上海廣電集團銷售有限公司, a manufacturer of new photoelectron display products, such as LCD TVs and LCD panels, as well as a provider of network and information services and whose holding company, SVA Group Co., Ltd. ("SVA"), is listed on the Shanghai Stock Exchange. The cooperation with SVA will strengthen our LCD product line supply chain which can enable us to meet the customers inventory needs in OEM market and CE market. The boost in turnover will also leverage economies of scale and maximise profit as well.

The Group continuously improves its operations by enhancing capabilities while reducing costs to provide a more efficient flow of products and services. The Group has expanded the development in the vertical industry, that is, the logistics industry, which did and will benefit us from inventory consolidation and providing on-time delivery to our customers that allows us costs saving and improving customer service levels simultaneously. Additionally, the Group strives to create an optimal cost structure for our business through process improvements, leveraging economies of scale and cultivating a strong and capable workforce.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2005.

EMPLOYEES

As at 30 June 2005, the Group had about 70 full time employees. The Group remunerated its employees mainly based on industry practice and individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share option may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical and retirement schemes.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

SHARE OPTION SCHEME

The Company's share option scheme (the "Option Scheme") was adopted pursuant to a resolution passed on 29 August 2001 for the purpose of recognition of the contribution from directors and eligible employees of the Group, and will expire in August 2011. Under the Option Scheme, the Board of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

On 30 May 2003, shareholders of the Company resolved to make certain amendments to the Option Scheme. Under the amendments, the Board of the Company may grant options to eligible participants in recognition of their contribution to the Group. Eligible participants are defined as any full-time or part-time employees of the Group (including any executive, non-executive and independent non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants and distributors of the Group who, in the sole discretion of the Board of the Company, have contributed or may contribute to the Group. The options granted may be exercised at any time during a period to be determined and notified by the Board but in any event shall not exceed the period of 10 years from a business day immediately after the date of acceptance.

There was no option granted or exercised during the six months ended 30 June 2005.

At 30 June 2005, the number of shares in respect of which options had been granted and had remained outstanding under the Option Scheme was 114,095,000, representing 7.1% of the issued share capital of the Company at that date. Particulars of the outstanding share options granted under the Option Scheme are as follows:

	Number of underlying shares outstanding at 30 June 2005
Executive director - Mr. Yen Chung Chuan	2,080,000
Employees	57,590,000
Principal buyers	43,680,000
Suppliers of services	10,745,000
Total	114,095,000

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, the interests of the directors and chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of the Securities and Futures Ordinance (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors (the "Model Code") of Listed Companies, were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of director	**Capacity**	**Number of shares held**	**Percentage of the issued share capital of the Company**
Mr. Yu Pen Hung	Held by controlled corporation	1,200,000,000 (note)	75%

Note:

These shares are held by E-Career Investments Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Yu Pen Hung.

In addition to the above, a director held interests in the non-voting deferred shares of a wholly-owned subsidiary of the Company as at 30 June 2005 as follows:

Name of subsidiary	Name of director	Number of non-voting deferred shares held
Artel Industries Limited	Mr. Yu Pen Hung	6,400,000 shares of HK$1 each

Other than as disclosed above and certain nominee shares in subsidiaries held by the directors in trust for the Group, none of the directors or chief executives, or their associates, had any relevant interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2005.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, in addition to those interests as disclosed above in respect of the directors, the following shareholder had notified the Company of relevant interests in 5% or more of the issued share capital of the Company:

Name	Number of shares held	Approximate percentage of holding
E-Career Investments Limited (note)	1,200,000,000	75%

Note: The entire issued share capital of E-Career Investments Limited is beneficially owned by Mr. Yu Pen Hung. Both E-Career Investments Limited and Mr. Yu Pen Hung are therefore deemed to have the duplicate interests in the 1,200,000,000 shares of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2005.

AUDIT COMMITTEE

The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the financial statements of the Group for the six months ended 30 June 2005.

The Audit Committee comprises three independent non-executive directors, namely Dr. Liu James Juh, Ms. Hu Gin Ing and Mr. Yim Hing Wah.

CORPORATE GOVERNANCE

The Company has complied with all Code Provisions of the Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange throughout the six months ended 30 June 2005 except for the following deviations:

1. The positions of chairman and chief executive officer of the Company are held by Mr. Yu Pen Hung. The Board believes that the holding both the positions of chairman and chief executive officer with the same person allows for more effective planning and execution of business strategies. Also, Mr. Yu possesses extensive valuable experience that is essential for the Group's operations. The Board has full confidence in Mr. Yu and believes that his dual roles will be beneficial to the Company.

2. Independent 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.

3. Directors of the Company do not retire by rotation at least once every three years. However, pursuant to the Articles of Association of the Company, one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not greater than one-third) should retire from office by rotation and be eligible for re-election at the annual general meeting of the Company.

4. At the end of the reporting period, a Remuneration Committee has not yet been established. The directors are prepared to set up a Remuneration Committee with written terms of reference in the second half of 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules of the Stock Exchange. Having made specific enquiry of all directors, they have confirmed that they complied with the required standards as set out in the Model Code during the six months ended 30 June 2005.

REVIEW OF INTERIM RESULTS

The unaudited interim results of the Group for the six months ended 30 June 2005 have been reviewed by the Audit Committee and the Company's auditors, Deloitte Touche Tohmatsu.

BOARD OF DIRECTORS

As at the date of this announcement, the directors of the Company comprise two executive directors, namely, Mr. Yu Pen Hung and Mr. Yen Chung Chuan, and three independent non-executive directors, namely, Dr. Liu James Juh, Ms. Hu Gin Ing and Mr. Yim Hing Wah.

On behalf of the Board
YU Pen Hung
Chairman

Hong Kong, 23 September 2005