

Interim Report 2009/10



C Y Foundation Group Limited

(Incorporated in Bermuda with limited liability)
Stock code : 1182



SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF C Y FOUNDATION GROUP LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial information set out on pages 3 to 34.

Directors' Responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report 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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report 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.

Review Work Performed

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 consists principally of making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical procedures to the interim financial report based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review does not constitute an audit and thus does not include usual audit procedures such as tests of controls and verification of assets, liabilities and transactions. A review is substantially less extensive in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review 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.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Lo Wa Kei

Practising Certificate Number: P03427

Hong Kong

21 December 2009

The unaudited condensed consolidated results of C Y Foundation Group Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 September 2009 together with the comparative figures for the last corresponding period are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	NOTES	Six months ended 30 September	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Continuing operations			
Turnover	4	56,344	898
Cost of sales		(32,543)	(182)
Gross profit		23,801	716
Other operating income		5,097	14,226
Selling and distribution costs		(1,874)	–
Administrative expenses		(60,476)	(57,504)
Loss from operations		(33,452)	(42,562)
Exchange gain (loss)		10,350	(18,914)
Changes in fair value of investment properties		7,588	(34)
Changes in fair value of convertible note receivables		3,096	795
Gain on disposal of subsidiaries	22	1,624	–
Impairment loss of intangible assets	13	(13,112)	–
Impairment loss of goodwill	14	(5,863)	–
Finance costs	6	(941)	(1,064)
Share of results of an associate		5	–
Loss before income tax		(30,705)	(61,779)
Income tax expense	7	(2,876)	(14)
Loss for the period from continuing operations		(33,581)	(61,793)
Discontinued operation	8		
Loss for the period from discontinued operation		–	(2,955)
Loss for the period	5	(33,581)	(64,748)
Attributable to:			
Owners of the Company		(29,618)	(62,840)
Minority interests		(3,963)	(1,908)
		(33,581)	(64,748)
Loss per share	9		
Basic			
– Continuing operations		HK(0.47) cents	HK(1.35) cents
– Discontinued operation		–	HK(0.07) cents
		HK(0.47) cents	HK(1.42) cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(33,581)	(64,748)
Exchange differences arising on translation of foreign operations	1,229	8,245
Total comprehensive income for the period	(32,352)	(56,503)
Total comprehensive income attributable to:		
Owners of the Company	(28,397)	(55,067)
Minority interests	(3,955)	(1,436)
	(32,352)	(56,503)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2009

		As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
	NOTES		
Non-current assets			
Investment properties	11	57,318	49,494
Property, plant and equipment	12	60,367	65,580
Prepaid lease payments		71,269	71,775
Intangible assets	13	18,109	31,685
Goodwill	14	101,280	107,130
Interest in an associate		4,007	4,002
Loan to minority shareholders of a subsidiary	15	5,087	3,955
Convertible note receivables at fair value through profit and loss	16	43,081	20,471
Deposits paid for acquisition of intangible assets		12,788	2,196
		373,306	356,288
Current assets			
Inventories		30,633	21,952
Trade and other receivables	17	46,068	41,608
Prepaid lease payments		1,152	1,150
Deposits paid for acquisition of property, plant and equipment		23,534	23,431
Deposits paid for subscription of convertible notes	18	12,000	–
Convertible note receivables at fair value through profit and loss	16	–	4,020
Derivative financial instrument		274	850
Bank fiduciary deposit		–	12,102
Pledged bank deposits		24,050	–
Cash and cash equivalents		168,064	251,109
		305,775	356,222

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)*

AS AT 30 SEPTEMBER 2009

		As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
	NOTES		
Current liabilities			
Trade and other payables	19	27,009	32,006
Amounts due to directors		–	6
Amounts due to related companies		24	24
Obligation under finance lease, due within one year		356	356
Derivative financial instrument		324	–
Bank and other borrowings, due within one year		19,348	24,751
Tax payable		1,172	583
		48,233	57,726
Net current assets		257,542	298,496
Total assets less current liabilities		630,848	654,784
Non-current liabilities			
Obligation under finance lease, due after one year		237	414
Bank and other borrowings, due after one year		37,814	34,556
Convertible notes	20	–	13,597
Deferred tax liability		3,472	1,284
		41,523	49,851
Net assets		589,325	604,933
Capital and reserves			
Share capital	21	6,355	4,853
Reserves		582,970	596,125
Equity attributable to owners of the Company		589,325	600,978
Minority interests		–	3,955
Total equity		589,325	604,933

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Attributable to owners of the Company								Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note (b))	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	Reserve funds HK\$'000 (Note (a))	Accumulated losses HK\$'000	Total HK\$'000		
As at 1 April 2008 (audited)	3,893	740,479	5,468	18,858	1,190	135	(11,278)	758,745	6,001	764,746
Exchange differences arising on translation of foreign operations	-	-	-	7,773	-	-	-	7,773	472	8,245
Loss for the period	-	-	-	-	-	-	(62,840)	(62,840)	(1,908)	(64,748)
Total comprehensive income (expense) for the period	-	-	-	7,773	-	-	(62,840)	(55,067)	(1,436)	(56,503)
Issue of new shares, net of share issue expenses	3	4,594	-	-	-	-	-	4,597	-	4,597
Conversion of convertible notes	700	6,868	(1,739)	-	-	-	-	5,829	-	5,829
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	565	565
As at 30 September 2008 (unaudited)	4,596	751,941	3,729	26,631	1,190	135	(74,118)	714,104	5,130	719,234

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*(Continued)*

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Attributable to owners of the Company											Minority interests	Total equity
	Share capital	Share premium	Share option reserve	Assets revaluation reserve	Other reserve	Capital reserve	Translation reserve	Capital redemption reserve	Reserve funds	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note (c))	(Note (b))			(Note (a))				
As at 1 April 2009 (audited)	4,853	772,513	2,027	684	(555)	3,729	23,342	1,190	135	(206,940)	600,978	3,955	604,933
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	1,221	-	-	-	1,221	8	1,229
Loss for the period	-	-	-	-	-	-	-	-	-	(29,618)	(29,618)	(3,963)	(33,581)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	1,221	-	-	(29,618)	(28,397)	(3,955)	(32,352)
Issue of new shares, net of share issue expenses (Note 21)	2	3,063	-	-	-	-	-	-	-	-	3,065	-	3,065
Conversion of convertible notes (Notes 20 & 21)	1,500	15,882	-	-	-	(3,729)	-	-	-	-	13,653	-	13,653
Transfer of reserve on disposal of subsidiaries	-	-	-	-	-	-	-	-	(135)	135	-	-	-
Recognition of equity-settled share-based payments	-	-	26	-	-	-	-	-	-	-	26	-	26
As at 30 September 2009 (unaudited)	6,355	791,458	2,053	684	(555)	-	24,563	1,190	-	(236,423)	589,325	-	589,325

Notes:

- (a) Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), certain subsidiaries of the Company established in the PRC are required to set aside a portion of their profit after income tax as reserve funds. The reserve funds are restricted to use.
- (b) Amount included in the capital reserve represents the equity component of the convertible notes issued by the Company which is the difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity.
- (c) Amount included in the other reserve represents the difference between the consideration and the book value of the identifiable assets, liabilities and contingent liabilities attributable to the additional interest acquired in subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(30,171)	(121,814)
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(50,160)	210,301
NET CASH USED IN FINANCING ACTIVITIES	(3,207)	(9,264)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(83,538)	79,223
CASH AND CASH EQUIVALENTS AT 1 APRIL	251,109	216,026
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	493	4,036
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	168,064	299,285

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

1. GENERAL

C Y Foundation Group Limited (the “Company”) was incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and 17/F., The Sun’s Group Centre, 200 Gloucester Road, Wanchai, Hong Kong, respectively.

Other than those major subsidiaries established in the People’s Republic of China (the “PRC”) and which functional currency is Renminbi (“RMB”) and the functional currency of the Company and its subsidiaries is Hong Kong dollar (“HK\$”). The unaudited condensed consolidated interim financial information is presented in HK\$ as its presentation currency because the Company is a public company with its shares listed on the Stock Exchange.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are digital entertainment business, manufacture and sale of packaging products, watch trading and investment holding.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The unaudited condensed consolidated interim financial information do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information has been prepared on the historical cost basis, except for certain financial instruments and investment properties, which are measured at fair values, as appropriate.

The accounting policies used in the unaudited condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2009.

In the current period, the Group has applied, for the first time, a number of new and revised standards and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2009.

The adoption of the new and revised HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment had been required.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

HKFRSs (Amendments)	Improvements to HKFRSs May 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs April 2009 ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKAS 32 (Amendment)	Financial Instruments: Presentation – Classification of Rights Issues ³
HKAS 39 (Amendment)	Eligible Hedged Items ⁴
HKFRS 1 (Revised)	First-time Adoption of HKFRSs ⁴
HKFRS 1 (Amendment)	First-time Adoption of HKFRSs ⁵
HKFRS 2 (Amendment)	Share-based Payment – Group Cash-settled Share-based Payment Transactions ⁵
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 9	Financial Instruments ⁷
HK(IFRIC) – Int 14 (Amendment)	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁶
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners ⁴
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁸

¹ Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 February 2010.

⁴ Effective for annual periods beginning on or after 1 July 2009.

⁵ Effective for annual periods beginning on or after 1 January 2010.

⁶ Effective for annual periods beginning on or after 1 January 2011.

⁷ Effective for annual periods beginning on or after 1 January 2013.

⁸ Effective for annual periods beginning on or after 1 July 2010.

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the result and the financial position of the Group.

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports on the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to these segments and to assess their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

For management purposes, the Group is organized into business units based on their products and services, and has three (2008: two) reportable operating segments. The reportable operating segments and their principal activities are as follows:

- (a) Digital entertainment business
- (b) Manufacture and sale of packaging products
- (c) Watch trading
- (d) Apparel trading business (discontinued during the year ended 31 March 2009)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Group financing (including finance costs and finance revenue) and income tax expense are managed on a group basis and are not allocated to operating segments.

Turnover represents amount received and receivable from sales to external customer during the period.

4. SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's turnover and results by operating segments for the period under review:

For the six months ended 30 September 2009

	Continuing operations			
	Digital entertainment business HK\$'000 (Unaudited)	Manufacture and sale of packaging products HK\$'000 (Unaudited)	Watch trading HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Turnover	1,556	51,406	3,382	56,344
Segment results	(23,498)	7,989	435	(15,074)
Interest income				923
Unallocated income				3,979
Unallocated corporate expenses				(23,280)
Loss from operations				(33,452)
Exchange gain				10,350
Changes in fair value of investment properties				7,588
Changes in fair value of convertible note receivables				3,096
Gain on disposal of subsidiaries				1,624
Impairment loss of intangible assets	(13,112)	-	-	(13,112)
Impairment loss of goodwill	(5,863)	-	-	(5,863)
Finance costs				(941)
Share of results of an associate				5
Loss before income tax				(30,705)
Income tax expense				(2,876)
Loss for the period				(33,581)

4. SEGMENT INFORMATION *(Continued)*

For the six months ended 30 September 2008

	Continuing operations				Discontinued operation	Consolidated
	Digital entertainment business	Manufacture and sale of packaging products	Watch trading	Sub-total	Apparel trading business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	898	–	–	898	–	898
Segment results	(31,756)	–	–	(31,756)	(4,305)	(36,061)
Interest income				13,796	6	13,802
Unallocated income				430	1,680	2,110
Unallocated corporate expenses				(25,032)	–	(25,032)
Loss from operations				(42,562)	(2,619)	(45,181)
Exchange loss				(18,914)	–	(18,914)
Changes in fair value of investment properties				(34)	–	(34)
Changes in fair value of convertible note receivables				795	–	795
Finance costs				(1,064)	(278)	(1,342)
Loss before income tax				(61,779)	(2,897)	(64,676)
Income tax expense				(14)	(58)	(72)
Loss for the period				(61,793)	(2,955)	(64,748)

4. SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's assets by operating segments:

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Continuing operations		
– Digital entertainment business	98,045	100,065
– Manufacture and sale of packaging products	74,288	68,731
– Watch trading	3,176	4,265
	175,509	173,061
Discontinued operation		
– Apparel trading business	–	–
Total segment assets	175,509	173,061
Interest in an associate	4,007	4,002
Unallocated corporate assets	499,565	535,447
Total assets	679,081	712,510

Segment assets do not include convertible note receivables at fair value through profit and loss (HK\$43,081,000), interest in an associate (HK\$4,007,000), goodwill (HK\$101,280,000), deposits paid for acquisition of property, plant and equipment (HK\$23,534,000), deposit paid for subscription of convertible note (HK\$12,000,000), pledged bank deposits (HK\$24,050,000) and cash and cash equivalents (HK\$168,064,000) as these assets are managed on a group basis.

5. LOSS FOR THE PERIOD

Loss for the period has been arrived at:

	Continuing operations		Discontinued operation		Total	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
After charging:						
Total staff costs including directors' emoluments						
Staff salaries and other benefits	29,172	21,170	-	826	29,172	21,996
Equity settled share-based payments	26	-	-	-	26	-
Staff retirement benefits scheme contributions	438	325	-	51	438	376
	29,636	21,495	-	877	29,636	22,372
Depreciation and amortisation	7,882	4,726	-	36	7,882	4,762
Loss on disposal of property, plant and equipment	-	20	-	6	-	26
Changes in fair value of derivative financial instrument	900	-	-	-	900	-
Written off of property, plant and equipment	16	5,685	-	-	16	5,685
Operating lease rentals in respect of land and buildings	5,656	4,766	-	37	5,656	4,803
Cost of inventories recognized as expenses	30,995	-	-	-	30,995	-
Royalty expenses	-	-	-	1,636	-	1,636
And after crediting:						
Interest income	923	13,796	-	6	923	13,802
Rental income	2,883	644	-	-	2,883	644

6. FINANCE COSTS

	Continuing operations		Discontinued operation		Total	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interests on bank and other borrowings wholly repayable within 5 years	451	364	-	278	451	642
Interests on bank and other borrowings not wholly repayable within 5 years	406	-	-	-	406	-
Imputed interest on convertible note	56	672	-	-	56	672
Finance leases	28	28	-	-	28	28
	941	1,064	-	278	941	1,342

7. INCOME TAX EXPENSE

	Continuing operations		Discontinued operation		Total	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Income tax expense comprises:						
- Hong Kong Profits Tax	690	3	-	58	690	61
- PRC Enterprise Income Tax ("EIT")	8	-	-	-	8	-
	698	3	-	58	698	61
- Deferred tax	2,178	11	-	-	2,178	11
	2,876	14	-	58	2,876	72

7. INCOME TAX EXPENSE *(Continued)*

The provisions for Hong Kong Profits Tax for the six months ended 30 September 2009 are calculated at 16.5% (six months ended 30 September 2008: 16.5%) of the estimated assessable profits for the period.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

The subsidiaries established in the PRC are subject to the PRC EIT at rate of 25% (2008: 33%). No provision for EIT has been made for these subsidiaries established in the PRC as they did not generate any assessable profits during the period ended 30 September 2008.

On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the "Tax Law") by Order No.63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the Tax Law. Under the Tax Law and Implementation Regulation, the EIT rate of the Group's subsidiaries in the PRC reduced from 33% to 25% from 1 January 2008 onwards.

8. DISCONTINUED OPERATION

During the year ended 31 March 2009, resulting from the disposal of the subsidiaries which carried majority of the Group's apparel trading business, the Group ceased operation of its apparel trading business in order to focus the Group's resources in its remaining businesses. The loss for the period from the discontinued operation is analysed as follows:

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss from apparel trading business	—	2,955

8. DISCONTINUED OPERATION *(Continued)*

The results of the apparel trading business, which have been included in the condensed consolidated income statement, were as follows:

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover	-	-
Other operating income	-	1,686
Selling and distribution costs	-	(2,261)
Administrative expenses	-	(2,044)
Loss from operations	-	(2,619)
Finance costs	-	(278)
Loss before income tax	-	(2,897)
Income tax expenses	-	(58)
Loss for the period	-	(2,955)

During six months ended 30 September 2009, no operating, investing and financing cash flows (six months ended 30 September 2008: cash outflow of approximately HK\$9,543,000 in respect of operating activities, cash inflow of approximately HK\$1,732,000 in respect of investing activities and cash outflow of approximately HK\$8,054,000 in respect of financing activities) used by the subsidiaries engaged in the apparel trading business.

The carrying amounts of assets and liabilities of the disposed subsidiaries are set out in note 22.

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share is based on the following data:

Weighted average number of ordinary shares

	Six months ended	
	30 September	
	2009	2008
	'000	'000
	(Unaudited)	(Unaudited)
Issued ordinary shares at the beginning of the period	4,853,482	3,892,995
Effect of conversion of convertible notes	1,385,245	539,891
Effect of issue of new shares	950	1,187
Weighted average number of ordinary shares at the end of the period	6,239,677	4,434,073

(i) From continuing and discontinued operations

The calculation of basic loss per share is based on the loss attributable to the owners of the Company of approximately HK\$29,618,000 (six months ended 30 September 2008: HK\$62,840,000) and the weighted average number of 6,239,677,000 ordinary shares (six months ended 30 September 2008: 4,434,073,000 ordinary shares) in issue during the period.

(ii) From continuing operations

The calculation of basic loss per share is based on the loss attributable to the owners of the Company of HK\$29,618,000 (six months ended 30 September 2008: HK\$59,885,000) and the weighted average number of 6,239,677,000 ordinary shares (six months ended 30 September 2008: 4,434,073,000 ordinary shares) in issue during the period.

(iii) From discontinued operation

The calculation of basic loss per share is based on the loss attributable to the owners of the Company of Nil (six months ended 30 September 2008: HK\$2,955,000) and the weighted average number of 6,239,677,000 ordinary shares (six months ended 30 September 2008: 4,434,073,000 ordinary shares) in issue during the period.

9. LOSS PER SHARE *(Continued)***(b) Diluted loss per share**

Diluted loss per share for the six months ended 30 September 2009 has not been disclosed as the effect of the exercise of share options was anti-dilutive.

Diluted loss per share for the six months ended 30 September 2008 has not been disclosed as the effect of the exercise of the Company's outstanding convertible notes would result in a decrease in loss per share.

10. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 September 2009 and 2008, nor has any dividend been proposed since the end of interim reporting date.

11. INVESTMENT PROPERTIES

The fair value of the Group's investment properties as at 30 September 2009 have been determined by the directors of the Company. The valuation performed by the directors of the Company was arrived at by reference to recent market prices for similar properties in the same locations and conditions. There was an increase of approximately HK\$7,588,000 has been recognized directly in profit or loss for the six months ended 30 September 2009 (six months ended 30 September 2008: decrease of approximately HK\$34,000 has been recognized directly in profit or loss).

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2009, the Group's purchased property, plant and equipment amounted to approximately HK\$1,341,000 (six months ended 30 September 2008: HK\$10,987,000).

During the six months ended 30 September 2009, no property, plant and equipment was disposed by the Group (six months ended 30 September 2008: property, plant and equipment with an aggregate carrying amount of approximately HK\$457,000 was disposed via disposal of subsidiaries).

During the six months ended 30 September 2009, property, plant and equipment with an aggregate carrying amount of approximately HK\$16,000 was written off by the Group (six months ended 30 September 2008: HK\$5,685,000).

As at 30 September 2009, the Group has pledged leasehold buildings having a net carrying amount of approximately HK\$11,216,000 (as at 31 March 2009: HK\$11,343,000) to secure general banking facilities granted to the Group.

13. INTANGIBLE ASSETS

For the purpose of impairment testing on the license as at 30 September 2009, the Group engaged an independent qualified professional valuer to assess the recoverable amount of the license, and determine that the license was impaired by approximately HK\$13,112,000. The recoverable amount of the license was determined from the cash flow projection based on financial budgets approved by senior management covering a period of ten years and the growth rate of 5% per annum and the discount rate of 13.79% per annum was applied in the value-in-use model. The discount rate used in pre-tax and reflect specific risks relating to the industry. The main factor contributing to the impairment of the license was the decrease in the estimated cash flow generated in the future periods.

14. GOODWILL

	HK\$'000
COST	
As at 1 April 2008 (audited)	14,803
Acquisition of subsidiaries	101,280
Dissolution of a subsidiary	(2,635)
Exchange realignment	115
As at 31 March 2009 and 1 April 2009 (audited)	113,563
Disposal of subsidiaries during the period	(6,433)
Exchange realignment	25
As at 30 September 2009 (unaudited)	107,155
IMPAIRMENT	
As at 1 April 2008, 31 March 2009 and 1 April 2009 (audited)	6,433
Disposal of subsidiaries during the period	(6,433)
Impairment loss recognized for the period	5,863
Exchange realignment	12
As at 30 September 2009 (unaudited)	5,875
NET CARRYING VALUE	
As at 30 September 2009	101,280
As at 31 March 2009	107,130

14. GOODWILL (Continued)

The carrying amounts of goodwill (net of accumulated impairment losses) as at 30 September 2009 allocated to the cash generating units ("CGUs") are as follows:

	As at 30 September 2009 HK\$'000	As at 31 March 2009 HK\$'000
Digital entertainment business		
– 上海好彩投資管理有限公司 ("上海好彩") and Sincere Land Holdings Limited ("Sincere Land")	–	5,850
Manufacture and sale of packaging products and watch trading		
– Kingbox (Asia) Limited and its subsidiaries	101,280	101,280
	101,280	107,130

Impairment testing of goodwill

Goodwill arose on the acquisition of 上海好彩 and Sincere Land, which are principally engaged in digital entertainment business. The recoverable amounts for the CGU given above were determined based on value-in-use estimation of the CGU, covering a five-year budget plan, by the directors of the Company. The Group fully impaired the goodwill during the period ended 30 September 2009 as the directors assessed the carrying value of the goodwill based on results projections to determine the estimated goodwill recoverable amount at a growth rate of 2% and a discount rate of 10%. The directors did not expect 上海好彩 and Sincere Land to be able to generate positive cashflow from operation in the foreseeable future. The directors considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition.

15. LOAN TO MINORITY SHAREHOLDERS OF A SUBSIDIARY

The loan to minority shareholders of a subsidiary, C Y Foundation Culture Co Ltd represents loans to 共青團中央網絡影視中心 and 北京紀鑫偉業科貿有限公司 which are unsecured, interest-free and repayable within three years. The directors consider the fair values of loan to minority shareholders of a subsidiary equal to their carrying amounts as the impact of discounting is not significant.

16. CONVERTIBLE NOTE RECEIVABLES AT FAIR VALUE THROUGH PROFIT AND LOSS

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Mature over one year	43,081	20,471
Mature within one year under current assets	-	4,020
At the end of the period/year	43,081	24,491

During the six months ended 30 September 2009, the Group subscribed two (year ended 31 March 2009: three) convertible notes issued by two (year ended 31 March 2009: three) independent unlisted private companies. Besides, one of convertible notes which subscribed during the year ended 31 March 2009 had been matured and fully redeemed during the period.

As at 30 September 2009, the Group held four (year ended 31 March 2009: three) convertible notes issued by three independent unlisted private companies and these convertible notes are classified as financial asset designated at fair value through profit and loss.

The convertible notes are redeemable with coupon rates of Nil, 5% and 8% (year ended 31 March 2009: Nil, 8% and 10%) respectively and are repayable upon maturity which is ranging from 2 to 3 years (year ended 31 March 2009: 1 to 3 years) from the respective dates of issue. The Group has the right to convert the convertible notes into ordinary shares of the issuers from the date of acquisition of the convertible notes to their maturity dates, subject to the conditions as set out in the respective convertible notes agreements.

Fair values of these unlisted convertible note receivables have been determined by reference to the valuation performed by independent qualified professional valuers. The valuations have been carried out by adopting the discounted cash flow technique based on the maturity dates of the convertible note receivables and the discount rate of 18.36% (year ended 31 March 2009: 19.00%).

The increase in fair value of approximately HK\$3,096,000 was recognized for the six months ended 30 September 2009 (six months ended 30 September 2008: increase in fair value of HK\$795,000).

17. TRADE AND OTHER RECEIVABLES

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Trade receivables	31,898	38,863
Less: Provision for impairment losses	-	(9,116)
	31,898	29,747
Other receivables	26,650	32,880
Less: Provision for impairment losses	(25,651)	(29,462)
	999	3,418
Deposits and prepayments	13,171	8,443
	46,068	41,608

The Group allows a credit period normally ranging from cash on delivery to 90 days (year ended 31 March 2009: cash on delivery to 90 days) to its trade customers. For those customers who have established good relationships with the Group, the credit period may extend to 120 days.

An ageing analysis of trade receivables, net of impairment losses, is as follows:

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Within 60 days	17,529	19,002
61 – 90 days	2,399	4,494
91 – 180 days	6,008	2,480
181 – 365 days	5,501	3,771
Over 365 days	461	-
	31,898	29,747

17. TRADE AND OTHER RECEIVABLES *(Continued)*

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly. The movement in the impairment losses of trade receivables is as follows:

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Balance at the beginning of the period/year	9,116	11,427
Disposal of subsidiaries	(9,116)	(2,311)
Balance at the end of the period/year	–	9,116

The movement in the impairment losses of other receivables is as follows:

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Balance at the beginning of the period/year	29,462	4,375
Impairment loss recognized during the period/year	–	25,329
Disposal of subsidiaries	(3,924)	(451)
Exchange realignment	113	209
Balance at the end of the period/year	25,651	29,462

As at 30 September 2009, the Group's other receivables were individually determined to be impaired. The individually impaired receivables as at 30 September 2009 of approximately HK\$25,651,000 (31 March 2009: HK\$29,462,000) are recognized based on credit history of its debtors, such as financial difficulties or default in payments, and current market conditions. The Group does not hold any collateral over these balances.

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

18. DEPOSITS PAID FOR SUBSCRIPTION OF CONVERTIBLE NOTES

All the deposit represents refundable deposit paid in relation to the subscription of 6% convertible notes issued by Paradise Entertainment Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed in the Stock Exchange, in the aggregate principal amount of HK\$20 million and the option to subscribe for the additional convertible note in the aggregate principal amount of HK\$20 million. Such transaction has not been completed at the date of this report and subject to shareholders approval in shareholders' meeting.

19. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables included in trade and other payables is as follows:

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Within 60 days	4,560	2,978
61-90 days	930	74
91-180 days	341	282
181-365 days	329	1,109
Over 365 days	914	–
	7,074	4,443
Other payables	19,935	27,563
	27,009	32,006

20. CONVERTIBLE NOTES

The convertible notes recognized in the unaudited condensed consolidated statement of financial position are calculated as follows:

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Liability component at the beginning of the period/year	13,597	18,138
Converted into shares	(13,653)	(5,829)
Imputed interest expense (<i>Note 6</i>)	56	1,288
Liability component at the end of the period/year	–	13,597

The convertible notes holders have converted the convertible notes in an aggregate principal amount of HK\$15,000,000 into 1,500,000,000 ordinary shares of HK\$0.001 each at a conversion price of HK\$0.01 per share on 15 April 2009. Accordingly, the equity components of the convertible notes of approximately HK\$3,729,000 previously recognized in capital reserve of the Company and the amortised cost of the liability portion of approximately HK\$13,653,000 were transferred to share capital and share premium accounts by HK\$1,500,000 and HK\$15,882,000 respectively.

Interest expense on the convertible notes was calculated using the effective interest method by applying the effective interest rates of 10% (six months ended 30 September 2008: 10%) per annum to the liability component of the convertible notes.

21. SHARE CAPITAL

	Number of shares '000	HK\$'000
Authorised:		
As at 31 March 2009 and 30 September 2009		
Ordinary shares of HK\$0.001 each	300,000,000	300,000
Issued and fully paid:		
As at 1 April 2008 (audited)	3,892,995	3,893
Conversion of convertible notes	700,000	700
Issue of new shares	3,344	3
Issue of new shares for acquisition of subsidiaries	257,143	257
As at 31 March 2009 and at 1 April 2009 (audited)	4,853,482	4,853
Conversion of convertible notes (Note 20)	1,500,000	1,500
Issue of new shares (Note)	2,229	2
As at 30 September 2009 (unaudited)	6,355,711	6,355

Note:

On 15 July 2009, 2,229,164 new shares of HK\$0.001 each in the Company were issued at an issued price of HK\$1.375 per share. The new shares rank pari passu in all respects with the then existing shares in the Company. The premium arose from the issue of the new shares of approximately HK\$3,063,000 was credited to the share premium account.

22. DISPOSAL OF SUBSIDIARIES

During the six months ended 30 September 2009, the Group disposed of its entire interests in Hamlet Profits Limited and its subsidiaries (the "Hamlet Group") together with their shareholder's loans to an independent third party at a consideration of HK\$2. The net assets (liabilities) of Hamlet Group at the date of disposal was as follows:

	Hamlet Group
	HK\$'000
	(Unaudited)
Net liabilities disposed of:	
Trade and other receivables	2,617
Cash and cash equivalents	187
Trade and other payables	(4,428)
Amounts due to the Group	(316,652)
	(318,276)
Assignment of amounts due to the Group	316,652
Gain on disposal	1,624
Total consideration	—
Net cash outflow arising on disposal of subsidiaries	
Cash consideration received	—
Cash and cash equivalents disposed of	(187)
	(187)

23. PLEDGE OF ASSETS

As at 30 September 2009, the Group had pledged the following assets to secure the banking facilities granted by the financial institutions:

	As at	As at
	30 September	31 March
	2009	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Property, plant and equipment	11,216	11,343
Prepaid lease payments	56,306	56,646
Pledged bank deposits	24,050	—
	91,572	67,989

24. COMMITMENTS**(a) Capital commitments**

As at 30 September 2009, the Group had the following capital commitments:

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Capital expenditure contracted for but not provided in the unaudited condensed consolidated interim financial information in respect of:		
Acquisition of property, plant and equipment	–	2,293
Acquisition of intangible asset	–	1,526
Subscription of convertible notes	15,500	–
	15,500	3,819

(b) Other commitment

As at 30 September 2009, the Group had entered into certain licensing arrangements. The future minimum licensing payments committed by the Group in respect of the arrangements are as follows:

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 March 2009 HK\$'000 (Audited)
Licensing arrangements:		
Within one year	19,117	9,312
In the second to fifth year inclusive	33,583	52,768
	52,700	62,080

As at 30 September 2009, the Group had entered into certain licensing arrangements for a term up to 31 December 2012. Pursuant to the licensing arrangement, the Group has to pay the licensor, a non-refundable minimum guarantee in the total sum of US\$5,000,000, payable by 3 annual installments.

25. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible persons of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
	'000
Outstanding at 1 April 2009	19,000
Granted during the period	2,000
Outstanding at 30 September 2009	21,000

The closing price of the Company's shares immediately before 30 April 2009, the date of grant, was HK\$0.08.

In the current period, share options with vesting conditions were granted on 30 April 2009. The fair value of the options determined at the date of grant using the Black-Scholes-Merton Option Pricing model was approximately HK\$47,000.

The following assumptions were used to calculate the fair values of share options:

	Share option granted on
	30 April 2009
Grant date share price	0.0797
Exercise price	0.52
Expected volatility	109.71%
Option life	2.83 years
Risk-free rate	0.964%
Expected dividend yield	Nil

The Black-Scholes-Merton Option Pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The Group recognised total expense of approximately HK\$26,000 for the six months ended 30 September 2009 (six months ended 30 September 2008: Nil) in relation to the fair value of the share options granted by the Company and vested during the period.

26. RELATED PARTY TRANSACTIONS**(a) Related party transactions**

Save as disclosed elsewhere in the unaudited condensed consolidated interim financial information, the Group had the following material transactions with related companies:

Name of related party	Nature of transaction	Six months ended 30 September	
		2009	2008
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Bersett International (HK) Limited (Note i)	Consultancy fee paid	360	–
Mr. Sik Siu Kwan (Note ii)	Consultancy fee paid	167	–
Horizon Structured Solutions Limited (Note iii)	Rent received	75	75

(i) Mr. Wu Chuang John is a common director of the Company and Bersett International (HK) Limited.

(ii) Mr. Sik Siu Kwan is a non-executive director of the Company during the period.

(iii) Mr. Cheng Chee Tock, Theodore ("Mr. Cheng") and Mr. Wu Chuang John are the common directors of the Company and Horizon Structured Solutions Limited and Mr. Cheng also has beneficial interest in the related company.

(b) Compensation of key management personnel

The remuneration of directors and other key management personnel during the period were as follows:

	Six months ended 30 September	
	2009	2008
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Fees	679	702
Salaries and other allowances	1,957	2,400
Retirement benefits scheme contributions	15	27
	2,651	3,129

27. MAJOR NON-CASH TRANSACTIONS

During the six months ended 30 September 2009, the Group issued 2,229,164 new ordinary shares at par value of HK\$0.001 per share at the price of HK\$1.375 per share, for a total of approximately HK\$3,065,000, as part of the settlement of the consideration payable by a subsidiary for acquisition of a company's subsidiary, T-Matrix Culture Company Limited.

28. EVENTS AFTER BALANCE SHEET DATE

Subsequent to 30 September 2009, the Group paid approximately US\$2 million for subscription of convertible notes in two private companies.

29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentations.

DIVIDEND

The Board recommended that no interim dividend be paid for the six months ended 30 September 2009 (2008: Nil).

REVIEW AND OUTLOOK

Business Review

During the six months ended 30 September 2009 ("Period"), the Group continued to make efforts to improve the digital entertainment industry across different business segments in the PRC. During the Period, the revenue of the Group amounted to HK\$56.3 million, representing an increase of 62 times as compared to HK\$0.9 million for the same period last year. 3% of the revenue was generated from the Group's digital entertainment business and 97% was from Kingbox (Asia) Limited ("Kingbox").

Digital Entertainment Business

With the efforts of management and staff, the Group's business was transformed, successfully entered the digital entertainment market, and developed the payment system, product platform and points exchange platform. The digital entertainment products offered currently include MMORPG games, casual games and interactive arcade games that are spread throughout the i-café distribution network and its online distribution platform. The Group also hosts a worldwide e-sport tournament and its qualifier events in the PRC and Hong Kong.

In the Period, the digital entertainment business contributed HK\$1.5 million to the Group's revenue as compared to HK\$0.9 million in the same period last year. Since the digital entertainment businesses are still at the investment and development stage, it is believed that this revenue will gradually improve after the launch of the online platform and new games.

REVIEW AND OUTLOOK *(Continued)*

Business Review *(Continued)*

Product Platform

The online product platform delivers the Group's products to the target market without time limitations or geographical constraints. In the future, the product platform will continue to host different casual games tournaments online, allowing players to enjoy entertainment and participate in e-sport games 24 hours per day.

During the financial year 2008/09, the Group entered into an exclusive license and distribution agreement with YNK Korea Inc. for an exclusive right to distribute and market the "Rohan" MMORPG in the PRC. The game is currently under technical localization and will be launched after obtaining the government approvals, which is expected to become a new revenue stream for the Group.

E-sport Tournament

During the Period, the Group successfully hosted the qualifier e-sport tournament in the PRC and Hong Kong for the 2009 International E-sport Festival ("IEF"). The IEF event is a high profile international e-sport games event supported by the PRC and Korean governments. The Hong Kong qualifier event was hosted from 26 September to 27 September. The winners and the winning team were granted the honor of representing the Hong Kong SAR to compete against participants from 17 different countries and regions at the international finals in Suwon, Korea.

Kingbox

Kingbox, which the Group acquired in fiscal year 2008/09, is principally engaged in the manufacture, sale of packaging products, as well as in the watch trade.

For the Period, the turnover of Kingbox amounted to HK\$54.8 million. Kingbox, targeting at the medium to high end markets and with its customer base in Europe, the United State of America and Southeast Asia regions. During the Period, Kingbox received packaging orders from various world's recognized brands. HK\$51.4 million of revenue was generated by the manufacture and sale of packaging products and HK\$3.4 million by watch trading.

In spite of the economic downturn in the Period, the profit of Kingbox amounted to HK\$10.1 million. There were signs that the worldwide economy is recovering and the Group believes Kingbox will continue to provide a stable source of revenue and profit to the Group in the future. In addition, leveraging on the business relationship with clients established by Kingbox, the Group can procure gifts at comparatively lower costs in the future which can reduce its operating costs of the e-sport business in the PRC.

REVIEW AND OUTLOOK *(Continued)*

Business Review *(Continued)*

Prospects

Going forward, the Group will remain strategically focused in the digital entertainment businesses. In spite of the global economic downturn, it is believed that the PRC online games market will continue to have considerable room for growth and development. Leveraging on the successful hosting of the e-sport tournament in the PRC and Hong Kong, the Group will continue to bring quality digital entertainment to players. In the future, the Group will also be engaged in the strategic investment projects, including cultural property. After the launch of the “Rohan” MMORPG games, and with the stable profit contribution from Kingbox, management believes the performance of the Group will steadily improve.

Financial Review

Results

For the six months ended 30 September 2009, the Group’s unaudited consolidated turnover amounted to HK\$56.3 million, representing a 62 times increase compared to HK\$0.9 million in the same period last year. Loss attributable to shareholders amounted to HK\$29.6 million as compared to HK\$62.8 million in the same period last year. The loss for the period decreased as compared to the same Period last year due to the profit contribution from Kingbox, the foreign exchange gain from the appreciation of AUD and increase in the market value of the investment properties in Beijing.

Share Options and Convertible Notes

In April 2009, the Group granted an aggregate of 2 million share options to certain staff of the Company for subscription for ordinary shares of HK\$0.001 each in the Company at the exercise price of HK\$0.52.

In April 2009, the Company signed two subscription agreements for convertible notes due 36 months issued by Winning Beauty Investments Limited and Lucky Belt Holdings Limited in the aggregate principal amount of US\$2 million and US\$2.5 million respectively.

In May 2009, a convertible note of US\$0.5 million subscribed by the Group was matured and fully redeemed.

In August 2009, the Group signed a subscription agreement for convertible notes due 24 months issued by Paradise Entertainment Limited in an aggregate principal amount of HK\$20 million with an option to subscribe for the additional notes in an aggregate principal amount of HK\$20 million (“Subscription”). During the Period, the Group has paid a sum of HK\$12 million as an earnest money. The details of the Subscription were set out in the circular of the Company dated 20 October 2009. The Subscription is subject to the approval of the shareholders of the Company.

REVIEW AND OUTLOOK *(Continued)*

Financial Review *(Continued)*

Material disposals of subsidiaries

In June 2009, the Group disposed of 100% interest in Hamlet Profits Limited and the shareholder's loan at a consideration of HK\$2, resulting in a gain of HK\$1.6 million.

Capital Resources and Currency Exposure

In April 2009, the convertible notes holder had converted the convertible note issued by the Company in an aggregate principal amount of HK\$15 million into 1,500 million ordinary shares of HK\$0.001 in the Company at a conversion price of HK\$0.01 per share.

As at 30 September 2009, the cash and cash equivalents (including pledged bank deposits) of the Group amounted to approximately HK\$192.1 million. The Group's bank borrowing was approximately HK\$57.2 million, approximately HK\$19.3 million of which was payable within one year. The Group's bank borrowing is mainly denominated in HK\$, Euro and GBP and made on a floating rate basis.

The gearing ratio of interest bearing borrowing (net of the zero coupon rate convertible notes) against the total equity as at 30 September 2009 was 9.7%. As the majority of bank fiduciary deposits and cash on hand are in AUD, US\$, RMB, Euro, GBP and HK\$ during the Period, the Group's exchange risk exposure depends on the movement of the exchange rate of the aforesaid currencies. During the Period, the Group has exchange gain of HK\$10.4 million which is mainly due to appreciation of AUD. Moreover, the trading receipt of foreign currencies will also be used to settle the loans advanced in the same foreign currencies.

Pledge of Assets

As at 30 September 2009, the buildings and prepaid lease payments of the Group with carrying value of approximately HK\$11.2 million and HK\$56.3 million respectively were pledged for the bank borrowing. In addition, the Group's banking facilities were secured by pledged bank deposits of HK\$24.1 million.

Capital and other Commitments

As at 30 September 2009, the total capital expenditure contracted for but not provided in the condensed consolidated financial information in respect of the subscription of convertible notes amounted to HK\$15.5 million.

As at 30 September 2009, the Group had entered into certain licensing arrangements for a term up to 31 December 2012. The future minimum licensing payments committed by the Group amounted to approximately HK\$52.7 million, of which HK\$19.1 million is payable within one year and HK\$33.6 million is payable from the second to fifth year inclusively.

Pursuant to the licensing arrangement, the Group has to pay the licensor, a non-refundable minimum guarantee in the total sum of US\$5 million, payable by 3 annual installments.

REVIEW AND OUTLOOK *(Continued)*

Financial Review *(Continued)*

Contingent Liabilities

In August 2005, Orient Rise Limited ("Orient Rise") instituted a legal action against French Trade Marketing Limited ("French Trade") and Prime Axis Limited (formerly known as Euro Fashion Trading Company Limited), two wholly-owned subsidiaries of the Group, for a breach of the terms of a sub-license causing loss and damages to Orient Rise.

In August 2008 and June 2009, the Group disposed 100% equity interest in French Trade and 100% equity interest in Prime Axis Limited respectively through the disposal of 100% equity interest in Goldgain (the holding company of French Trade) and 100% equity interests in Hamlet Profits Limited (the holding company of Prime Axis Limited) respectively.

As at 30 September 2009, there was no material contingent liability in the Group.

Employee Information

The Group had approximately 1,963 employees as at 30 September 2009, including 71 employees stationed in Hong Kong and 1,892 in the PRC. The Group continued to review remuneration policies with reference to the level and composition of pay, market conditions and both individual and company performances. Employee benefits include contribution to the Mandatory Provident Fund Scheme and year-end bonus, share option scheme, group medical allowance, group travel insurance scheme and housing benefit.

Litigation

In April 2009, a subsidiary of the Company instituted an arbitration proceeding against 江蘇東海華宇實業有限公司 ("Debtor") in Beijing claiming for recovery of an amount of RMB27.1 million together with interest, penalties and costs. The parties have agreed to settle the case in mid-September 2009 whereby the Debtor has agreed to pay RMB24 million by several installments in full and final settlement of the case. Following the default of the Debtor to make the first installment payment on the due date, legal proceedings were instituted in the PRC for execution of the conciliation statement made by the Beijing Arbitration Commission. The legal proceedings are ongoing.

Events after Balance Sheet Date

Subsequent to 30 September 2009, the Group paid approximately US\$2 million for subscription of convertible notes in two private companies.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2009, the interests or short positions of the Directors and chief executive 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 ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, or otherwise as required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

1. Long positions in shares

Name	Capacity	Number of shares	Shareholding %
Cheng Chee Tock Theodore ("Mr. Cheng") (a)	Interest of a controlled corporation	1,757,142,856	27.65
Wu Chuang John	Beneficial owner	10,000,000	0.16

Notes:

- (a) The interest was held by Super Bonus Management Limited ("Super Bonus"), Treasure Bay Assets Limited ("Treasure Bay"), Pacific Equity Development Corp. ("Pacific Equity"), Super Mark Profits Corp. ("Super Mark"), Golden View Worldwide Limited ("Golden View") and Super Crown Venture Inc. ("Super Crown"). Each of Super Bonus, Treasure Bay, Pacific Equity, Super Mark, Golden View and Super Crown was wholly owned by Ms. Yung Leonora (the spouse of Mr. Cheng), whereas Super Crown was owned as to 50% by Ms Yung Leonora. Super Crown is wholly owned by Horizon Capital Limited, a company owned as to 50% by Richwood Profits Inc., which is in turn wholly owned by Lucky Success Development Limited of which Ms Yung Leonora is the sole beneficial shareholder. Mr. Cheng was deemed to be interested in all these shares.

Save as disclosed above, as at 30 September 2009, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial 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 SFO) as recorded in the register required to be kept under section 352 of the SFO, or otherwise as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the shares and underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 of 3 of Part XV of the SFO and as recorded in the register of the Company were as follows:

1. Long positions in shares

Name	Capacity	Number of shares	Shareholding %
Luck Continent Limited (a)	Beneficial owner	2,646,264,127	41.64
Ms. Yung Leonora (b)	Interest of a controlled corporation	1,757,142,856	27.65

2. Long positions in underlying shares

Name	Capacity	Financial instrument	Number of underlying shares	Percentage to issued shares %
Luck Continent Limited (a)	Beneficial owner	Warrant	600,000,000	9.44

Notes:

(a) Luck Continent Limited is wholly owned by Poh Po Lian

(b) Pursuant to the SFO, Mr. Cheng, a Director, was deemed to be interested in the shares details of which have been disclosed in the section headed "Directors' Interests" above.

Save as disclosed above, as at 30 September 2009, no other person/company, other than a Director or chief executive of the Company, had any personal, family, corporate or other beneficial interests or short positions in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 of 3 of Part XV of the SFO and as recorded in the register of the Company.

SHARE OPTIONS

Pursuant to the share option scheme adopted by the Company on 30 August 2002 and came into effect on 26 September 2002 ("Scheme"), there were options of 21,000,000 outstanding as at 30 September 2009.

During the Period, the movements of the options which have been granted under the Scheme are as follows:

Category and name of participant	Date of grant	Exercise price per share	Exercise period	Number of options					Balance as at 30 September 2009
				Balance as at 1 April 2009	Granted during the Period	Exercised during the Period	Cancelled during the Period	Lapsed during the Period	
Others	2008/11/03	0.09	2008/11/03 – 2018/11/02	10,000,000	–	–	–	–	10,000,000
Employee	2008/12/10	0.1	2009/12/10 – 2018/12/09	9,000,000	–	–	–	–	9,000,000
Employee	2009/04/30	0.52	2010/02/28 – 2012/02/28	–	500,000	–	–	–	500,000
			2010/08/28 – 2012/02/28	–	500,000	–	–	–	500,000
			2011/02/28 – 2012/02/28	–	500,000	–	–	–	500,000
			2011/08/28 – 2012/02/28	–	500,000	–	–	–	500,000
				19,000,000	2,000,000	–	–	–	21,000,000

CORPORATE GOVERNANCE

The Board is committed to ensuring high standards of corporate governance practices as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix I4 of the Listing Rules. The Company has fully complied with the CG Code throughout the Period.

COMPLIANCE WITH THE MODEL CODE

Throughout the Period, the Model Code had been taken as the Company's code of conduct regarding Directors' securities trading. All Directors have confirmed, following specific enquiry by the Company, that they had fully complied with the Model Code throughout the Period.

NON-COMPLIANCE WITH RULE 3.10 AND RULE 3.21

Following the resignation of Mr. Michael Sze on 3 November 2009 as an independent non-executive director ("INED"), the chairman of the Audit Committee and a member of the Remuneration Committee of the Company, the Company has been in search of a suitable candidate i.e. a person "with appropriate professional qualifications or accounting or related financial management expertise" ("appropriate qualifications") as required under Rule 3.10 (2) and Rule 13.21 of the Listing Rules to be an INED and a member of the Audit Committee. The Company will use its best endeavours to locate the suitable candidate with the appropriate qualifications within the time limit as stipulated in Rule 3.11 and Rule 3.23 of the Listing Rules.

Following the resignation of Dr Steven Chow ("Dr Chow") on 21 December 2009 as an INED, a member of the Audit Committee and the Remuneration Committee of the Company, the Company is not in compliance with Rule 3.10 (1) and Rule 3.21 in that presently (i) the Company has only two INEDs; and (ii) the Audit Committee only comprises two INEDs of the Company. The Company will use its best endeavours to locate a suitable candidate to fill the casual vacancy resulted from Dr Chow's resignation within the time limit as stipulated in Rule 3.11 and Rule 3.23 of the Listing Rules.

REVIEW OF RESULTS

The Group's unaudited condensed consolidated results for the Period have been reviewed by the auditors and the Audit Committee of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Cheng Chee Tock Theodore
Chairman

Hong Kong, 21 December 2009