



Artel Group

宏通集團

ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

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

The background of the cover is a blue-tinted image of a circuit board. A central integrated circuit (chip) is the focal point, with numerous light rays radiating outwards from it, creating a sense of energy and technology. The rays are bright and create a lens flare effect. The circuit board components are visible but slightly blurred, emphasizing the central chip and the light rays.

Interim Report  
**2012**

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 2012 (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 Income

For the six months ended 30 June 2012

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2012</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2011 (Unaudited) HK\$'000
Rental income	3	<b>360</b>	–
Dividend income from held for trading investments	3	<b>1,238</b>	341
Gain on disposal of held for trading investments	3	<b>11,088</b>	1,103
Gain/(loss) on fair value changes on held for trading investments	3	<b>1,972</b>	(864)
		<b>14,658</b>	580
Revenue from distribution of computer components and information technology products	3	–	4,914
Cost of revenue		–	(4,372)
Gross profit		<b>14,658</b>	1,122
Other income		<b>297</b>	686
Administrative expenses		<b>(2,460)</b>	(2,082)
Interests on unsecured other loans		–	(147)
Profit/(loss) before taxation	4	<b>12,495</b>	(421)
Taxation	5	<b>(663)</b>	–
Profit/(loss) for the period attributable to equity shareholders of the Company		<b>11,832</b>	(421)
Other comprehensive loss for the period (after tax) Exchange difference arising on translation of foreign operations before and after tax effects		–	(47)
Total comprehensive income/(loss) for the period attributable to equity shareholders of the Company		<b>11,832</b>	(468)
Earnings/(loss) per share (HK cents)			
– Basic	7	<b>0.1559</b>	(0.0084)
– Diluted		<b>0.1057</b>	N/A

# Condensed Consolidated Statement of Financial Position

As at 30 June 2012

		<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
<b>Non-current assets</b>			
Investment properties	8	<b>80,826</b>	78,811
Plant and equipment		<b>810</b>	562
		<b>81,636</b>	79,373
<b>Current assets</b>			
Held for trading investments	9	<b>32,948</b>	68,132
Trade receivable, prepayments and deposits	10	<b>677</b>	890
Bank balances and cash		<b>137,441</b>	91,625
		<b>171,066</b>	160,647
<b>Current liabilities</b>			
Accrued charges and other payables		<b>676</b>	489
Income tax payable		<b>674</b>	11
		<b>1,350</b>	500
<b>Net current assets</b>		<b>169,716</b>	160,147
<b>Total assets less current liabilities</b>		<b>251,352</b>	239,520
<b>Non-current liability</b>			
Deferred tax liability		<b>188</b>	188
<b>Net assets</b>		<b>251,164</b>	239,332
<b>Capital and reserves</b>			
Share capital	11	<b>76,759</b>	70,541
Reserves		<b>174,405</b>	168,791
<b>Shareholders' funds</b>		<b>251,164</b>	239,332

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	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 2011	50,334	409,146	9,370	241,000	(371)	(476,256)	233,223
Total comprehensive loss for the period	-	-	-	-	(47)	(421)	(468)
At 30 June 2011 (Unaudited)	50,334	409,146	9,370	241,000	(418)	(476,677)	232,755
At 1 January 2012	70,541	466,939	9,370	163,000	(415)	(470,103)	239,332
Conversion of convertible notes (Note 12)	6,218	17,782	-	(24,000)	-	-	-
Total comprehensive income for the period	-	-	-	-	-	11,832	11,832
<b>At 30 June 2012 (Unaudited)</b>	<b>76,759</b>	<b>484,721</b>	<b>9,370</b>	<b>139,000</b>	<b>(415)</b>	<b>(458,271)</b>	<b>251,164</b>

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>47,857</b>	(9,034)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,041)</b>	(6,559)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>45,816</b>	(15,593)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>91,625</b>	235,776
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<b>137,441</b>	220,183

# 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 investment properties and 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 2011.

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”):-

Amendments to HKAS 12	Deferred tax: Recovery of Underlying Assets
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7 (2010)	Disclosures – Transfers of Financial Assets

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.

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.

## Notes to the Condensed Consolidated Financial Statements

### 3. TURNOVER AND SEGMENT INFORMATION

The Group's turnover represents the aggregate of the rental income from letting of investment properties, 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>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Rental income	<b>360</b>	–
Dividend income from held for trading investments	<b>1,238</b>	341
Gain on disposal of held for trading investments	<b>11,088</b>	1,103
Gain/(loss) on fair value changes on held for trading investments	<b>1,972</b>	(864)
Revenue from distribution of computer components and information technology products	–	4,914
	<b>14,658</b>	5,494

## Notes to the Condensed Consolidated Financial Statements

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

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

Principal activities are as follows:–

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

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 business is set out below:-

	Properties investment		Trading of securities		Distribution of computer components and information technology products		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External	360	-	14,298	580	-	4,914	14,658	5,494
RESULT								
Segment result	44	-	13,860	359	-	424	13,904	783
Other operating income							297	686
Unallocated corporate expenses							(1,706)	(1,743)
Finance costs							-	(147)
Profit/(loss) before taxation							12,495	(421)
Taxation							(663)	-
Profit/(loss) for the period							11,832	(421)

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

During the period, the Group has no customer (2011: one) in the business segment of distribution of computer components and information technology products.

## Notes to the Condensed Consolidated Financial Statements

### 4. PROFIT/(LOSS) BEFORE TAXATION

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Profit/(loss) before taxation has been arrived at after charging/(crediting):-		
Depreciation of plant and equipment	<b>76</b>	76
Rental income less outgoings	<b>(236)</b>	-
Interest income	<b>(297)</b>	(685)

### 5. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Hong Kong Profits Tax	<b>663</b>	-

Provision of Hong Kong Profits Tax for the Period is calculated at 16.5% of the estimated assessable profits for the Period.

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

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

## Notes to the Condensed Consolidated Financial Statements

### 6. DIVIDEND

The Director proposed to declare an interim dividend of HK\$0.1 cents per share (2011:nil). The interim dividend is intended to be distributed from the share premium of the Company of approximately HK\$484,721,000. The distribution of interim dividend will be subject to shareholders' approval in a special general meeting of the Company.

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

The calculation of basic earnings/(loss) per share of the Company (the "Share") attributable to equity shareholders of the Company for the Period is based on the profit for the Period of approximately HK\$11,832,000 (2011: loss of approximately HK\$421,000) and the weighted average number of 7,590,498,306 (2011: 5,033,418,081) Shares in issue.

The calculation of diluted earnings per Share attributable to equity shareholders of the Company for the Period is based on the profit for the Period of approximately HK\$11,832,000 and the weighted average number of 7,590,498,306 Shares in issue adjusted for potential diluted effect of 3,601,036,269 Shares to be allotted and issued upon the exercise in full of the conversion rights attaching to the outstanding convertible notes (see note 12). Diluted loss per Share has not been calculated for the preceding period as the exercise of the outstanding convertible notes would result in a decrease in the loss per Share.

	As at 30 June	
	2012	2011
	Number	Number
	of Share	of Share
<b>Weighted average number of Shares</b>		
Weighted average number of Shares (basic)	<b>7,590,498,306</b>	5,033,418,081
Effect of the exercise in full of the conversion rights attaching to the outstanding convertible notes	<b>3,601,036,269</b>	6,243,523,316
Weighted average number of Shares (diluted)	<b>11,191,534,575</b>	11,276,941,397

# Notes to the Condensed Consolidated Financial Statements

## 8. INVESTMENT PROPERTIES

	HK\$'000
Additions and at 31.12.2011 (audited)	78,811
Additions	2,015
	<hr/>
At 30.6.2012 (unaudited)	80,826
	<hr/> <hr/>

The Directors estimated the fair value of the Group's investment properties at 30 June 2012 by reference to comparable sales transactions as available in the relevant market.

The fair value of the Group's investment properties at 31 December 2011 has been arrived at on the basis of a valuation carried out on that date by RHL Appraisal Ltd, an independent professional surveyor and property valuer not connected with the Group. RHL Appraisal Ltd is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant location. The valuations were arrived at by reference to comparable sales transactions as available in the relevant market.

All of the Group's properties interest held under operating lease to earn rentals or for capital appreciation purposes is measured using the fair value model and is classified and accounted for as an investment property.

As at 30 June 2012 and 31 December 2011, all of the Group's investment properties were located in Hong Kong and were built on land held under the following term leases:-

	<b>As at 30 June 2012 (Unaudited) HK\$'000</b>	As at 31 December 2011 (Audited) HK\$'000
Medium-term leases	<b>60,376</b>	58,361
Long-term leases	<b>20,450</b>	20,450
	<hr/> <b>80,826</b> <hr/>	<hr/> 78,811 <hr/>

## Notes to the Condensed Consolidated Financial Statements

### 9. HELD FOR TRADING INVESTMENTS

	<b>As at 30 June 2012 (Unaudited) HK\$'000</b>	As at 31 December 2011 (Audited) HK\$'000
Equity securities listed in Hong Kong, at fair value	<b>32,948</b>	68,132

The fair value of the Group's investments in listed equity securities has been determined directly by reference to their published price quotations in active market as at 30 June 2012.

### 10. TRADE RECEIVABLE, PREPAYMENTS AND DEPOSITS

	<b>As at 30 June 2012 (Unaudited) HK\$'000</b>	As at 31 December 2011 (Audited) HK\$'000
Trade receivable	<b>60</b>	–
Prepayments and deposits	<b>617</b>	890
	<b>677</b>	890

The trade receivable represented the rental income due from a tenant generated from an investment property. The Group allows its tenant to pay the rent one month in advance. The trade receivable of HK\$60,000 was past due within 30 days but not impaired at the end of the reporting period.

Trade receivable that was past due but not impaired is related to the tenant 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 this balance as there had not been a significant change in credit quality and the balance was fully recovered after the end of the reporting period. The Group did not hold any collateral over the balance.

# Notes to the Condensed Consolidated Financial Statements

## 11. SHARE CAPITAL

	2012		2011	
	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>7,054,143,469</b>	<b>70,541</b>	5,033,418,081	50,334
Conversion of convertible notes (Note 12)	<b>621,761,658</b>	<b>6,218</b>	-	-
At 30 June	<b>7,675,905,127</b>	<b>76,759</b>	5,033,418,081	50,334

## 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 initial conversion price is HK\$0.0386 per Share. Assuming that the conversion rights attached 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 attached 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.

The outstanding principal amount of the Convertible Notes as at 1 January 2011 and 30 June 2011 was HK\$241,000,000. On 31 August 2011, Mr. Kan exercised the conversion rights attaching to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK\$78,000,000 of the Convertible Notes and an aggregate of 2,020,725,388 Shares were allotted and issued to Mr. Kan. The outstanding principal amount of the Convertible Notes as at 31 December 2011 was HK\$163,000,000.

On 26 January 2012, Mr. Kan further exercised the conversion rights attached to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK\$24,000,000 of the Convertible Notes and an aggregate of 621,761,658 Shares were allotted and issued to Mr. Kan. Save as disclosed, there was no other conversion thereafter during the Period and the outstanding principal amount of the Convertible Notes as at 30 June 2012 was HK\$139,000,000.

## 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:-

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Short-term benefits	559	591
Post-employment benefits	6	6
	<b>565</b>	<b>597</b>

### 14. OPERATING LEASE COMMITMENTS

The Group as lessee:-

As at 30 June 2012, 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:-

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within one year	979	123
In the second to fifth year inclusive	1,926	-
	<b>2,905</b>	<b>123</b>



# Notes to the Condensed Consolidated Financial Statements

## 14. OPERATING LEASE COMMITMENTS (continued)

Operating lease payments represent rentals payable by the Group for its office premises. The lease is negotiated for a term of 3 years (2011: 3 years) and the lease is guaranteed by Mr. Kan. None of the leases includes contingent rentals.

The Group as lessor:-

At the end of the reporting period, the Group's future minimal lease payments under non-cancellable operating leases are receivable as follows:-

	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>60</b>	-

During the period, the Group leases out investment properties under operating leases. The lease is negotiated with a term of 1 year with fixed monthly rental. None of the leases includes contingent rentals.

## 15. POST BALANCE SHEET EVENT

On 31 July 2012, a tenancy agreement was signed between an independent third party as tenant and a subsidiary of the Company as landlord for leasing of a property located in Central Mid-levels for residential purpose, at a monthly rental of HK\$70,000 for the period from 1 September 2012 to 31 August 2014 both days inclusive.

# 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 16, which comprises the condensed consolidated statement of financial position of Artel Solutions Group Holdings Limited as of 30 June 2012 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, 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  
31 August 2012

# Management Discussion and Analysis

## Business Review and Financial Review

During the Period, turnover of the Group increased by 1.7 times from approximately HK\$5.5 million to approximately HK\$14.7 million. The significant increase in turnover was mainly resulted from the increase in the realized and unrealized gain on trading of equity securities listed in Hong Kong from approximately HK\$239,000 for the previous corresponding period to approximately HK\$13 million during the Period.

In order to broaden the income base of the Group and for long term investment purpose, the Group was engaged in properties investment in the second half of 2011. Rental income of HK\$360,000 was derived from a residential property located in Kwun Tung, New Territories during the Period. The Group has two more properties located in Central Mid-levels and at the Repulse Bay for residential purposes. One of the properties located in Central Mid-levels has finished inside renovation work in June 2012 and was leased out with a monthly rental of HK\$70,000 for the period from 1 September 2012 to 31 August 2014 both days inclusive. For the other property located at the Repulse Bay, as the whole building of this property is still under a major renovation and the Group expects to be able to lease it out for rental income purpose after completion of the renovation works around the end of 2012.

Due to the low profit margin in the business of distribution of computer component and information technology products, no turnover was generated from this business during the Period as compared with approximately HK\$4.9 million turnover generated in the previous corresponding period, as the Directors would like to concentrate on the businesses of trading of securities and properties investment that yield a much higher profit margin. The Group does not envisage to continue the business of distribution of computer components and information technology products until such time the market condition have improved satisfactorily.

In conclusion, due to the good results generated from the trading of securities, the net results of the Group changed from a loss of approximately HK\$421,000 for the previous corresponding period to a profit of approximately HK\$12 million for the Period.

## Prospects

Besides the existing businesses, 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.

## Liquidity and financial resources

The Group had total cash and bank balances of approximately HK\$137 million as at 30 June 2012 (31 December 2011: approximately HK\$92 million). There was no short-term borrowing as at 30 June 2012 and 31 December 2011, no gearing ratio of the Group was calculated as at 30 June 2012 and 31 December 2011. Net assets were approximately HK\$251 million as at 30 June 2012 (31 December 2011: approximately HK\$239 million).

## Management Discussion and Analysis

### **Liquidity and financial resources** (continued)

The Group recorded total current assets value of approximately HK\$171 million as at 30 June 2012 (31 December 2011: approximately HK\$161 million) and total current liabilities value of approximately HK\$1.35 million (31 December 2011: approximately HK\$500,000). The current ratio of the Group, calculated by dividing the total current assets value by the total current liabilities value, was about 127 as at 30 June 2012 (31 December 2011: approximately 321).

### **INTERIM DIVIDEND**

The Directors proposed to declare an interim dividend of HK\$0.1 cents per share (2011:nil). The interim dividend is intended to be distributed from the share premium of the Company of approximately HK\$484,721,000. The distribution of interim dividend will be subject to shareholders' approval in a special general meeting of the Company.

### **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.

### **TREASURY POLICIES**

Bank balances and cash held by the Group were denominated in Hong Kong dollars and United States dollars and bear interests at rates varied with the then prevailing marketing condition. 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 2012.

# Management Discussion and Analysis

## SHARE CAPITAL

As at 30 June 2012, the issued share capital of the Company comprised 7,675,905,127 ordinary Shares of HK\$0.01 each.

## SIGNIFICANT INVESTMENTS

During the Period, the Group acquired equity securities listed in Hong Kong of approximately HK\$54,856,000 and all of these listed securities were disposed of at a profit. As at 30 June 2012, the held for trading investment represented the equity securities listed in Hong Kong at fair value of approximately HK\$32,948,000. 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 2012.

## SEGMENTAL INFORMATION

Details of segmental information for the six months ended 30 June 2012 are set out in Note 3 to the condensed consolidated financial statements.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2012.

## STAFF AND REMUNERATION POLICIES

As at 30 June 2012, the Group had 5 employees (31 December 2011: 7 employees). The Group's total staff costs amounted to approximately HK\$694,000 (2011: HK\$736,000) 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.

## Management Discussion and Analysis

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

As at 30 June 2012 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. Li Kai Yien, Arthur Albert	The Company	Beneficial owner	3,000,000 Shares	0.04%
Ms. Li Shu Han, Eleanor Stella	The Company	Beneficial owner	2,000,000 Shares	0.03%
Mr. Ip Woon Lai	The Company	Beneficial owner	1,000,000 Shares	0.01%

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 2012.

# Management Discussion and Analysis

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, so far as was known to the Directors and chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or a 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.

### Long positions

Name of shareholders	Number of Shares held	Approximate percentage of the Issue share capital of the Company
Mr. Kan	9,070,642,718 Shares (Note 1)	118.17%
	97,225,000 Shares (Note 2)	1.27%
	<hr/> <u>9,167,867,718</u> Shares	<hr/> <u>119.44%</u>
Mrs. Kan Kung Chuen Lai	9,167,867,718 Shares (Note 3)	119.44%

#### Notes:

1. These Shares represent: (i) 5,469,606,449 Shares held by Mr. Kan as beneficial owner; and (ii) 3,601,036,269 Shares to be allotted and issued to Mr. Kan upon the exercise in full of the conversion rights attaching to the outstanding 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, no other person (other than a Director or chief executive of the Company) had any interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO as at 30 June 2012.

# Management Discussion and Analysis

## 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 2012.

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 Stock Exchange of Hong Kong Limited has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Listing Rules and renamed it the Corporate Governance Code (the "CG Code"). The CG Code took effect on 1 April 2012.

The Company has complied with the code provisions of the Old Code during the period from 1 January 2012 to 31 March 2012 and of the CG Code during the period from 1 April 2012 to 30 June 2012 except for the following deviations:

1. Under the Code Provision A.2, the Company has not appointed any individual to take up the posts of the chief executive officer and chairman of the Company during the Period and the daily operation and management of the Group were monitored by the directors as well as the senior management of the Group. The balance of power and authority was ensured by the operation of the Board and the Board considered that the current structure would not impair the balance of power and authority between the Board and the senior management of 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.



## Management Discussion and Analysis

### 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 2012.

### BOARD OF DIRECTORS

As at the date of this report, the Board comprises 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  
**Li Kai Yien, Arthur Albert**  
*Director*

Hong Kong, 31 August 2012