

**ACR** 亞洲資產(控股)有限公司  
**ASIAN CAPITAL RESOURCES (HOLDINGS) LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8025)**

**Interim Report 2011**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors of Asian Capital Resources (Holdings) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Asian Capital Resources (Holdings) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*As at the date of this report, the executive directors of the Company are Mr. Xie Xuan (Chairman), and Mr. Qiu Yue; the non-executive directors are Mr. Lo Mun Lam Raymond (Vice Chairman), and Mr. Andrew James Chandler; and the independent non-executive directors are Mr. Wu Jixue, Dr. Feng Ke and Mr. Zhang Daorong.*

## UNAUDITED CONDENSED CONSOLIDATED RESULTS

The board of directors (the “Board”) of Asian Capital Resources (Holdings) Limited (the “Company”) present the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three and six months ended 30 June 2011 together with the comparative figures for the corresponding periods in 2010 as follows:

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Turnover	2	<b>1,413</b>	1,479	<b>3,188</b>	3,141
Cost of services		<b>(282)</b>	(322)	<b>(1,486)</b>	(966)
Gross profit		<b>1,131</b>	1,157	<b>1,702</b>	2,175
Other revenue		—	2	—	2
Interest income		<b>1</b>	1	<b>2</b>	1
Staff costs		<b>(588)</b>	(776)	<b>(1,336)</b>	(1,520)
Operating lease rentals		<b>(62)</b>	(69)	<b>(113)</b>	(201)
Other operating expenses		<b>(485)</b>	(1,194)	<b>(1,008)</b>	(1,640)
Depreciation and amortization		<b>(4,919)</b>	(7,837)	<b>(9,813)</b>	(15,666)
Loss from operating activities		<b>(4,922)</b>	(8,716)	<b>(10,566)</b>	(16,849)
Finance costs		<b>(255)</b>	(236)	<b>(502)</b>	(447)
Loss before taxation		<b>(5,177)</b>	(8,952)	<b>(11,068)</b>	(17,296)
Taxation	3	<b>40</b>	(2)	<b>557</b>	(2)
Loss for the period		<b>(5,137)</b>	(8,954)	<b>(10,511)</b>	(17,298)
Attributable to:					
Equity holders of the Company		<b>(5,140)</b>	(9,341)	<b>(10,633)</b>	(18,126)
Non controlling interest		<b>3</b>	387	<b>122</b>	828
		<b>(5,137)</b>	(8,954)	<b>(10,511)</b>	(17,298)
Loss per share					
— Basic	4	<b>(0.50 cents)</b>	(0.97 cents)	<b>(1.04 cents)</b>	(1.88 cents)

## CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As at <b>30 June 2011</b> <i>HK\$'000</i>	Audited As at 31 December 2010 <i>HK\$'000</i>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment		717	1,112
Intangible Assets		<b>80,052</b>	89,470
		<hr/> <b>80,769</b> <hr/>	90,582
<b>Current assets</b>			
Trade and other receivables	5	2,762	11,347
Cash and bank balances		<b>1,219</b>	6,504
		<hr/> <b>3,981</b> <hr/>	17,851
<b>Current liabilities</b>			
Trade and other payables	6	<b>(64,082)</b>	(74,940)
Amount due to a director		<b>(5,646)</b>	(6,033)
Tax payable		—	(216)
		<hr/> <b>(69,728)</b> <hr/>	(81,189)
<b>Net current assets/(liabilities)</b>		<hr/> <b>(65,747)</b> <hr/>	(63,338)
<b>Total assets less current liabilities</b>		<hr/> <b>15,022</b> <hr/>	27,244

		<b>Unaudited As at 30 June 2011 <i>HK\$'000</i></b>	Audited As at 31 December 2010 <i>HK\$'000</i>
	<i>Notes</i>		
<b>Non-current liabilities</b>			
Amount due to immediate holding company	7	<b>(20,340)</b>	(19,385)
Convertible Notes		<b>(56,224)</b>	(73,541)
Deferred Tax Liabilities		<b>(24,178)</b>	(24,735)
		<hr/> <b>(100,742)</b>	(117,661)
<b>Net (liabilities)/assets</b>		<hr/> <b>(85,720)</b>	(90,417)
<b>Capital and reserves</b>			
Share capital		<b>108,269</b>	98,842
Reserves		<b>(224,324)</b>	(219,472)
(Deficit)/Equity attributable to shareholders of the Company		<b>(116,055)</b>	(120,630)
Minority interests		<b>30,335</b>	30,213
<b>Total (deficit)/equity</b>		<hr/> <b>(85,720)</b>	(90,417)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited Consolidated Statement of Changes in Equity for the six months ended 30 June 2011 and the six months ended 30 June 2010:

	Attributable to equity holders of the Company								Total
	Share capital	Share premium	Capital reserve	Translation Reserves	Convertible notes Reserve	Accumulated reserve	Non-Controlling Sub-total	Interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2010	96,342	119,693	26,020	(1,113)	—	(310,359)	(69,417)	77,840	8,423
Movement for the period	1,300	2,275	—	(5)	—	(8,785)	(8,785)	828	(13,728)
As at 30 June 2010	97,642	121,968	26,020	(1,118)	—	(319,144)	(78,202)	78,668	(5,305)
As at 1 January 2011	98,842	124,060	26,020	(3,456)	11,979	(378,075)	(120,630)	30,213	(90,417)
Movement for the period	9,427	8,480	—	—	(2,821)	(10,511)	4,575	122	4,697
As at 30 June 2011	108,269	132,540	26,020	(3,456)	9,158	(388,586)	(116,055)	30,335	(85,720)

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Net cash (outflow) from operating activities	<b>(3,744)</b>	(4,448)
Net cash inflow/(outflow) from investing activities	<b>—</b>	(232)
Net cash (outflow) before financing activities	<b>(3,744)</b>	(4,680)
Net cash inflow from financing activities	<b>(1,541)</b>	6,831
Increase/(Decrease) in cash and cash equivalents	<b>(5,285)</b>	2,151
Cash and cash equivalents at 1 January	<b>6,504</b>	1,863
Effect of foreign exchange rate changes	<b>—</b>	(5)
Cash and cash equivalents at 30 June	<b>1,219</b>	4,009
Analysis of balances of cash and cash equivalents: Bank balances and cash	<b>1,219</b>	4,009

Notes:

## 1. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“the HKICPA”), and accounting principles general accepted in Hong Kong. The principal accounting policies adopted in preparing these financial statements are consistent with those followed in the Group’s annual audited consolidated financial statements for the year ended 31 December 2010.

## 2. TURNOVER

The Group’s turnover represents the invoiced value of service fees from the provision of internet protocol television services; and excludes intra-Group transactions as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2011 HK\$’000	2010 HK\$’000	2011 HK\$’000	2010 HK\$’000
Internet protocol television (“IPTV”) services income	<b>1,413</b>	1,479	<b>3,188</b>	3,141
Total turnover	<b>1,413</b>	1,479	<b>3,188</b>	3,141

### (a) Business segments

	Internet Protocol Value Added Services		Others		Total	
	2011 HK\$’000	2010 HK\$’000	2011 HK\$’000	2010 HK\$’000	2011 HK\$’000	2010 HK\$’000
Sales to external customers	<b>3,188</b>	3,141	—	—	<b>3,188</b>	3,141
<b>RESULT</b>						
Segment results	<b>1,064</b>	1,825	—	—	<b>1,064</b>	1,825
Interest income					2	1
Unallocated expenses					(11,632)	(18,675)
Loss from operating activities					(10,566)	(16,849)
Finance costs					(502)	(447)
Loss before taxation					(11,068)	(17,296)
Taxation					557	(2)
Loss for the period					(10,511)	(17,298)
Depreciation and amortization	<b>395</b>	456	<b>9,418</b>	15,210	<b>9,813</b>	15,666



(b) Geographical segments

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Turnover		
Hong Kong	—	—
The PRC	3,188	3,141
	<hr/>	<hr/>
	3,188	3,141
	<hr/>	<hr/>

3. TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	40	—	557	—
PRC income tax	—	(2)	—	(2)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	40	(2)	557	(2)
	<hr/>	<hr/>	<hr/>	<hr/>

On 9 February 2011, 86,500,000 new ordinary shares of HK\$0.10 in the capital of the Company were issued to Logic Ease Group Limited upon the said company's conversion of the principal sum of HK\$18,857,000 of the zero-coupon convertible notes issued by the Company on 11 October 2010 with 24 month maturity, at the conversion price of HK\$0.218 per ordinary share, whereupon the Group wrote back the amount of approximately HK\$517,000 of deferred tax liabilities as recorded in the Group's audited consolidated financial statements for the year ended 31 December 2010.

On 24 June 2011, 6,770,000 new ordinary shares of HK\$0.10 each in the capital of the Company were issued to YE XINLIAN upon the said person's conversion of the principal sum of HK\$1,475,860 of the zero-coupon convertible notes issued by the Company on 11 October 2010 with 24 month maturity, at the conversion price of HK\$0.218 per ordinary share, whereupon the Group wrote back the amount of approximately HK\$40,000 of deferred tax liabilities as recorded in the Group's audited consolidated financial statements for the year ended 31 December 2010.

#### 4. LOSS PER SHARE

The calculation of basic loss per share for the three months and six months ended 30 June 2011 is based on the net loss from ordinary activities attributable to equity holders of the Company of approximately HK\$5,140,000 (2010: HK\$9,341,000) and approximately HK\$10,633,000 (2010:HK\$18,126,000) and the weighted average number of ordinary shares of approximately 1,020,826,275 (2010: 963,489,809) during the periods.

#### 5. TRADE RECEIVABLES

	As at <b>30 June</b> <b>2011</b> <i>HK\$'000</i>	As at 31 December 2010 <i>HK\$'000</i>
Ageing analysis of the Group's receivables is as follows:		
0 to 30 days	<b>708</b>	—
31 to 60 days	<b>649</b>	—
61 to 90 days	<b>590</b>	—
91 to 150 days	<b>122</b>	—
Over 150 days	—	—
	<hr/> <b>2,069</b> <hr/>	—

#### 6. TRADE PAYABLES

	As at <b>30 June</b> <b>2011</b> <i>HK\$'000</i>	As at 31 December 2010 <i>HK\$'000</i>
Ageing analysis of the Group's payables is as follows:		
0 to 30 days	—	—
31 to 60 days	—	—
61 to 90 days	—	—
91 to 150 days	—	—
Over 150 days	<b>21,964</b>	21,964
	<hr/> <b>21,964</b> <hr/>	21,964

#### 7. FINANCE COSTS

The finance costs represent the interest on amount due to the Company's immediate holding company, which bears interest at 5% per annum.

## **DIVIDEND**

The Board does not recommend the payment of dividend for the six months ended 30 June 2011 (2010: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Turnover and loss attributable to shareholders**

The total turnover of the Group for the six months ended 30 June 2011 was approximately HK\$3,188,000 (2010: HK\$3,141,000) which was slightly increased by approximately 1.50% as compared to that of the previous financial year. The increase in the total turnover of the Group was attributable to the further development of the Group's IPTV division.

The unaudited condensed consolidated loss from operations for the six months ended 30 June 2011 was approximately HK\$10,511,000, which was decreased as compared with the corresponding period last year, which was approximately HK\$17,298,000. The decrease in loss for the period is mainly attributable to the reduction in the provision made for amortisation on the intangible assets of the Group.

Provision has been made for amortisation on the intangible assets of the Group in the amount of approximately HK\$9,418,000 as the Board has adopted a prudent approach and determined that amortisation on the intangible assets provision should be made on the intangible assets of the Group, while having regards for the applicable Hong Kong accounting standard HKAS 36.

The intangible assets of the Group are comprised of the IPTV permit, namely the "Broadcast of Audio-Video Program On Web Permit" (信息網路傳播視聽節目許可證) (the "Permit") currently held by Guangzhou Wavecom Communications and Advertising Limited ("Guangzhou Wavecom"). Guangzhou Wavecom is a wholly-owned subsidiary of the Company and possession of the Permit allows Guangzhou Wavecom's subsidiary, South Pearl Limited, to operate the Group's IPTV division in the greater southern China region. The Permit has been granted by Guangzhou Television Broadcast Microwave General Station ("Guangzhou Television Station") to Guangzhou Wavecom. Possession of the Permit allows, and is a prerequisite to South Pearl Limited being able to act as the exclusive service provider of Guangzhou Television Station's programmes, advertising and other IPTV services within the greater southern China region. The Permit commenced on 1 October 2007 and will expire on 30 September 2015.

The Group's gross profit margin is decreased from 69.24% for the six months ended 30 June 2010 to 53.39% for the current period.

### **Financial cost**

The financial cost of the Group for the six months ended 30 June 2011 was approximately HK\$502,000 (2010: HK\$447,000) which was increased by approximately 12.3% as compared to that of the same period of last year.

### **Liquidity, financial resources and capital structure**

For the six months ended 30 June 2011, the Group's borrowing consists of a loan from the immediate holding company of approximately HK\$20,340,000. The Group had a cash balance of approximately HK\$1,219,000.

The Group continues to adopt a prudent treasury policy to maintain its cash balance either in Hong Kong Dollars, or in the local currencies of the operating subsidiaries, maintaining a minimum exposure to foreign exchange risks.

The issued share capital of the Group for the six months ended 30 June 2011 increased from HK\$98,841,799 to HK\$108,268,799 during the period.

### **Gearing Ratio**

For the six months ended 30 June 2011, the gearing ratio of the Group, expressed as a percentage of net debt divided by total capital plus net debt, was 232.53% (2010: 192.21%).

### **Employee and remuneration policies**

As at 30 June 2011, the Group employed a total of 18 employees (as at 30 June 2010: 21), of which 4 were located in Hong Kong and the remaining 14 were located in the PRC. The Group's remuneration policies are in line with the prevailing market practices and formulated on the basis of performance and experience of the employees. The salary and related benefits of the employees are rewarded on a performance related basis and the general remuneration structure of the Group is subject to review annually.

## **OPERATIONAL REVIEW**

During the period under review, the Group sought to further enlarge its revenue base through the further development of the Group's IPTV division which currently provides IPTV value added services to the greater southern China region. The Company has a sufficient level of operations in its IPTV division and has sufficient assets to operate its business as a going concern. The Company does not have any financial difficulties to an extent which may seriously impair the Company's ability to continue its business. The Company also has, in addition to those assets held by the IPTV division, sufficient assets to operate its business due to the continuing support of the Company's immediate holding company.

The Board, looking forward, is contemplating transferring the investment operations of the Group, which will allow the Company to focus on project investments which will derive value for the Company's shareholders, and pave the way for the Company's future growth, both in terms of revenue streams and profits achieved from its business operations.

### **Performance of operating divisions**

#### *Information Technology Division*

The Group has been positioning its IPTV division towards becoming a major provider of IPTV technology and upgrades, contents and high-definition value added services ("Direct IPTV Services") and the provision of advertising slots and services ("Downstream Services") to the customers of established internet and network services providers which South Pearl Limited ("South Pearl") is currently in partnership with within the greater southern China region.

As to South Pearl's provision of Direct IPTV Services, having established and upgraded its necessary networks, South Pearl expects that it will launch the provision of Direct IPTV Services with associated value-added services in full force in the next one to two years, and that the expected potential subscribers to the proposed Direct IPTV Services to be provided, upon completion of the development and implementation of this technology platform, is expected to be no less than 50,000 subscribers.

South Pearl is now also actively negotiating further agreements with other third parties for the provision of Downstream Services, the revenue from which will be derived once the direct IPTV services network issues are addressed and the Direct IPTV Services are provided to South Pearl's potential customer base for the receipt of Direct IPTV Services.

The Board is of the view that the key competitive strength of the Group, with regards to the IPTV division, is its exclusive right of usage of Broadcast of Audio-Video Program On Web Permit (信息網絡傳播視聽節目許可證) (the “Permit”) granted from Guangzhou Television Broadcast Microwave General Station (廣州市廣播電視微波總站). To date, the Group’s IPTV division has secured the necessary operating licenses and has fulfilled the necessary research, development and technology investment, to position itself for the provision of Direct IPTV Services to the greater southern China region.

Whilst the Board has been adopting a prudent and cautious approach with regard to further investing, developing and expanding the Group’s IPTV division, the Board has been very actively involved in developing the IPTV division such that it has sufficient assets and a sufficient level of operations which the Board is of the view delivers present, and more positively looking forward, should deliver future enhanced benefits for the Company’s shareholders.

#### *Financial Consultancy*

Apart from the aforementioned operations, the Group continues to research, develop and explore investment opportunities which are strategic to its business operations and which will contribute significantly to the return of the Company’s shareholders.

With the acquisition of Vega International Group Limited (“Vega”), which is principally engaged in the provision of services in corporate finance and investment, project planning and development, technology project brokerage services, corporate development services, management consulting and post-acquisition advisory and professional management services, the Board had been researching, developing and exploring further opportunities for development in the corporate finance sector which the Board envisages will further contribute to the current revenue streams generated by the Group.

In relation to the corporate finance sector, the Board is now planning to devote more of the Group’s resources towards expanding the provision of financial consultancy services to business sectors that complement and have synergy with the household consumers and media services that the IPTV division of the Company is presently pursuing. The Board envisages that it will enlarge the service base of Vega in the forthcoming reporting periods, paving the way for the Group to devote more of its resources to the further development of the Group’s emerging corporate finance division which the Board expects will derive value for the Company’s shareholders, and pave the way for the Company’s future growth.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

### **Deregistration and Winding-Up of various Subsidiaries in the Group**

The Board has resolved that, in order to reduce the operating costs of the Group, those subsidiaries within the Group which no longer add value to, nor generate any income attributable to the Group, should be deregistered, or voluntarily wound up.

Those subsidiaries which are currently in the deregistration process are: Asian Information Investment (Holdings) Limited (BVI), AIR Logistics International Holdings Limited, Asian Information Resources Consultants Limited, Sinobase Asia Limited, Sino Resource Investments Limited, Asian Information Resources Techlogic Limited, and Guangzhou Shilian Software Technological Co. Limited.

Explore International Limited, Explore Limited, and AIR SQW Limited have been deregistered during the period.

Those subsidiaries which are currently being voluntarily wound up are: Asian Information Investment Consulting Limited, BuyCollection.com Limited, and Myhome Network Limited.

## **MATERIAL LITIGATION AND CONTINGENT LIABILITIES**

On 27 April 2010, Union Resources Educational Development (Yanjiao) Company Limited (“UREDY”), as the first plaintiff, and Union Resources (Educational Development) Limited (“UR”), as the second plaintiff (the “Plaintiffs”), initiated legal proceedings against the Company, as the first defendant, and four other persons, being the second to fifth defendants, by way of the issue of a Writ of Summons in the High Court of Hong Kong under action number HCA589 of 2010 (the “Writ of Summons”). For further details of the Writ of Summons and the indorsement of claim as it pertains to the Company, please refer to the Company’s announcements dated 28 April 2010, and 3 May 2010.

As stated in the Company’s announcement dated 3 May 2010, the Board is given to understand that in the event that the Plaintiffs prosecute the claims stated in the Writ of Summons, then the Plaintiffs will claim they are entitled to an award of specific damages in the sum of RMB9,744,000.

The Board, after a preliminary assessment of the Writ of Summons, is of the view that in the event that the Plaintiffs are successful in proving the relevant claims against the Company, and that if the possible specific damages of RMB9,744,000, and a possible claim for UREDY's and UR's legal costs are awarded against the Company, that such awards will not have a material adverse impact on the Group's financial position, in the long term.

On 11 February 2011, the Eastern Magistrates Court of Hong Kong issued five summonses to the Company. Each of them alleges that the Company, contrary to sections 384(1) and 384(6) of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, did provide to the Stock Exchange of Hong Kong Limited a copy of an announcement which was false or misleading in a material particular, and the Company knew or was reckless as to whether the information was false or misleading in a material particular. For details of the five summonses please refer to the Company's announcement dated 16 February 2011.

The Company has entered pleas of not guilty to each of the five summonses and a trial date for the hearing of the five summonses has been set for 28 November 2011.

The Board is of the view that in the event that the Company is convicted of any or all of the five summonses, such conviction(s) will not have a material adverse impact on the Group's financial position.

Save as disclosed above, as at 30 June 2011 neither the Company nor any of its subsidiaries is involved in any litigation or claim of material importance and there is no litigation or claim of material importance known to the Board to be pending or threatened against the Company or any of its subsidiaries.

## **SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD**

The Group has no significant events after the reporting period.



## DISCLOSURE OF INTERESTS

### (A) Interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations

As at 30 June 2011, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares, or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571, (“SFO”) which (a) 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 were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) contained in the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### (i) Long Positions in the Ordinary Shares of HK\$0.10 each (the “Shares”) of the Company

	Number of issued Shares held, capacity and nature of interest				Total	Percentage of the Company's issued Shares as at 30 June 2011
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust		
<i>Directors</i>						
Mr. Xie Xuan	—	—	546,964,782 (Note 1)	—	546,964,782	50.88%
Mr. Qiu Yue	15,430,000	—	18,620,436 (Note 2)	—	34,050,436	3.17%
	15,430,000	—	565,585,218	—	581,015,218	54.05%

*Note 1:* The controlled corporation is Glamour House Limited, which is accustomed to acting in accordance with Mr. Xie Xuan's instructions who is its sole director, and which is the beneficial owner as to 67.18% of Asian Dynamics International Limited.

*Note 2:* The controlled corporation is Lucky Peace Limited, which is incorporated in Samoa, and which is 100% wholly-owned by Mr. Qiu Yue.

Save as disclosed above, as at 30 June 2011, none of the Directors or chief executive 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 (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

**(B) Interests and short positions of the Substantial Shareholders in the Shares, underlying shares and debentures of the Company**

As at 30 June 2011, so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had, or were deemed or taken to have, an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, were as follows:

*(i) Long Positions in the Shares*

Name of Shareholder	Capacity	Number of Shares	Percentage of the Company's issued Shares as at 30 June 2011
Glamour House Limited	Interest of a controlled corporation ( <i>Note 1</i> )	546,964,782	50.88%
Mr. Chu Yat Hong	Interest of a controlled corporation ( <i>Note 2</i> )	546,964,782	50.88%
Asian Dynamics International Limited	Beneficial owner	546,846,132	50.87%
Logic Ease Group Limited	Beneficial Owner	86,500,000	8.05%

*Note 1:* The controlled corporation is Asian Dynamics International Limited, which is beneficially owned as to 67.18% by Glamour House Limited.

*Note 2:* The controlled corporation is Glamour House Limited, which is beneficially owned as to 90% by Mr. Chu Yat Hong, and which is the beneficial owner as to 67.18% of Asian Dynamics International Limited.

(ii) *Long Positions in the Underlying Shares*

Long positions in the unlisted zero-coupon convertible redeemable notes with 24-month maturity issued on 11 October 2010 (the “2010 Convertible Notes”) of the Company.

Name of Substantial Shareholder	Capacity and nature of interest	Amount of 2010 Convertible Notes (HK\$)	Number of underlying Shares	Percentage of the Company's issued Shares as at 30 June 2011
Perfect Image Group Limited	Beneficial Owner	19,931,938.68	91,430,911	8.51%
Blue Balloon Limited	Beneficial Owner	18,857,000.00	86,500,000	8.05%
Sweetly Limited	Beneficial Owner	18,857,000.00	86,500,000	8.05%

Holders of the 2010 Convertible Notes are entitled to elect to convert 2010 Convertible Notes into Shares at the conversion price of HK\$0.218 per Share until 10 October 2012.

Save as disclosed above, as at 30 June 2011, no persons, other than the Directors and chief executive of the Company, whose interests are set out under the heading “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above, had registered an interest or short position in any shares, underlying shares or debentures of the Company that was required to be recorded under Section 336 of the SFO.

## **DIRECTORS’ RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

## **COMPETING INTERESTS**

None of the Directors or management shareholders of the Company or their respective associates had an interest in a business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

## **MANAGEMENT SHAREHOLDER**

As far as the Directors are aware of, other than Asian Dynamics International Limited, Glamour House Limited, Mr. Chu Yat Hong, Mr. Xie Xuan, and Logic Ease Group Limited, as disclosed above, there was no other person as at 30 June 2011 who was directly or indirectly interested in 5% or more of the shares then in issue of the Company and who was able, as a practicable matter, to direct or influence the management of the Company.

## **SHARE OPTIONS AND SHARE OPTION SCHEME**

Pursuant to a specific mandate granted by the Company's shareholders at the extraordinary general meeting held on 4 October 2007, the Company granted 97,840,073 share options (the "Share Options") entitling the holders of the Share Options to subscribe for 97,840,073 ordinary shares at the exercise price of HK\$0.275 per share.

On 18 May 2011 one holder of the Share Options exercised his entire respective holdings in 1,000,000 Share Options in aggregate, at the exercise price of HK\$0.275 per share. The Board, after receipt of the valid exercise notice and the respective payment to the Company from the holder in respect of the 1,000,000 Share Options, resolved on 19 May 2011 to issue and allot 1,000,000 new ordinary shares to the holder at the issue price of HK\$0.275 per share. On 24 June 2011 1,000,000 new ordinary shares in the capital of the Company were allotted and issued to the holder of the Option Shares.

As at 30 June 2011, there were outstanding 71,840,073 Share Options that fall to be exercised at the exercise price of HK\$0.275 per share.

The Company had a share option scheme, under which it could grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of the options. The Company's employee share option scheme commenced on 2 December 1999 and expired on 1 December 2009. The Company does not currently have a share option scheme in effect.

## **CONVERTIBLE NOTES**

On 11 October 2010 the Company, pursuant to the acquisition agreement as described in the Company's circular dated 28 February 2008, issued in aggregate HK\$86,349,999 of zero-coupon convertible notes convertible at the initial conversion price of HK\$0.218 per share with 24-month maturity, in the amounts of HK\$76,272,955 of convertible notes were issued to Asian Dynamics International Limited and approximately HK\$10,077,044 of convertible notes were issued to Lucky Peace Limited.

On 9 February 2011, 86,500,000 new ordinary shares of HK\$0.10 in the capital of the Company were issued to Logic Ease Group Limited upon the said company's conversion of the principal sum of HK\$18,857,000 of the zero-coupon convertible notes issued by the Company on 11 October 2010 with 24 month maturity, at the conversion price of HK\$0.218 per ordinary share.

On 24 June 2011, 6,770,000 new ordinary shares of HK\$0.10 each in the capital of the Company were issued to YE XINLIAN upon the said person's conversion of the principal sum of HK\$1,475,860 of the zero-coupon convertible notes issued by the Company on 11 October 2010 with 24 month maturity, at the conversion price of HK\$0.218 per ordinary share.

As at 30 June 2011, there is an outstanding principal amount of HK\$66,017,138.68 of zero-coupon convertible notes due 10 October 2012 with the conversion price of HK\$0.218 per ordinary share which are convertible into a maximum of 302,830,911 ordinary shares of the Company upon full conversion of the convertible notes.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2011.

## **CORPORATE GOVERNANCE REPORT**

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board recognizes that such commitment is essential in upholding the accountability and transparency and to achieve a balance of interests between the shareholders, customers, creditors, employees as well as other stakeholders.

## **Compliance with Corporate Governance Code**

To ensure compliance with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 to the GEM Listing Rules, the Board will continue to monitor and revise the Company Code to bring its corporate governance practices in line with the changes in the environment and requirements of the Code.

In the opinion of the Directors, the Company has complied with all the provisions of the Code for the six months ended 30 June 2011, except:

- (i) under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company has set out in written terms the responsibilities between the chairman and chief executive officer. At present, Mr. Xie Xuan, the chairman of the Company, also undertakes the responsibilities of the chief executive officer until a new chief executive officer is found. The Company considers that under the supervision of its Board and its non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.
- (ii) under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. None of the existing non-executive directors of the Company are appointed for a specific term. This constitutes a deviation from the code provision. However, all the non-executive directors of the Company are subject to retirement by rotation at annual general meetings pursuant to the articles of association of the Company.
- (iii) under code provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting to answer questions at the annual general meeting. The chairman of the Company, Mr. Xie Xuan, had not attended the Company’s annual general meeting for 2011 due to other business commitments.

## **Code of Conduct Regarding Securities Transactions by Directors**

The Company has adopted the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Company’s directors.

The Company has made specific enquiry of all its directors and the directors have confirmed that they have complied with all the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the six months ended 30 June 2011.

## **Board of Directors**

The Board is responsible for managing the Company on behalf of the shareholders. The Board is of the view that it is the directors' responsibility to create value for the shareholders as a whole and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith.

The Board comprises a total of seven directors, with two executive directors, namely Mr. Xie Xuan (Chairman), and Mr. Qiu Yue; two non-executive directors, namely Mr. Lo Mun Lam, Raymond (Vice-Chairman), and Mr. Andrew James Chandler; and three independent non-executive directors namely Mr. Wu Jixue, Dr. Feng Ke and Mr. Zhang Daorong.

The Board meets at least four times a year with additional meetings arranged when necessary, to review the financial performance, results of each quarter, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference calls may be used to improve attendance when an individual director cannot attend the meeting in person.

## **Internal Control**

The directors have reviewed and are satisfied with their ability to comply with the policies installed as part of the Group's internal control system, including, in particular, financial, operational and compliance controls and risk management functions. Furthermore, the directors are satisfied with the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting functions, and their training programs and budget.

## **Audit Committee**

In compliance with Rule 5.28 of the GEM Listing Rules, the Company has established an audit committee comprising independent non-executive directors, namely Mr. Zhang Daorong, Mr. Wu Jixue and Dr. Feng Ke and has adopted terms of reference governing the authorities and duties of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

On behalf of the Board  
**Xie Xuan**  
*Chairman*

Hong Kong, 10 August 2011