



2008

FIRST QUARTERLY REPORT
第一季度業績報告

CHALLENGER GROUP HOLDINGS LIMITED 挑戰者集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability 於開曼群島註冊成立之有限公司)

Stock Code 股份代號 : 8203

**For identification purposes only
僅供識別*

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising from the emerging nature of companies listed on GEM and the business sectors of countries in which the companies operate. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Challenger Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. 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.

HIGHLIGHTS

- Turnover of the Group for the three months ended 30 June 2008 amounted to approximately HK\$14.0 million (2007: HK\$91.4 million), representing a decrease of approximately 85% as compared to the same period last year.
- Net (loss)/profit attributable to equity holders of the Company for the three months ended 30 June 2008 amounted to approximately HK\$(6.2) million (2007: HK\$5.1 million).
- (Loss)/earnings per share of the Group was approximately HK cents (1.08) (2007: HK cents 0.95) for the three months ended 30 June 2008.

UNAUDITED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS ENDED 30 JUNE 2008

The board of directors (the "Board" or the "Directors") of Challenger Group Holdings Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries and associates (collectively, the "Group") for the three months ended 30 June 2008, together with the unaudited comparative figures for the corresponding period in 2007 as follows:

		Unaudited	
		Three months ended	
		30 June	
	Notes	2008	2007
		HK\$'000	HK\$'000
			(Restated)
Continuing operations			
Turnover	4	13,957	–
Cost of goods sold and services rendered		(3,719)	–
Gross profit		10,238	–
Other income		659	658
Selling and distribution costs		(551)	–
Administrative and other operating expenses		(14,336)	(902)
Loss from operations		(3,990)	(244)
Finance costs		(1,927)	–
Loss before tax		(5,917)	(244)
Income tax expense	5	–	–

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		Unaudited	
		Three months ended	
		30 June	
	Notes	2008	2007
		HK\$'000	HK\$'000
			(Restated)
Loss for the period from continuing operations		(5,917)	(244)
Discontinued operation			
Profit for the period from discontinued operation		–	5,391
(Loss)/profit for the period		(5,917)	5,147
(Loss)/profit for the period attributable to:			
Equity holders of the Company		(6,226)	5,147
Minority interests		309	–
		(5,917)	5,147
Dividends	6	–	–
(Loss)/earnings per share (HK cents)	7		
For continuing and discontinued operations			
– basic		(1.08)	0.95
– diluted		(0.63)	–
For continuing operations			
– basic		(1.08)	(0.05)
– diluted		(0.63)	–

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is Unit A1, 6/F, Mai Hing Industrial Building, 16-18 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

During the three months ended 30 June 2008, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting periods beginning on 1 April 2008. HKFRSs comprise of Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the three months ended 30 June 2008 and the same period in last year.

The Group has not applied new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies.

The accounting policies and basis of the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2008.

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4. TURNOVER

An analysis of the Group's turnover are as follows:

	Unaudited Three months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Continuing operations		
Provisions of auto beauty and repairs services	13,052	–
Trading of printer accessories and battery	905	–
	13,957	–
Discontinued operation		
Trading of furniture products	–	91,401
	13,957	91,401

5. INCOME TAX

	Unaudited Three months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Continuing operations		
Current tax - Hong Kong Profits Tax		
– over-provision in prior year	–	–
	–	–
Discontinued operation		
– over-provision in prior year	–	69
	–	69

No provision for profit tax in the British Virgin Islands, Cayman Islands, Hong Kong or People's Republic of China is required as the Group has no assessable profit arising in or derived from these jurisdictions for the relevant periods.

6. DIVIDENDS

The Directors do not recommend the payment of dividend for the three months ended 30 June 2008 (2007: HK\$Nil).

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period are used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted (loss)/earnings per share are based on the following data:

	Unaudited Three months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
(Loss)/earnings For continuing and discontinued operations (loss)/profit for the year attributable to the equity holders of the Company for calculation of basic (loss)/earnings per share	(5,917)	5,147
Interest on convertible bonds	1,921	–
(Loss)/earnings for the year attributable to the equity holders of the Company for calculation of diluted (loss)/earnings per share	(3,996)	5,147
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic (loss)/earnings per share	770,000	540,000
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	770,000	–
Weighted average number of ordinary shares for the purposes of calculating diluted (loss)/earnings per share	1,540,000	540,000

No diluted profit per share for the period ended 30 June 2007 had not been disclosed as the Company did not have any convertible bonds outstanding during the prior period.

8. RESERVE

	Attributable to equity holders of the Company									
	Share capital	Share premium	Merger reserve	Foreign	Share-based	Equity	Retained profits	Total	Minority interests	Total equity
				currency translation reserve	payment reserve	component of convertible bonds				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2007	5,400	9,536	(122)	2,626	-	-	38,177	55,617	-	55,617
Translation difference	-	-	-	1,252	-	-	-	1,252	-	1,252
Net income recognised directly in equity	-	-	-	1,252	-	-	-	1,252	-	1,252
Profit for the period	-	-	-	-	-	-	5,147	5,147	-	5,147
Total recognised income and expense for the period	-	-	-	1,252	-	-	5,147	6,399	-	6,399
At 30 June 2007	5,400	9,536	(122)	3,878	-	-	43,324	62,016	-	62,016
At 1 April 2008	5,400	9,536	-	-	5,859	-	107,167	127,962	12,352	140,314
Translation difference	-	-	-	3,160	-	-	-	3,160	-	3,160
Net income recognised directly in equity	-	-	-	3,160	-	-	-	3,160	-	3,160
(Loss)/profit for the period	-	-	-	-	-	-	(6,226)	(6,226)	309	(5,917)
Total recognised income and expense for the period	-	-	-	3,160	-	-	(6,226)	(3,066)	309	(2,757)
Issue of shares	2,300	181,700	-	-	-	-	-	184,000	-	184,000
Issue of convertible bonds	-	-	-	-	-	153,201	-	153,201	-	153,201
Acquisition of subsidiaries	-	-	57,503	-	-	-	-	57,503	-	57,503
Share-based payment	-	-	-	-	3,478	-	-	3,478	-	3,478
At 30 June 2008	7,700	191,236	57,503	3,160	9,337	153,201	100,941	523,078	12,661	535,739

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

During the period, the Group generated its income from its auto beauty and repairs operations in Hong Kong while concurrently gearing up to become an integrated coke producer in People's Republic of China ("PRC"). Being a vertically integrated coke producer will enable the Group to have full access and control to precious feed stocks so that the production of raw coal, coking coal and coke can proceed in a manner that is both cost effective and responsive to prevailing market prices to maximize profit.

On 10 June 2008, the Group completed the Sales and Purchase Agreement to acquire (the "Acquisition"); (i) a 49% interest in Inner Mongolia Mengxi Minerals Limited ("Mengxi Minerals"), a Sino-foreign joint venture company set up to own and operate a coal mine with 99.6 million tonnes of reserve (based on estimation under the PRC coal reserves standard); and (ii) a 70% stake in Ordos GEM Coal & Chemical Co., Limited ("Mengxi Chemical"), another Sino-foreign joint venture company established to build and operate coal processing plants. The Acquisition together with a Management Service Agreement ("MSA") executed earlier to entitle the Group to an additional 21% of profit distribution from Mengxi Minerals, effectively gives the Group a 70% profit distribution from Mengxi Minerals. Details of the Acquisition are set out in the Circular dated 30 April 2008.

The consideration for the Acquisition (which amounted to HK\$900 million) was satisfied by: (i) HK\$170 million of Consideration Convertible Bonds; (ii) HK\$546 million of cash; and (iii) HK\$184 million of consideration shares (through the allotment of 230 million of shares at HK\$0.80 each). The HK\$546 million cash payment was financed from the proceeds of the HK\$600 million Placing Convertible Bond completed on 10 June 2008.

The Group's coal reserve can be mined using both the open pit and underground exaction methods. The first tonne of coal is expected to be produced from the open pit mine in the fourth quarter of this year.

On 7 August 2008, the Group's auto subsidiary, Challenger Auto Services Limited, launched a co-branded credit card with Bank of Communications Co., Limited. This campaign is aimed at increasing the Group's market penetration into the auto beauty and repairs industry.

FINANCIAL REVIEW

During the three months ended 30 June 2008, the Group has successfully transformed and diversified its business portfolio from furniture production into auto beauty and repairs services and integrated coke production.

The Group's turnover for the three months ended 30 June 2008 was approximately HK\$14.0 million, representing a decrease of approximately 85% as compared to the turnover of approximately HK\$91.4 million for the three months ended 30 June 2007. The decrease in turnover was the result of the sales of the furniture business, which consequentially increased the bank and cash balance to HK\$129 million as at 30 June 2008, an increase of 184% compared to the same period last year of HK\$45.5 million.

Correspondingly, gross profit of the Group for the three months ended 30 June 2008 decreased to approximately HK\$10.2 million (2007: HK\$28.8 million). However, the gross profit margin of 77.85% derived from auto beauty and repairs business is comparatively higher than furniture business which was 31%.

For the three month ended 30 June 2008, the total administrative and other operating expenses totaled HK\$14.3 million (2007: HK\$11.9 million). These expenses included the recognition of share options issued on 24 June 2008 to the officers of the Group as share payment (independently valued at HK\$3.5 million) in accordance with HKFRS 2. These share payments do not represent cash outflows; however, they had to be charged against the Group's earnings.

For the three month ended 30 June 2008, total finance costs amounted to HK\$1.9 million (2007: HK\$0.2 million), representing accrual of interest payable on the Convertible Bonds which are payable on 10 June 2009.

The Group recorded a net loss attributable to equity holders of approximately HK\$6.2 million for the three months ended 30 June 2008, primarily the effect of non cash charges such as the stock option payment and the accrual of interest expense on the Convertible Bonds.

LIQUIDITY AND FINANCIAL RESOURCE

As at 30 June 2008, the Group has a bank and cash balance of approximately HK\$129 million (as at 31 March 2008: HK\$119 million).

To satisfy the Acquisition, on 10 June 2008, the Group issued: (1) HK\$170 million of Consideration Convertible Bonds and HK\$600 million of Placing Convertible Bonds (collectively the "Convertible Bonds") and (2) 230 million of Consideration Shares (at HK\$0.80 per share to raise a net capital fund of HK\$184 million). The Convertible Bonds are unsecured, carry a maturity date of 10 June 2013 and bear interest at the rate of 1% per annum.

CAPITAL STRUCTURE

On 10 June 2008, the Group increased its share capital from 540 million shares to 770 million shares as a result of the issuance of 230 million of Consideration Shares to satisfy the Acquisition. Total equity attributable to equity holders of the Group as at 30 June 2008 was approximately HK\$523 million (as at 31 March 2008: HK\$128 million).

FOREIGN EXCHANGE EXPOSURE

The Group had minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in Hong Kong dollars ("HK\$"). Going forward, the group may seek to change its functional currency from HK\$ to Renminbi ("RMB") to reflect the RMB denomination of the Group's significant assets and incomes in PRC from the integrated coke producing business. The Group will formulate a foreign currency hedging policy to provide a reasonable margin of safety in our exposure in RMB transactions, assets and liabilities.

CONVERTIBLE BONDS

On 10 June 2008, the Company issued HK\$170 million Consideration Convertible Bonds and HK\$600 million of Placing Convertible Bonds (collectively the "Convertible Bonds") with a maturity date of 10 June 2013 (the "Maturity Date"). These bonds (with an aggregate face value of HK\$770 million) are unsecured and bear interest at the rate of 1% per annum. The holders of the Convertible Bonds shall have the right to convert at any time prior to the Maturity Date, the whole (in an amount or integral multiple of HK\$1.0 million) amount of the Convertible Bonds into convertible shares at the then prevailing conversion price subject to conversion cap and other conditions. Details of the principal terms of the Convertible Bonds are set out in the circular dated April 30, 2008.

The fair values of the liability component and the equity conversion component were determined by an independent professionally qualified valuer as at the issue date of the Convertible Bonds.

The fair value of the liability component (calculated using a market interest rate of an equivalent nonconvertible note) is HK\$617 million and the fair value of the equity conversion component (included in "Other Reserves" in the "Shareholders Equity") is HK\$153 million.

Interest expense on the convertible bonds is calculated using the effective interest method by applying an effective interest rate of 5.68% to the liability component.

OTHER INFORMATION

I. DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June 2008, the interests and short positions of the Directors and the chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("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 which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors are as follows:

Long position in underlying Shares

Name of Directors	Capacity	Number of underlying Shares (Note)	Approximate percentage of the total issued Shares as at 30 June 2008
Yeap Soon P.	Beneficial owner	7,700,000	1.00%
Tse Chun Sing	Beneficial owner	5,400,000	0.70%
Wu Kam Hung	Beneficial owner	5,400,000	0.70%
Liew Swee Yean	Beneficial owner	540,000	0.07%
Siu Siu Ling, Robert	Beneficial owner	540,000	0.07%
Wong Yun Kuen	Beneficial owner	540,000	0.07%

Note: The long position in the underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the Share Options granted by the Company to the above mentioned directors pursuant to the share option scheme of the Company. The above Share Options represent personal interest held by directors.

Details of the share options granted to the above Directors are set out in the section headed "SHARE OPTIONS".

Save as disclosed above, none of the Directors or the chief executives of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (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 which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors.

2. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests and short positions in the Shares and Underlying Shares:—

Name of Shareholders	Capacity	Long Position/(Short Position)			Approximate percentage of the total issued Shares as at 30 June 2008
		Number of Shares	Number of underlying Shares	Total Interest	
Plowright Investments Limited	Beneficial owner	81,001,000	–	81,001,000	10.52%
Harmony Asset Limited	Interest of a controlled corporation	81,001,000	–	81,001,000 (Note 1)	10.52%
Excel Formation Limited	Beneficial owner	60,944,000	–	60,944,000	8.69%
Cheng Yu Tung	Interest of a controlled corporation	83,826,500	–	83,826,500 (Note 2)	10.89%
Gold Master Business Limited	Beneficial owner	81,000,000	–	81,000,000	10.52%
Wong Wai Keung Dennis	Interest of a controlled corporation	81,000,000	–	81,000,000 (Note 3)	10.52%
Glimmer Stone Investment Limited ("Glimmer")	Beneficial owner/Interest of a controlled corporation	170,000,000	830,000,000 (258,272,750)	1,000,000,000 (258,272,750) (Note 4)	129.87% (33.54%)
GEM Global Yield Fund Limited ("GEM Global")	Beneficial owner/Interest of a controlled corporation	230,000,000	791,000,000	1,021,000,000 (Note 5)	132.60%
Brown Christopher Francis	Investment manager	–	81,000,000	81,000,000	10.52%
Oriental Patron Financial Services Group Limited ("OPFSG")	Beneficial owner/Interest of a controlled corporation	170,000,000	1,088,272,750 (258,272,750)	1,258,272,750 (258,272,750) (Note 6)	163.41% (33.54%)
Oriental Patron Financial Group Limited ("OPFG")	Interest of a controlled corporation	170,000,000	1,088,272,750 (258,272,750)	1,258,272,750 (258,272,750) (Note 7)	163.41% (33.54%)

Notes:

1. Plowright Investments Limited is a wholly-owned subsidiary of Harmony Asset Limited, the shares of which are listed on the main board of the Stock Exchange. Harmony Asset Limited is deemed to be interested in the 81,001,000 Shares held by Plowright Investments Limited under the SFO.
2. These 83,826,500 Shares are held as to 22,882,500 Shares by Huge Mars International Limited and 60,944,000 Shares by Excel Formation Limited. Huge Mars International Limited and Excel Formation Limited are wholly-owned by Cheng Yu Tung, who is deemed to be interested in those Shares held by Huge Mars International Limited and Excel Formation Limited under the SFO.
3. Gold Master Business Limited is wholly-owned by Wong Wai Keung, Dennis, who is deemed to be interested in 81,000,000 Shares held by Gold Master Business Limited under the SFO.
4. These 1,000,000,000 Shares and underlying Shares represent the aggregate of: (i) the 170,000,000 Shares held by Grand Pacific Source Limited, a wholly-owned subsidiary of Glimmer; and (ii) 170,000,000 underlying Shares held by Grand Pacific Source Limited and 660,000,000 underlying Shares held by Glimmer. Accordingly, Glimmer is deemed to be interested in those Shares and underlying Shares held by Grand Pacific Source Limited under the SFO.
5. These 1,021,000,000 Shares and underlying Shares represent the aggregate of: (i) the 230,000,000 Shares held by Grand Pacific Source Limited, which was a wholly-owned subsidiary of GEM Global; and (ii) 170,000,000 underlying Shares held by Grand Pacific Source Limited and 621,000,000 underlying Shares held by GEM Global. Accordingly, GEM Global is deemed to be interested in those Shares and underlying Shares held by Grand Pacific Source Limited under the SFO.
6. These 1,258,272,750 Shares and underlying Shares represent the aggregate of: (i) the 170,000,000 Shares held by Grand Pacific Source Limited, a wholly-owned subsidiary of Glimmer; and (ii) 170,000,000 underlying Shares held by Grand Pacific Source Limited, 660,000,000 underlying Shares held by Glimmer; a company which is held 43.8% by OPFSG, and 258,272,750 underlying Shares held by OPFSG. Accordingly, OPFSG is deemed to be interested in those Shares and underlying Shares held by Grand Pacific Source Limited and Glimmer under the SFO. The short position of these 258,272,750 underlying Shares is held by Glimmer; a company which is held 43.8% by OPFSG. Accordingly, OPFSG is deemed to be interested in the short position of those underlying Shares held by Glimmer under the SFO.
7. These 1,258,272,750 Shares and underlying Shares represent the aggregate of: (i) the 170,000,000 Shares held by Grand Pacific Source Limited, a wholly-owned subsidiary of Glimmer; and (ii) 170,000,000 underlying Shares held by Grand Pacific Source Limited, 660,000,000 underlying Shares held by Glimmer; a company which is held 43.8% by OPFSG, and 258,272,750 underlying Shares held by OPFSG, a company which is held 95% by OPFG. Accordingly, OPFG is deemed to be interested in those Shares and underlying Shares held by Grand Pacific Source Limited, Glimmer and OPFSG under the SFO. The short position of these 258,272,750 underlying Shares is held by Glimmer; a company which is held 43.8% by OPFSG, which in turn is a 95% subsidiary of OPFG. Accordingly, OPFG is deemed to be interested in the short position of those underlying Shares held by Glimmer and OPFSG under the SFO.
8. The long and short positions in underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the convertible bonds issued by the Company on 10 June 2008.

The Directors were not aware of any other person (other than the Directors and the chief executives of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 & 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

3. SHARE OPTIONS

A share option scheme (the "Scheme") was adopted by the shareholders of the Company by way of written resolutions passed on 9 December 2003. The principal purpose of the Scheme is to enable the Group to grant options to subscribe for Shares to the eligible person as incentives or rewards for their contributions to the Group.

On 24 June 2008, as approved by the Board of Directors, a total of 12.7 million Options have been granted to a director and a staff to subscribe for a total of 12.7 million shares of the Company at an exercise price of HK\$0.78 per share. No share options have been exercised since 19 February 2008 and up to the date of this announcement. As at 30 June 2008, a total of 19.7 million Shares, representing 2.55% of the existing issued share capital of the Group are available for issue in respect of the remaining options which may be granted under the Scheme.

Details of the share options granted under the Scheme during the period are as follows:–

	Date of Grant	Exercise Period	Outstanding as at 1/4/2008	Number of Options Grant during the period	Exercise during the period	Outstanding as at 30/6/2008	Exercise Price (HK\$)	Closing Price of Shares immediately before the date of grant (HK\$)
Directors								
Tse Chun Sing	19/2/2008	19/2/2008-18/2/2011	5,400,000	–	–	5,400,000	0.69	
Wu Kam Hung	19/2/2008	19/2/2008-18/2/2011	5,400,000	–	–	5,400,000	0.69	
Liew Swee Yean	19/2/2008	19/2/2008-18/2/2011	540,000	–	–	540,000	0.69	
Siu Siu Ling, Robert	19/2/2008	19/2/2008-18/2/2011	540,000	–	–	540,000	0.69	
Wong Yun Kuen	19/2/2008	19/2/2008-18/2/2011	540,000	–	–	540,000	0.69	
Yeap Soon P.	24/6/2008	24/6/2008-23/6/2011	–	7,700,000	–	7,700,000	0.78	0.81
		Sub-total	12,420,000	7,700,000	–	20,120,000		
Employees in aggregate	19/2/2008	19/2/2008-18/2/2011	2,700,000	–	–	2,700,000	0.69	
	24/6/2008	24/6/2008-23/6/2011	–	5,000,000	–	5,000,000	0.78	0.81
Other participants in aggregate	19/2/2008	19/2/2008-18/2/2011	6,480,000	–	–	6,480,000	0.69	
		Grand-total	21,600,000	12,700,000	–	34,300,000		

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest with the Group.

5. AUDIT COMMITTEE

The Company has established an audit committee on 9 December 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The audit committee provides an important link between the Board and the Company's auditors in those matters within the scope of the Group's audit. It also reviews the effectiveness of the external and internal audit, internal controls and risk evaluation. The audit committee comprises three independent non-executive Directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen, and Mr. Liew Swee Yean is the chairman of the audit committee.

The unaudited quarterly results for the three months ended 30 June 2008 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

6. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the three months ended 30 June 2008. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the three months ended 30 June 2008.

7. CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the three months ended 30 June 2008. The Company has also made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard of dealings under the GEM Listing Rules and its code of conduct regarding securities transactions by Directors.

By order of the Board

Tse Chun Sing

Chairman

Hong Kong, 8 August 2008

As at the date of this report, the executive Directors of the Company are Mr. Tse Chun Sing, Mr. Yeap Soon P. and Mr. Wu Kam Hung. The independent non-executive Directors of the Company are Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen.