



Artel Group  
宏通集團

ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)  
(Stock Code: 931)

# Interim Report 2011



The board (the "Board") of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 (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 Statement of Comprehensive Loss

For the six months ended 30 June 2011

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2011</b>	2010
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
Revenue from distribution of computer components and information technology products	3	<b>4,914</b>	2,885
Cost of revenue		<b>(4,372)</b>	(2,797)
		<b>542</b>	88
Dividend income from held for trading investments	3	<b>341</b>	359
Gain on disposal of held for trading investments	3	<b>1,103</b>	438
(Loss)/gain on fair value changes on held for trading investments	3	<b>(864)</b>	1,112
Gross profit		<b>1,122</b>	1,997
Other income		<b>686</b>	76
Administrative expenses		<b>(2,082)</b>	(1,913)
Interests on unsecured other loans		<b>(147)</b>	(147)
(Loss)/profit before taxation	4	<b>(421)</b>	13
Taxation	5	<b>-</b>	-
(Loss)/profit for the period attributable to equity shareholders of the Company		<b>(421)</b>	13
Other comprehensive loss for the period (after tax)			
Exchange difference arising on translation of foreign operations before and after tax effects		<b>(47)</b>	(18)
Total comprehensive loss for the period attributable to equity shareholders of the Company		<b>(468)</b>	(5)
(Loss)/earnings per share (HK cents)	7		
- Basic		<b>(0.0084)</b>	0.0003
- Diluted		<b>N/A</b>	0.0001

# Condensed Consolidated Statement of Financial Position

As at 30 June 2011

		As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
<b>Non-current assets</b>			
Plant and equipment		353	429
Deposits for acquisition of investment properties		7,244	–
		<b>7,597</b>	429
<b>Current assets</b>			
Held for trading investments		17,739	9,288
Trade receivables, prepayments and deposits	8	2,447	1,443
Bank balances and cash		220,183	235,776
		<b>240,369</b>	246,507
<b>Current liabilities</b>			
Trade payables, accrued charges and other payables	9	13,180	11,682
Unsecured other loans	10	2,031	2,031
		<b>15,211</b>	13,713
<b>Net current assets</b>		<b>225,158</b>	232,794
<b>Net assets</b>		<b>232,755</b>	233,223
<b>Capital and reserves</b>			
Share capital	11	50,334	50,334
Reserves		182,421	182,889
<b>Shareholders' funds</b>		<b>232,755</b>	233,223

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Share capital	Share premium	Special reserve	Convertible notes reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	46,334	209,911	9,370	241,000	(285)	(481,499)	24,831
Issue of shares (Note 11)	4,000	199,235	-	-	-	-	203,235
Total comprehensive (loss)/income for the period	-	-	-	-	(18)	13	(5)
At 30 June 2010 (Unaudited)	50,334	409,146	9,370	241,000	(303)	(481,486)	228,061
At 1 January 2011	50,334	409,146	9,370	241,000	(371)	(476,256)	233,223
Total comprehensive loss for the period	-	-	-	-	(47)	(421)	(468)
<b>At 30 June 2011 (Unaudited)</b>	<b>50,334</b>	<b>409,146</b>	<b>9,370</b>	<b>241,000</b>	<b>(418)</b>	<b>(476,677)</b>	<b>232,755</b>

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(9,034)</b>	(487)
<b>NET CASH (USED IN)/FROM INVESTING ACTIVITIES</b>	<b>(6,559)</b>	73
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from issue of shares	–	203,235
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>–</b>	203,235
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(15,593)</b>	202,821
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>235,776</b>	31,466
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<b>220,183</b>	234,287

# 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared using the historical cost basis as modified by the revaluation of held for trading investments.

The accounting policies are adopted consistently with those followed in the preparation of the Group’s annual audited consolidated financial statements for the year ended 31 December 2010.

In the current period, the Group initially applied the following new or revised standards, amendments and interpretations (hereinafter collectively referred to as “Hong Kong Financial Reporting Standards”):-

HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) Int-19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Amendments to HK(IFRIC) Int-14	Prepayments of a Minimum Funding Requirement
Amendments to HKFRSs 2010	Improvements to HKFRSs 2010

The adoption of these new and revised Hong Kong Financial Reporting Standards 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.

## Notes to the Condensed Consolidated Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has not applied the new or revised Hong Kong Financial Reporting Standards that have been issued but were not yet effective for the accounting period of these financial statements. 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

The Group's turnover represents the aggregate of the net amounts received and receivable for goods sold to outside customers, less returns and allowance, net realised and unrealised gains or losses from trading of securities and dividend income from held for trading investments, and is analysed as follows:-

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>(Unaudited) HK\$'000</b>	(Unaudited) HK\$'000
Revenue from distribution of computer components and information technology products	<b>4,914</b>	2,885
Dividend income from held for trading investments	<b>341</b>	359
Gain on disposal of held for trading investments	<b>1,103</b>	438
(Loss)/gain on fair value changes on held for trading investments	<b>(864)</b>	1,112
	<b>5,494</b>	4,794

## Notes to the Condensed Consolidated Financial Statements

### 3. TURNOVER AND SEGMENT INFORMATION (continued)

For management purposes, the Group is organised into two operating divisions. These divisions are the basis on which the Group reports its segment information.

Principal activities are as follows:–

- Distribution of computer components and information technology products
- Trading of securities

Segment revenue, expenses and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue and expenses are determined before intra-group transactions and are eliminated as part of the consolidated process, except to the extent that such intra-group transactions are between group enterprises within a single segment. Unallocated items comprise corporate and financial expenses. This is the measure reported to the Group's management for the purposes of resource allocation and assessment of segment performance.

The measure used for reporting segment result is "adjusted EBIT" i.e. adjusted earnings before interest and taxes. To arrive at adjusted EBIT, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as other head office or corporate administration costs.



## Notes to the Condensed Consolidated Financial Statements

### 3. TURNOVER AND SEGMENT INFORMATION (continued)

Segment information about the aforementioned businesses is set out below:–

	Distribution of computer components and information technology products		Trading of securities		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2011 (unaudited) HK\$'000	2010 (unaudited) HK\$'000	2011 (unaudited) HK\$'000	2010 (unaudited) HK\$'000	2011 (unaudited) HK\$'000	2010 (unaudited) HK\$'000
TURNOVER						
External	4,914	2,885	580	1,909	5,494	4,794
RESULT						
Segment result	424	(46)	359	1,780	783	1,734
Other operating income					686	76
Unallocated corporate expenses					(1,743)	(1,650)
Finance costs					(147)	(147)
(Loss)/profit before taxation					(421)	13
Taxation					-	-
(Loss)/profit for the period					(421)	13

The Group's operations are located in Hong Kong during both periods.

During the Period, the Group has only one customer (2010: one).

# Notes to the Condensed Consolidated Financial Statements

## 4. (LOSS)/PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/profit before taxation has been arrived at after charging/(crediting):–		
Depreciation of plant and equipment	76	76
Interest income	(685)	(73)

## 5. TAXATION

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

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.

## 6. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (2010: Nil).

## Notes to the Condensed Consolidated Financial Statements

### 7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings 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 approximately HK\$421,000 (2010: profit of approximately HK\$13,000) and the weighted average number of 5,033,418,081 (2010: 4,812,423,606) Shares in issue.

Diluted loss per share has not been calculated for the Period as the exercise of the outstanding convertible notes would result in a decrease in the loss per share. The calculation of diluted earnings per share attributable to equity shareholders of the Company for the preceding period is based on the profit for the preceding period of approximately HK\$13,000 and the weighted average number of 11,055,946,922 Shares.

### 8. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

	<b>As at 30 June 2011 (Unaudited) HK\$'000</b>	As at 31 December 2010 (Audited) HK\$'000
Trade receivables	<b>1,306</b>	106
Prepayment and deposits	<b>1,141</b>	1,337
	<b>2,447</b>	1,443

The Group allows its trade customers with a credit period normally ranging from cash on delivery to 30 days. The trade receivables of approximately HK\$1,306,000 were not past due as at 30 June 2011 (31 December 2010: approximately HK\$106,000 past due within 60 days but not impaired).

## Notes to the Condensed Consolidated Financial Statements

### 8. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

For the year ended 31 December 2010, trade receivables that were past due but not impaired were related to the customer that had a good track record with the Group. Based on the past experience, management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were considered fully recoverable. The Group did not hold any collateral over the balances.

### 9. TRADE PAYABLES, ACCRUED CHARGES AND OTHER PAYABLES

	<b>As at 30 June 2011 (Unaudited) HK\$'000</b>	<b>As at 31 December 2010 (Audited) HK\$'000</b>
Trade payables	<b>8,060</b>	6,851
Accrued charges and other payables	<b>5,120</b>	4,831
	<b>13,180</b>	11,682

Except for the trade payables of approximately HK\$1,162,000 (31 December 2010: Nil) which were not past due as at 30 June 2011, all other trade payables were past due over 1 year.

### 10. UNSECURED OTHER LOANS

The loans are denominated in Hong Kong dollars, unsecured and repayable on demand.

The loan amounted to HK\$1,800,000 (31 December 2010: HK\$1,800,000) is interest-bearing at an annual rate of 15% while the remaining loan of approximately HK\$231,000 (31 December 2010: HK\$231,000) is interest-bearing at an annual rate of 10%.

# Notes to the Condensed Consolidated Financial Statements

## 11. SHARE CAPITAL

	2011		2010	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each				
Authorised:-				
At 1 January and at 30 June	<b>40,000,000,000</b>	<b>400,000</b>	40,000,000,000	400,000
Issued and fully paid:-				
At 1 January	<b>5,033,418,081</b>	<b>50,334</b>	4,633,418,081	46,334
Issue of shares	-	-	400,000,000	4,000
At 30 June	<b>5,033,418,081</b>	<b>50,334</b>	5,033,418,081	50,334

On 9 April 2010 and 13 April 2010, an aggregate of 400,000,000 Shares of HK\$0.01 each were issued at HK\$0.52 per Share by placement. All new Shares rank pari passu in all aspects with the existing Shares.

## 12. CONVERTIBLE NOTES

On 15 January 2008, the Company and Mr. Kan Che Kin, Billy Albert ("Mr. Kan"), an executive Director and the substantial shareholder 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. Assuming that the conversion rights attaching to the Convertible Notes are exercised in full at the conversion price of HK\$0.0386 per Share, an aggregate of 9,274,611,398 Shares will be issued.

## Notes to the Condensed Consolidated Financial Statements

### 12. CONVERTIBLE NOTES (continued)

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 the subscription price 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.

There was no conversion during both periods and the outstanding principal amount of the Convertible Notes as at 1 January 2010, 30 June 2010, 1 January 2011 and 30 June 2011 was HK\$241,000,000.

## Notes to the Condensed Consolidated Financial Statements

### 13. 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) Compensation of key management personnel

The remuneration of key management personnel during the Period was as follows:-

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Short-term benefits	<b>591</b>	586
Post-employment benefits – defined contribution plan	<b>6</b>	6
	<b>597</b>	592

# Notes to the Condensed Consolidated Financial Statements

## 14. OPERATING LEASE ARRANGEMENT

As at 30 June 2011, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:–

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Within one year	<b>408</b>	571
In the second to fifth year inclusive	–	123
	<b>408</b>	694

Operating lease payments represent rentals payable by the Group for its office premises. The lease is negotiated for a term of 3 years (2010: 3 years) and the lease is guaranteed by Mr. Kan.

## 15. CAPITAL COMMITMENTS

As at 30 June 2011, the Company had capital commitments in respect of acquisition of investment properties, which were contracted but not provided for, of approximately HK\$68,620,000, in which, the capital commitment of HK\$19.5 million was related to a property purchased from a connected person of the Company, BK Capital Limited ("BK Capital"), of which 999,999 issued shares were held by Mr. Kan and the remaining one issued share was held by Mrs. Kan Kung Chuen Lai, an executive Director. Therefore, the transaction constituted a connected transaction of the Company under the Listing Rules.



# Report on Review of Interim Financial Information



**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 15, which comprises the condensed consolidated statement of financial position of Artel Solutions Group Holdings Limited as of 30 June 2011 and the related condensed consolidated statement of comprehensive loss, statement of changes in equity and statement of cash flows for the six-month period then ended, 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 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  
30 August 2011

## Management Discussion and Analysis

### Business and Financial Review

For the six months ended 30 June 2011, the turnover of the Group was approximately HK\$5.5 million, being 14.6% higher than the turnover of approximately HK\$4.8 million for the previous corresponding period. The increase in turnover was mainly resulted from the increase in sale of computer components and information technology products. Turnover generated from the trading business increased by 70.3% to approximately HK\$4.9 million as compared with the turnover of approximately HK\$2.9 million for the previous corresponding period. Resulting from the Group's effort in trading business by looking for new products for existing customers, gross profit from the trading business was approximately HK\$542,000 for the six months ended 30 June 2011, increased by more than 5 times from the gross profit of approximately HK\$88,000 as compared with the previous corresponding period. Moreover, the average gross profit margin for the Period increased to 11% from 3%.

For the business of trading of securities, the turnover of the dividend income and the net realized and unrealized gain from trading of securities for the six months ended 30 June 2011 was decreased from approximately HK\$1.9 million to HK\$0.6 million, being 69.6% lower than the previous corresponding period. The decrease was mainly attributable to the loss on fair value changes on held for trading investments of approximately HK\$0.9 million for the six months ended 30 June 2011 as compared with the gain of approximately HK\$1.1 million for the previous corresponding period. After offsetting with the increase in bank interest income of approximately HK\$0.6 million for the Period, the results of the Group changed from a net profit of approximately HK\$13,000 for the six months ended 30 June 2010 to a loss of approximately HK\$421,000 for the six months ended 30 June 2011.

Regarding the two framework agreements (the "Framework Agreements") entered into by the Company with 山西蘭花煤炭實業集團有限公司 (Shanxilanhua Coal Industrial Group Co. Ltd.) ("Shanxilanhua") in relation to the possible acquisition by the Company of approximately 28.01% equity interest in the registered capital of Shanxilanhua, a joint venture agreement entered into between Shanxilanhua, Deluxe Full Holdings Limited and the Company (the "JV Agreement") in respect of the formation of a joint venture in the People's Republic of China and a cooperative letter of intent with 山西蘭花集團莒山煤礦有限公司 (Shanxilanhua Group Ju Shan Coal Mining Co. Ltd.) ("Ju Shan") (the "LOI") in respect of the proposed capital injection in Ju Shan by the Company, during the Period, the Group could not agree with the counterparties of each of the Framework Agreements, the JV Agreement and the LOI on the terms of the respective agreements. Hence, the Group decided not to proceed with the Framework Agreements, the JV Agreement and the LOI.

## Management Discussion and Analysis

### **Business Review and Financial Review** (continued)

In order to broaden the income base of the Group, the Directors considered that it was an opportune time to acquire the properties in Hong Kong for investment purpose.

On 5 May 2011, ACE Vantage Investments Limited (“ACE”), a wholly-owned subsidiary of the Company, entered into the provisional agreement for acquisition of a property (the “Central Property”) located in Central Mid-levels with a gross floor area of approximately 3,052 square feet, for residential purpose, at a cash consideration of HK\$36.8 million, which will be satisfied by internal resources of the Group. The acquisition of the Central Property by ACE was completed on 18 August 2011. The Group is preparing to lease out the Central Property for rental income purpose.

On 27 June 2011, Strong Mix Limited (“Strong Mix”), a wholly-owned subsidiary of the Company, entered into the provisional agreement for acquisition of a property (the “KT Property”) located at Kwu Tung, New Territories with a gross floor area of resident unit of approximately 2,811 square feet, for residential purpose, at a cash consideration of HK\$18 million, which will be satisfied by internal resources of the Group. The acquisition of the KT Property was completed on 8 August 2011 while on the same date, Strong Mix and the previous owner of the KT Property entered into a tenancy agreement as landlord and tenant respectively of the KT Property with a monthly rental of HK\$60,000 for the period from 8 August 2011 to 7 August 2012 both days inclusive.

On 28 June 2011, Smart Look Limited, a wholly-owned subsidiary of the Company, entered into the property acquisition agreement with BK Capital for the purchase of a property (the “RB Property”) located at the Repulse Bay with a gross floor area of approximately 1,220 square feet, for residential purpose, at a cash consideration of HK\$19.5 million, which will be satisfied by internal resources of the Group. The acquisition of the RB Property will be completed on 28 September 2011. The Group intends to lease out the RB Property for residential purpose upon completion of acquisition of the RB Property. The transaction constituted a connected transaction of the Company under the Listing Rules.

## Management Discussion and Analysis

### Prospects

Besides the business of trading of computer components and information technology products and trading of securities, the Group continued to look for new business opportunities to diversify its business into industries that provide better returns for the shareholders of the Company.

During the Period, the Group acquired the above residential properties for investment purpose. The Directors are optimistic about the long term prospect of residential properties in Hong Kong and of the view that acquisition of the properties in Hong Kong can generate recurring and stable income and can provide capital appreciation potential to the Group.

### Liquidity and financial resources

The Group had total cash and bank balances of approximately HK\$220 million as at 30 June 2011 (31 December 2010: approximately HK\$236 million). Balance of other short-term borrowings was approximately HK\$2 million as at 30 June 2011 (31 December 2010: approximately HK\$2 million). The gearing ratio of the Group as at 30 June 2011 calculated as a ratio of total other loans to total assets was approximately 0.8% (31 December 2010: approximately 0.8%). Net assets were approximately HK\$233 million as at 30 June 2011 (31 December 2010: approximately HK\$233 million).

The Group recorded total current assets value of approximately HK\$240 million as at 30 June 2011 (31 December 2010: approximately HK\$247 million) and total current liabilities value of approximately HK\$15 million (31 December 2010: approximately HK\$14 million). The current ratio of the Group, calculated by dividing the total current assets value by the total current liabilities value, was about 15.8 as at 30 June 2011 (31 December 2010: approximately 18.0).

### INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011.

### FOREIGN EXCHANGE EXPOSURE

Transactions of the Group were mainly denominated either in Hong Kong dollars or United States dollars. In view of the stability of the exchange rate between these currencies, the Directors did not consider that the Group was significantly exposed to foreign exchange risk for the Period.

# Management Discussion and Analysis

## TREASURY POLICIES

The Group's major borrowings are in Hong Kong dollars and with fixed interest rates. Bank balances and cash held by the Group were denominated in Hong Kong dollars and United States dollars. 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 2011.

## SHARE CAPITAL

As at 30 June 2011, the issued share capital of the Company comprised 5,033,418,081 ordinary Shares of HK\$0.01 each.

## SIGNIFICANT INVESTMENTS

During the Period, the Group acquired equity securities listed in Hong Kong of approximately HK\$24,502,000 and disposed part of these listed securities of approximately HK\$18,213,000. As at 30 June 2011, the held for trading investment represented the equity securities listed in Hong Kong at fair value of approximately HK\$17,739,000. Details of the performance of these listed securities are set out in Note 3 to the condensed consolidated financial statements.

## 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 2011.

## SEGMENTAL INFORMATION

Details of segmental information for the six months ended 30 June 2011 are set out in Note 3 to the condensed consolidated financial statements.

# Management Discussion and Analysis

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2011.

## STAFF AND REMUNERATION POLICIES

As at 30 June 2011, the Group had 7 employees (31 December 2010: 7 employees). The Group's total staff costs amounted to approximately HK\$736,000 (2010: HK\$722,000) for the Period. 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.

## Management Discussion and Analysis

### SHARE OPTION SCHEME (continued)

There was no outstanding option to subscribe for Shares as at 1 January 2011 and no option to subscribe for Shares had been granted during the six months ended 30 June 2011. Accordingly, there was no option to subscribe for Shares outstanding as at 30 June 2011.

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

As at 30 June 2011, 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	9,070,642,719 Shares (Note 1)	180.21%
		Trustee	97,225,000 Shares (Note 2)	1.93%
			<u>9,167,867,719</u> <u>Shares</u>	<u>182.14%</u>
Mrs. Kan Kung Chuen Lai	The Company	Interest of spouse (Note 3)	9,167,867,719 Shares	182.14%
Mr. Li Kai Yien, Arthur Albert	The Company	Beneficial owner	3,000,000 Shares	0.06%
Ms. Li Shu Han, Eleanor Stella	The Company	Beneficial owner	2,000,000 Shares	0.04%
Mr. Ip Woon Lai	The Company	Beneficial owner	1,000,000 Shares	0.02%



## Management Discussion and Analysis

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

#### *Notes:*

1. These Shares represent: (i) 2,827,119,403 Shares held by Mr. Kan as beneficial owner; and (ii) 6,243,523,316 Shares to be allotted and issued to Mr. Kan upon the exercise in full of the conversion rights attaching to the Convertible Notes.
2. These Shares represent 97,225,000 Shares held by Mr. Kan as trustee.
3. 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.

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 2011.

### **SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2011, 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 2011.

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



# Management Discussion and Analysis

## 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 2011 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. 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 2011.

## 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 and 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, 30 August 2011