

2007/08
Interim Report



CIL HOLDINGS LIMITED (Incorporated in Bermuda with limited liability)

華建控股有限公司

Stock code : 479

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CORPORATE INFORMATION

DIRECTORS

Ke Jun Xiang (*Chairman*)
Ho Pui Tsun, Peter (*Deputy Chairman*)
Shao Wei Hong
Hu Yeshan
Li Qinyi*
Wong Kwok Tai, Wytan**
(resigned on 5 May 2008)
Kwok Yam Sheung**

* *Non-Executive Director*
** *Independent Non-Executive Director*

COMPANY SECRETARY

Chiu King Hoi, Anthony

PRINCIPAL BANKERS

Bank of China (Hong Kong)
DBS Bank (Hong Kong) Limited
The HSBC Corporation Limited
Guangdong Development Bank

AUDITORS

Graham H. Y. Chan & Co.
Unit 1, 15/F, The Center
99 Queen's Road Central, Hong Kong

SHARE REGISTERS

Bermuda

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Hong Kong

Tricor Tengis Limited
Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

12/F, Bank of Communications Building
563 Nathan Road
Kowloon, Hong Kong

STOCK CODE

00479

The Board of Directors (the "Board") of CIL Holdings Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (herein collectively referred to as the "Group") for the six months ended 31 December 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2007

		For the six months ended 31 December	
		2007	2006
		Unaudited	Unaudited
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	94,188	89,022
Cost of sales		(89,529)	(88,301)
Gross profit		4,659	721
Other income	3	2,071	2,981
General and administrative expenses		(5,671)	(7,842)
Finance costs	4	(1,035)	(950)
Profit/(Loss) before taxation	5	24	(5,090)
Taxation	6	-	-
Profit/(Loss) for the period		24	(5,090)
Attributable to:			
Equity holders of the Company		24	(5,090)
Minority interest		-	-
		24	(5,090)
Earnings/(Loss) per share	7		
– Basic		Nil	(0.08) cents
– Diluted		N/A	N/A
Interim dividend	8	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2007

		As at	
		31 December	30 June
		2007	2007
		Unaudited	Audited
<i>Note</i>		HK\$'000	<i>HK\$'000</i>
Non-current assets			
	Property, plant and equipment	1,107	752
	Available-for-sale investment	4,658	4,658
		5,765	5,410
Current assets			
	Prepayments, deposits and other receivables	7,856	7,077
	Inventories	19,844	10,604
	Accounts receivable	17,546	15,117
	Bank balances and cash	22,243	23,464
		67,489	56,262
Current liabilities			
	Accounts and bills payable	43,216	32,941
	Accruals, deposits received and other payable	66,975	64,830
	Interest payables of unsecured borrowings	19,033	18,882
	Interest-bearing borrowings	33,797	28,555
	Due to directors	14,865	21,120
		177,886	166,328
	Net current liabilities	(110,397)	(110,066)
	Total assets less current liabilities	(104,632)	(104,656)
Capital and reserves			
	Share capital	61,749	61,749
	Reserves	(166,381)	(166,405)
		(104,632)	(104,656)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2007

	Issued capital	Share premium	Capital reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2006 (audited)	61,749	293,907	(100)	(481,775)	(126,219)
Net loss for the period	-	-	-	(5,090)	(5,090)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006 (unaudited)	61,749	293,907	(100)	(486,865)	(131,309)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 June 2007 (audited)	61,749	293,907	(100)	(460,212)	(104,656)
Net profit for the period	-	-	-	24	24
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007 (unaudited)	61,749	293,907	(100)	(460,188)	(104,632)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 31 December 2007*

	For the six months ended 31 December	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash used in operating activities	(6,049)	(4,271)
Net cash (used in)/from investing activities	(414)	27
Net cash from financing activities	5,222	2,200
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(1,241)	(2,044)
Cash and cash equivalents at 30 June	23,464	23,890
	<hr/>	<hr/>
Cash and cash equivalents at 31 December	22,223	21,846
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	22,243	21,846
Bank overdrafts	(20)	–
	<hr/>	<hr/>
	22,223	21,846
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2007

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The condensed consolidated interim financial statements ("Interim Financial Statements") for the six months ended 31 December 2007 ("Current Period") have been prepared in accordance with Hong Kong Statement of Standard Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Interim Financial Statements were approved for issue by the board of directors on 11 June 2008.

The accounting policies adopted in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2007.

The HKICPA had issued a number of new or revised standards, amendments and interpretations that were effective or available for early adoption for the Current Period. The Group has adopted all new or revised standards, amendments and interpretations that are effective for the Current Period and are relevant to the Group's operations. The adoption of these new or revised standards, amendments and interpretations has no significant impact on the Group's results and financial position.

The Group has not early adopted the new or revised standards and interpretations that have been issued but are not yet effective. The Group has carried out an assessment of these new or revised standards and interpretations and considered that the application of these new or revised standards and interpretations will not result in substantial effect on the Group's accounting policies.

In preparing the financial statements, the directors have considered the future liquidity of the Group in view of its net liabilities position as at 31 December 2007. The Group incurred profit of HK\$24,000 only for the six months ended 31 December 2007, and as at that date, it had consolidated net current liabilities and consolidated net liabilities of HK\$110,397,000 and HK\$104,632,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the directors are of the opinion that the Group will be able to finance its future working capital and financial requirements given that:

- (i) the Group has been actively discussing with prospective investors to obtain new working capital;

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

- (ii) the Company's controlling shareholder has agreed to provide financial support as is necessary to enable the Group to meet its liabilities as they fall due; and
- (iii) based on a cash flow forecast prepared by the Group's management for the twenty-one months ending 31 December 2009, the Group will be able to generate adequate cash flows from its operation.

The ability to obtain new working capital from the investor is dependent on the approval by the Stock Exchange of the resumption proposal and the trading of the Company's shares on the Stock Exchange successfully resumed.

Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements for the six month ended 31 December 2007 on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the financial statements.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amount received and receivable for goods sold during the period.

(a) Business segments

The Group's turnover represents the revenue generated from the business of trading of multi-media and communication products. Accordingly, no business segment information is required.

(b) Geographical segments

	For the six months ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
Segment revenue by location of customers		
PRC, excluding Hong Kong	67,597	40,446
Hong Kong	26,591	48,576
	94,188	89,022

2. TURNOVER AND SEGMENT INFORMATION (Continued)**(b) Geographical segments (Continued)**

	As at	
	31 December	30 June
	2007	2007
	HK\$'000	HK\$'000
Segment assets by location of assets		
PRC, excluding Hong Kong	30,708	57,330
Hong Kong	42,546	4,342
	73,254	61,672
	For the six months	
	ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
Capital expenditures by location of assets		
PRC, excluding Hong Kong	18	39
Hong Kong	491	15
	509	54

3. OTHER INCOME

	For the six months	
	ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
Interest income	95	81
Commission income	1,925	1,748
Others	51	1,152
	2,071	2,981

4. FINANCE COSTS

	For the six months	
	ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
Interests on:		
Bank loans, bills and overdrafts wholly repayable		
within five years	1,035	950

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(Loss) before taxation has been arrived at after charging the following:

	For the six months ended 31 December	
	2007	2006
	HK\$'000	<i>HK\$'000</i>
Cost of goods sold and services provided	89,529	88,301
Staff costs (including directors' emoluments)	2,506	4,779
Pension scheme contributions	44	45
Depreciation	154	93
Operating lease rentals in respect of land and buildings	1,154	697
	<u> </u>	<u> </u>

6. TAXATION

No provision for Hong Kong profits tax and overseas income tax has been made in the financial statements since there is no estimated assessable profit derived from Hong Kong and overseas for the period (2006: Nil).

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for the period ended 31 December 2007 is based on the profit attributable to shareholders of approximately HK\$24,000 (2006: loss of HK\$5,090,000) and 6,174,917,000 (2006: 6,174,917,000) ordinary shares in issue during the period.

Diluted loss per share was not presented as there was no dilutive potential ordinary share in issue for the periods ended 31 December 2007 and 2006.

8. INTERIM DIVIDENDS

No interim dividend was paid or proposed for the period ended 31 December 2007 (2006: Nil), nor has any dividend been proposed since the balance sheet date.

9. ACCOUNTS RECEIVABLE

All of the accounts receivable are stated net of provision of bad and doubtful debts and are expected to be recovered within one year. The Group allows an average credit period of 30 days to its trade customers. The aging analysis is as follows:

	As at	
	31 December	30 June
	2007	2007
	HK\$'000	HK\$'000
0-90 days	13,973	14,977
91-180 days	3,573	3
Over 180 days	-	137
	17,546	15,117
	<u>17,546</u>	<u>15,117</u>

10. ACCOUNTS AND BILLS PAYABLE

	As at	
	31 December	30 June
	2007	2007
	HK\$'000	HK\$'000
Accounts payable	36,192	17,985
Bills payable, secured	7,024	14,956
	43,216	32,941
	<u>43,216</u>	<u>32,941</u>

All of the accounts payable are expected to be settled within one year. The aging analysis is as follows:

	As at	
	31 December	30 June
	2007	2007
	HK\$'000	HK\$'000
0-90 days	23,055	17,658
91-180 days	4,680	-
Over 180 days	8,457	327
	36,192	17,985
	<u>36,192</u>	<u>17,985</u>

11. SHARE CAPITAL

	As at			
	31 December 2007		30 June 2007	
	No. of shares		No. of shares	
	('000)	HK\$'000	('000)	HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	600,000,000	600,000	600,000,000	600,000
Issued and fully paid:				
Beginning of period/year	6,174,917	61,749	6,174,917	61,749
Movement during period/year	-	-	-	-
End of period/year	6,174,917	61,749	6,174,917	61,749

12. PLEDGE OF ASSETS

At 31 December 2007, the Group did not have any pledge of assets.

13. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees are as follows:

	For the six months ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
Short term employee benefits	1,256	2,720
Post-employment benefits	24	6
	1,280	2,726

13. RELATED PARTY TRANSACTIONS (Continued)

- (b) During the period, the Group entered into the following material related party transactions.

Related party	Transaction	For the six months ended 31 December	
		2007 HK\$'000	2006 HK\$'000
AVT International Limited (note a)	Purchases	165	–
	Sales	1,378	2,700
Nicegoal Limited (note b)	Rent paid	156	240

Notes:

- a) AVT International Limited is controlled by a minority shareholder and director of AVT Electronic Limited which is a subsidiary of the Company. The above transactions were carried out at terms determined and agreed with both parties.
- b) Nicegoal Limited is controlled by the minority shareholders of AVT Electronic Limited. The rental expenses were based on the tenancy agreement signed by the Group and Nicegoal Limited.

14. CONTINGENT LIABILITIES

At 31 December 2007, the Group had no contingent liabilities (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial results

The Group recorded a consolidated turnover of HK\$94,188,000, an increase of 5.8% over last period. Profit attributable to equity holders was HK\$24,000 as compared to loss of HK\$5,090,000 of last period, representing earnings per share of nil (2006: loss per share HK0.08 cents). Improving the financial condition of the Group continues to be the primary target of the management.

Business review and outlook

During the period, the Company's principal activity continued to be investment holding whilst its major subsidiary was mainly engaged in trading of multi-media and communication products.

The management is working aggressively with financial advisors and lawyers on the resumption of trading of the company stocks on the Stock Exchange of Hong Kong Limited ("Stock Exchange"). If the resumption is successful, the Group will consider acquiring additional capital to strengthen its financial base.

Other than its existing core business, the management will continue put its best effort to explore new businesses to enhance value of the Group; to keep operating expenses at the minimum level and to maintain resources for future developments.

Liquidity and financial resources

As at 31 December 2007, the Group had net liabilities of HK\$104.6 million comprising total assets of HK\$73.3 million and total liabilities of HK\$177.9 million. The Group's non-current assets consisted mainly of available-for-sale investment of HK\$4.7 million. The current ratio, representing by current assets divided by current liabilities, was 0.38. The bank balances and cash at the balance sheet date was HK\$22.2 million.

As at 31 December 2007, The Group had short-term borrowings of HK\$33.8 million. The loans were subject to interest at prevailing commercial lending rates. Calculation of the gearing ratio, which is based on the total borrowings and the Group's shareholders' funds, would not be appropriate as the shareholders' funds were negative as at the balance sheet date.

The Group will actively seek for financial resources and improve its capital structure so as to strengthen its financial base and will also restructure its existing operation to improve shareholder returns.

Foreign currency exposure

The Group was exposed to foreign exchange risk arising mainly from the exposure of HK\$ against RMB.

Material acquisitions and disposals of investments

During the period ended 31 December 2007, there was no material acquisition or disposal of subsidiaries or affiliated companies.

Employees and remuneration policy

The Group employed a staff of 40 persons as at 31 December 2007 (2006: 50). They were remunerated according to the prevailing manpower conditions and individual performance. There was no change on the staff policy during the period.

SUPPLEMENTARY INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2007, the interests of the directors and the chief executive of the Company and/or their respective associates in the long or short positions in shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)(the "SFO")) as recorded in the register required to be kept by the Company under 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 Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Listing Rules were as follows:

Long position in the shares of the Company:

Name of director	Number of ordinary shares beneficially held	Nature of interest	Approximate percentage of total shareholding (%)
Mr. Ke Jun Xiang	3,530,000,000 <i>(Note)</i>	Interest in corporation	57.17

Note: Mr. Ke Jun Xiang ("Mr. Ke") had a controlling interest in Global Work Management Limited and Trade Honour Limited ("Trade Honour") which held 30,000,000 and 3,500,000,000 ordinary shares of the Company respectively. Accordingly, Mr. Ke was deemed to have interests in 3,530,000,000 ordinary shares of the Company.

Save as disclosed above, as at 31 December 2007, none of the directors and/or any of their associates had any interests in the shares or deemed interest in the long and short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following persons (other than the directors or the chief executive of the Company) had an interest in the following long position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Long position in the shares of the Company:

Name of shareholders	Nature of interest	Number of ordinary shares held	Approximate percentage of total shareholding
<i>Notes</i>			<i>(%)</i>
Trade Honour Limited	Beneficial Owner	3,500,000,000	56.68
Upperclass Limited	Beneficial Owner	500,000,000	8.10
Yau Kwok Wai	1	Interest in Corporation 500,000,000	8.10
ICEA Financial Services Limited	Beneficial Owner	510,406,044	8.27
ICEA Financial Holdings Limited	2	Interest in Corporation 510,406,044	8.27
Industrial and Commercial Bank of China	3	Interest in Corporation 510,406,044	8.27

Notes:

- The interest disclosed comprised 500,000,000 shares held by Upperclass Limited, which is 100% owned by Yau Kwok Wai.
- The interest disclosed comprised 510,406,044 shares held by ICEA Financial Services Limited, which is 100% owned by ICEA Financial Holdings Limited.
- The interest disclosed comprised 510,406,044 shares beneficially held by ICEA Financial Holdings Limited, which is 75% owned by Industrial and Commercial Bank of China, through ICEA Financial Holdings Limited.

Saved as disclosed above, so far as known to the directors as at 31 December 2007, no other person (other than directors or the chief executive of the Company) had an interest in the long and short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or its subsidiaries, a party to any arrangements to enable the directors or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors' or chief executives or their spouses or children under 18 years of age, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

PURCHASE, SALE OF REDEMPTION OF THE COMPANY'S SECURITIES

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-Laws of the Company or the laws of Bermuda in relation to issues of new shares by the Company.

CORPORATE GOVERNANCE

Commencing from 1 July 2005, the Company has adopted the Code on Corporate Governance Practices (the "Code") as set out in the Appendix 14 of the Listing Rules. Despite the fact that the Company has made effort to maintain proper corporate governance standard, certain code provisions are not fully complied with and the material deviations are set out below:

- (a) Under Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman of the Company is now performing both roles. The board will continue to review the management structure, taking into consideration and the nature and extent of the Group's operation.

- (b) Under Code provision A.3.2, the Company should appoint independent non-executive directors representing at least one-third of the board. Subsequent to the resignation of one independent non-executive director in September 2005, only two out of the seven directors in the board were independent non-executive directors and rule 3.10 of the Listing Rules, which requires the board of the Company must include at least three independent non-executive directors, was also not complied with.
- (c) Under Code provision A.4.1, The non-executive directors should be appointed for a specific term, subject to re-election. Non-executive directors of the Company are not appointed for a specific term but are subject to retirement and re-election at the annual general meeting in accordance with the Company's Bye-Law.
- (d) Under Code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. All directors of the Company are subject to retirement and re-election at the annual general meeting in accordance with the Company's Bye-Law.
- (e) Under Code provisions B.1.1 to B.1.5, remuneration committee has to be set up by the Company. The Company has not established a remuneration committee but will do so when the Company has appointed at least three independent non-executive directors.

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the period ended 31 December 2007.

REVIEW OF RESULTS BY AUDITORS

The Group's interim report for the period ended 31 December 2007 have been reviewed by the Group's auditors, Graham H.Y. Chan & Co., in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the HKICPA.

SUSPENSION OF TRADING

Dealing in the shares of the Company has been suspended by The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 1 April 2004 mainly for the reason that the Company failed to keep the market informed of its developments and make timely disclosure of its financial position for a period of time. The Listing Committee of the Stock Exchange decided on 29 November 2007 to give the Company a period of six months to remedy those matters which had rendered it unsuitable for listing. If the Company failed to take adequate action to meet the conditions for resumption as required and obtain a restoration of listing, the Stock Exchange intended to cancel the listing of the Company on 12 June 2008.

A resumption proposal which contains the actions taken or proposed to be taken by the Company to remedy those matters raised by the Stock Exchange has been submitted to the Stock Exchange on 28 May 2008.

The Stock Exchange has subsequently requested the Company to provide further information and address certain issues. The Company is currently working towards providing further information to the Stock Exchange and to carry out actions necessary to fulfill the conditions for resumption. As at the date of this report, the resumption proposal has not been approved by the Stock Exchange but further announcements will be made on the progress if and when there are material developments.

By Order of the Board
CIL Holdings Limited
Ke Jun Xiang
Chairman

Hong Kong, 11 June 2008

INDEPENDENT REVIEW REPORT



GRAHAM H.Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

Report on Review of Interim Financial Statements

To the Board of Directors of CIL Holdings Limited

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial statements set out on pages 3 to 13, which comprise the condensed consolidated balance sheet of CIL Holdings Limited (the "Company") and its subsidiaries (together the "Group") as at 31 December 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on the interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements have not been properly prepared, in all material respects, in accordance with HKAS 34.

Emphasis of matter

Without qualifying our opinion we draw your attention to Note 1 to the interim financial statements concerning the adoption of going concern basis on which the interim financial statements have been prepared. As further explained in the notes, the interim financial statements of the Group have been prepared on a going concern basis, notwithstanding that as at 31 December 2007, the Group reported consolidated net current liabilities and consolidated net liabilities of HK\$110,397,000 and HK\$104,632,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern. The interim financial statements have been prepared on a going concern basis, the validity of which is dependent on the continual financial support from the controlling shareholder in order to finance the Group's future working capital and financial requirements and the Group's ability to obtain new working capital from prospective investors and to generate adequate cash flows from its operation in the foreseeable future. The interim financial statements do not include any adjustment that would result from a failure to obtain such financial support and working capital. We consider that adequate disclosures have been made.

Graham H. Y. Chan & Co.

Certified Public Accountants (Practising)

Unit 1, 15/F, The Center,
99 Queens's Road
Central

Hong Kong, 11 June 2008