



Artel Group

宏通集團

ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 931)



Interim Report
2008

The board (the "Board") of directors (the "Directors") 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 2008 (the "Period") together with the comparative figures for the previous corresponding period prepared in accordance with generally accepted accounting principles in Hong Kong as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2008

		Six months ended 30 June	
		2008	2007
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	3	7,392	20,390
Cost of sales		(6,609)	(20,067)
		<hr/>	<hr/>
Gross profit		783	323
Other operating income		1,085	325
Administrative expenses		(3,734)	(1,226)
Finance costs	4	(156)	(9)
Share of results of associates		–	(245)
Loss on disposal of interests in associates		–	(374)
		<hr/>	<hr/>
Loss before taxation	5	(2,022)	(1,206)
Taxation	6	(3)	–
		<hr/>	<hr/>
Loss for the period attributable to equity shareholders of the Company		(2,025)	(1,206)
		<hr/>	<hr/>
Dividend	7	–	–
		<hr/>	<hr/>
Loss per share (HK cents)			
– Basic	8	(0.09)	(0.08)
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Non-current asset			
Plant and equipment		<u>12</u>	<u>13</u>
Current assets			
Trade receivables, prepayments, deposits and other receivables	9	979	1,579
Bank balances and cash		42,598	4,845
		<u>43,577</u>	<u>6,424</u>
Current liabilities			
Trade payables, accrued charges and other payables	10	11,762	12,140
Amounts due to directors		–	318,184
Unsecured other loans	11	2,031	2,031
Provision for taxation		190	187
		<u>13,983</u>	<u>332,542</u>
Net current assets/(liabilities)		<u>29,594</u>	<u>(326,118)</u>
Net assets/(liabilities)		<u>29,606</u>	<u>(326,105)</u>
Capital and reserves			
Share capital	12	23,795	16,023
Reserves		5,811	(342,128)
Total equity/(capital deficiency)		<u>29,606</u>	<u>(326,105)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2008

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Convertible notes reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2007	16,000	122,357	9,370	-	-	(473,449)	(325,722)
Loss for the period	-	-	-	-	-	(1,206)	(1,206)
At 30 June 2007 (Unaudited)	<u>16,000</u>	<u>122,357</u>	<u>9,370</u>	<u>-</u>	<u>-</u>	<u>(474,655)</u>	<u>(326,928)</u>
At 1 January 2008	16,023	123,222	9,370	-	-	(474,720)	(326,105)
Issue of convertible notes	-	-	-	358,000	-	-	358,000
Conversion of convertible notes	<u>7,772</u>	<u>22,228</u>	<u>-</u>	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Sub-total	<u>23,795</u>	<u>145,450</u>	<u>9,370</u>	<u>328,000</u>	<u>-</u>	<u>(474,720)</u>	<u>31,895</u>
Exchange differences arising on translation of foreign operations	-	-	-	-	(264)	-	(264)
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,025)</u>	<u>(2,025)</u>
Total expenses recognised for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(264)</u>	<u>(2,025)</u>	<u>(2,289)</u>
At 30 June 2008 (Unaudited)	<u>23,795</u>	<u>145,450</u>	<u>9,370</u>	<u>328,000</u>	<u>(264)</u>	<u>(476,745)</u>	<u>29,606</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(2,511)	(1,316)
NET CASH FROM INVESTING ACTIVITIES	214	1,091
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of convertible notes	40,000	–
Other financing cash flows	–	(1,124)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	40,000	(1,124)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	37,703	(1,349)
EFFECT OF FOREIGN EXCHANGE RATE CHANGE	50	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	4,845	(47,524)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	42,598	(48,873)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	42,598	1,331
Bank overdrafts	–	(50,204)
	42,598	(48,873)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

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

2. Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation followed in the preparation of the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual audited consolidated financial statements for the year ended 31 December 2007.

In the Period, the Group has applied, for the first time, the following new interpretations issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008.

HK(IFRIC) 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) 12	Service Concession Arrangements
HK(IFRIC) 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new interpretations had no material effect on the results and financial position of the Group for the current and/or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. Significant accounting policies (continued)

The Group has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective on 1 January 2008.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

The Directors anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Turnover and segment information

Turnover represents the net amount received and receivable for computer components and information technology products sold to outside customers, less trade discounts and returns, for the Period.

The Group operates in the distribution of computer components and information technology products and provision of integrated e-enabling solutions. As the Group did not derive any income from the provision of integrated e-enabling solutions during both periods, no business segment analysis is presented. Furthermore, as the Group participated primarily in one geographical location classified by location of sales, i.e. Hong Kong, no geographical segment analysis is presented.

4. Finance costs

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interests on unsecured other loans	147	–
Bank charges	9	9
	<u>156</u>	<u>9</u>

5. Loss before taxation

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss before taxation has been arrived at after charging/(crediting):-		
Depreciation of plant and equipment	1	–
Gain on disposal of plant and equipment	–	(324)
Interest income	(214)	(1)
	<u>(213)</u>	<u>(325)</u>

6. Taxation

Taxation for the Period represents provision for Hong Kong Profits Tax calculated at the rate of 16.5% of the estimated assessable profit of a subsidiary operating in Hong Kong for the Period. The Hong Kong Profits Tax rate decreased from 17.5% to 16.5% with effect from the year of assessment 2008/09. The effect of this decrease has been reflected in the calculation of current tax balance as at 30 June 2008.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for preceding period as the Group did not have any assessable profit.

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. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007 : Nil).

8. Loss per share

The calculation of the basic loss per share of the Company (the "Share") attributable to equity shareholders of the Company for the Period is based on the loss for the Period of HK\$2,025,000 (2007: HK\$1,206,000) and the weighted average number of 2,174,555,701 (2007: 1,600,000,000) Shares in issue.

Diluted loss per Share has not been calculated for the Period as the exercise of the convertible notes would result in a decrease in the loss per Share. For the six months ended 30 June 2007, the calculation of diluted loss per Share did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price for Share before the suspension of trading in the Shares in September 2006.

9. Trade receivables, prepayments, deposits and other receivables

The credit terms of the Group range from 30 to 60 days. The aged analysis of trade receivables as at 30 June 2008 and 31 December 2007 is as follows:–

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Aged:–		
0 to 30 days	257	411
Over 1 year	506,884	506,884
	<u>507,141</u>	<u>507,295</u>
Less : Allowance for doubtful debts	(506,884)	(506,884)
	<u>257</u>	<u>411</u>
Total trade receivables	257	411
Prepayments, deposits and other receivables	722	1,168
	<u>979</u>	<u>1,579</u>

10. Trade payables, accrued charges and other payables

The aged analysis of trade payables as at 30 June 2008 and 31 December 2007 is as follows:–

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Aged:–		
0 to 30 days	234	329
Over 1 year	6,744	6,474
	<u>6,978</u>	<u>6,803</u>
Total trade payables	6,978	6,803
Accrued charges and other payables	4,784	5,337
	<u>11,762</u>	<u>12,140</u>

11. Unsecured other loans

The loans are denominated in Hong Kong dollars.

The loan amounted to HK\$1,800,000 (31 December 2007: HK\$1,800,000) is secured by the property of a former director of the Company, interest-bearing at an annual rate of 15% and repayable on demand. The remaining loan of approximately HK\$231,000 (31 December 2007: HK\$231,000) is unsecured, interest-bearing at an annual rate of 10% and repayable on demand.

12. Share capital

	2008		2007	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each				
Authorised:-				
At 1 January	10,000,000,000	100,000	10,000,000,000	100,000
Increase during the period	30,000,000,000	300,000	-	-
At 30 June	<u>40,000,000,000</u>	<u>400,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:-				
At 1 January	1,602,330,000	16,023	1,600,000,000	16,000
Conversion of convertible notes	777,202,072	7,772	-	-
At 30 June	<u>2,379,532,072</u>	<u>23,795</u>	<u>1,600,000,000</u>	<u>16,000</u>

13. Convertible notes

On 15 January 2008, the Company and Mr. Kan Che Kin, Billy Albert ("Mr. Kan"), an executive Director and the chairman of the Company, entered into a subscription agreement (the "Subscription Agreement") pursuant to which the Company had conditionally agreed to issue and Mr. Kan had conditionally agreed to subscribe for the zero-coupon and non-redeemable convertible notes (the "Convertible Notes") of the Company in an aggregate principal amount of HK\$358 million. The conversion price is HK\$0.0386 per Share.

Completion of the Subscription Agreement took place on 13 February 2008 and the Convertible Notes were issued by the Company to Mr. Kan pursuant to the Subscription Agreement on the same date. The subscription price of the Convertible Notes of HK\$358 million was satisfied in part of approximately HK\$318 million by setting off the full amount of (i) the bank overdraft and borrowings of approximately HK\$256 million and the debt of approximately HK\$59 million due to a supplier which had been assigned to Mr. Kan; and (ii) the loan of approximately HK\$3 million advanced by Mr. Kan, against such amount of the subscription price of the Convertible Notes on a dollar for dollar basis. The remaining balance of approximately HK\$40 million was settled in cash, which was used as general working capital of the Group. The maturity date of the conversion rights attaching to the Conversion Notes is 13 February 2013, being the date falling on the fifth anniversary from the date of issue of the Convertible Notes. In the event the compulsory conversion of the outstanding principal amount of the Convertible Notes on the maturity date would render the then issued Shares held in the public hands being less than the minimum public float as required under the Listing Rules from time to time, the Convertible Notes will be renewed automatically for successive term of one year commencing the day next after the expiry of the then current term of the Convertible Notes.

13. Convertible notes (continued)

On 18 February 2008, Mr. Kan exercised the conversion rights attaching to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK\$30,000,000 of the Convertible Notes and an aggregate of 777,202,072 Shares were allotted and issued to Mr. Kan. There was no other conversion thereafter during the Period and the outstanding principal amount of the Convertible Notes as at 30 June 2008 was HK\$328,000,000.

Subsequent to the balance sheet date, on 31 July 2008, Mr. Kan exercised the conversion rights attaching to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK\$10,000,000 of the Convertible Notes and an aggregate of 259,067,357 Shares were allotted and issued to Mr. Kan.

14. Related party transactions

(a) Apart from the information as disclosed elsewhere in the condensed consolidated financial statements, the Group did not have other material transactions with its related parties during both periods.

(b) *Key management compensation*

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Salaries, wages and other benefits	485	75
Retirement benefit scheme contributions	6	–
	<hr/>	<hr/>
	491	75
	<hr/> <hr/>	<hr/> <hr/>



TO THE BOARD OF DIRECTORS OF ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 1 to 12, which comprises the condensed consolidated balance sheet of Artel Solutions Group Holdings Limited as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on 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 “HKICPA”). The directors are responsible for the preparation and presentation of this interim financial information 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 HKICPA. A review of interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

PKF

Certified Public Accountants

Hong Kong

22 September 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

Trading in the Shares on the Stock Exchange has been suspended since 7 September 2006 and has been resumed on 18 February 2008.

After the issuance of the Convertible Notes of an aggregate principal amount of HK\$358 million by the Company on 13 February 2008, the Group became almost debt free. Save for the current liabilities such as trade payables, other borrowings and other payables, there were approximately HK\$40 million of cash injected as general working capital of the Group. Accordingly, the financial position of the Group has been improved with net assets of approximately HK\$30 million as at 30 June 2008 (31 December 2007: net liabilities of approximately HK\$326 million).

The Group recorded a loss of approximately HK\$2,025,000 for the six months ended 30 June 2008. The Group's turnover for the six months ended 30 June 2008 amounted to approximately HK\$7,392,000. The Group recorded a gross profit of approximately HK\$0.8 million for the six months ended 30 June 2008, representing an increase of approximately 142% compared with that of 2007.

The Group is actively pursuing a number of e-enabling solution projects with higher profit margins and is looking for new business opportunities that afford better returns for our shareholders.

Liquidity and financial resources

The Group had total cash and bank balances of approximately HK\$42.6 million as at 30 June 2008 (31 December 2007: approximately HK\$4.8 million). Balance of other short-term borrowings were approximately HK\$2 million as at 30 June 2008 (31 December 2007: approximately HK\$2 million). The gearing ratio of the Group as at 30 June 2008 calculated as a ratio of total other loans to total assets was approximately 4.7% (31 December 2007: approximately 31.6%). Net assets were approximately HK\$30 million (31 December 2007: net liabilities of approximately HK\$326 million) as at 30 June 2008.

The Group recorded total current assets value of approximately HK\$43.6 million as at 30 June 2008 (31 December 2007: approximately HK\$6.4 million) and total current liabilities value of approximately HK\$14 million (31 December 2007: approximately HK\$333 million). The current ratio of the Group, calculated by dividing the total current assets value by the total current liabilities value, was about 3.12 as at 30 June 2008 (31 December 2007: approximately 0.02).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008.

TREASURY POLICIES

The Group's major borrowings are in HK dollars and with fixed interest rates. The Group currently does not have a foreign currency and interest rate hedging policy. However, the management of the Group monitors foreign exchange and interest rate exposure from time to time and will consider hedging significant foreign currency and interest rate exposure should the need arise.

PLEDGE OF ASSETS

The Group had no pledged assets as at 30 June 2008.

INVESTMENTS

The Group had not held any significant investment for the six months ended 30 June 2008.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2008.

SEGMENTAL INFORMATION

Details of segmental information for the six months ended 30 June 2008 are set out in Note 3 to the condensed consolidated financial statements.

STAFF AND REMUNERATION POLICIES

As at 30 June 2008, the Group had 7 employees (31 December 2007: 7 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 options 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

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

SHARE OPTION SCHEME

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

On 30 May 2003, the shareholders of the Company resolved to make certain amendments to the Option Scheme. Under the amendments, (i) the Board 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, have contributed or may contribute to the Group; and (ii) the options granted may be exercised at any time during a period to be determined and notified by the Board, such period may commence on a business day immediately after the date of acceptance and in any event shall not exceed the period of 10 years from a business day immediately after the date of acceptance subject to the provisions for early termination.

There was no outstanding option to subscribe for Shares as at 1 January 2008 and no option to subscribe for Shares had been granted during the six months ended 30 June 2008. Accordingly, there was no option to subscribe for Shares outstanding as at 30 June 2008.

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

As at 30 June 2008, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO) or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions

Name of Director	Name of company in which interests were held	Nature of interests	Number of shares held	Approximate percentage of shareholding
Mr. Kan	The Company	Beneficial owner	10,047,151,398 Shares (Note 1)	422.23%
Mrs. Kan Kung Chuen Lai	The Company	Interest of spouse (Note 2)	10,047,151,398 Shares	422.23%
Mr. Li Kai Yien, Arthur Albert	The Company	Beneficial owner	3,000,000 Shares	0.13%
Ms. Li Shu Han, Eleanor Stella	The Company	Beneficial owner	2,000,000 Shares	0.08%
Mr. Ip Woon Lai	The Company	Beneficial owner	1,000,000 Shares	0.04%

Notes:

- These Shares represent: (i) 1,549,742,072 Shares held by Mr. Kan; and (ii) 8,497,409,326 Shares to be allotted and issued to Mr. Kan upon the exercise in full of the conversion rights attaching to the outstanding Convertible Notes issued by the Company on 13 February 2008.
- Mrs. Kan Kung Chuen Lai is the spouse of Mr. Kan. Therefore, she is deemed to be interested in the Shares held by Mr. Kan pursuant to the SFO.

DIRECTORS AND CHIEF EXECUTIVES INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2008.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, so far as was known to the Directors and chief executives of the Company, no person (other than a Director or chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

AUDIT COMMITTEE

The principal responsibilities of the audit committee of the Company (the "Audit Committee") include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2008.

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong.

CORPORATE GOVERNANCE REPORT

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices under Appendix 14 to the Listing Rules throughout the six months ended 30 June 2008 except for the following deviations:

1. Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate. The positions of chairman and chief executive officer of the Company are held by Mr. Kan after the resignation of Mr. Yu Pen Hung as an executive Director and the chief executive officer of the Company with effect from 23 May 2008. The Board believes that holding of both positions of chairman and chief executive officer by the same person allows more effective planning and execution of business strategies. The Board has full confidence in Mr. Kan and believes that his dual roles will be beneficial to the Group.
2. Under the Code Provisions A.4.1 and A.4.2, non-executive Director should be appointed for a specific term and each Director should be subject to retirement by rotation at least once every three years. The existing independent non-executive Directors are not appointed for specific terms but 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 at least once every three years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. 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 2008.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Kan Che Kin, Billy Albert, Mrs. Kan Kung Chuen Lai, Ms. Li Shu Han, Eleanor Stella and Mr. Li Kai Yien, Arthur Albert, all being the executive Directors, Mr. Li Siu Yui, Mr. Ip Woon Lai and Mr. Lee Kong Leong, all being the independent non-executive Directors.

On behalf of the Board
Kan Che Kin, Billy Albert
Chairman

Hong Kong, 22 September 2008