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C Y FOUNDATION GROUP LIMITED
(Incorporated in Bermuda with limited liability)
(Stock code: 1182)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

The unaudited condensed consolidated results of C Y Foundation Group Limited (“Company”) and its subsidiaries (“Group”) for the six months ended 30 September 2010 together with the comparative figures for the last corresponding period are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

		Six months ended	
		30 September	
		2010	2009
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Turnover	3	88,275	56,344
Cost of sales		(60,071)	(32,543)
Gross profit		28,204	23,801
Other operating income		7,001	5,097
Selling and distribution costs		(5,142)	(1,874)
Administrative expenses		(71,845)	(60,476)
Loss from operations		(41,782)	(33,452)
Exchange gain		285	10,350
Changes in fair value of investment properties		7,543	7,588
Changes in fair value of convertible note receivables		(356)	3,096
Gain on disposal of subsidiaries		–	1,624
Impairment loss of intangible assets		–	(13,112)
Impairment loss of goodwill		–	(5,863)
Finance costs	4	(578)	(941)
Share of results of associates		(224)	5
Loss before income tax		(35,112)	(30,705)

		Six months ended	
		30 September	
		2010	2009
	<i>NOTES</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Income tax expense	5	<u>(2,256)</u>	<u>(2,876)</u>
Loss for the period	6	<u>(37,368)</u>	<u>(33,581)</u>
Attributable to:			
Owners of the Company		(36,719)	(29,618)
Non-controlling interests		(649)	(3,963)
		<u>(37,368)</u>	<u>(33,581)</u>
Loss per share	7		
Basic		<u>HK(0.53) cents</u>	<u>HK(0.47) cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Six months ended	
	30 September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	(37,368)	(33,581)
Exchange differences arising on translation of foreign operations	844	1,229
Total comprehensive income for the period	<u>(36,524)</u>	<u>(32,352)</u>
Total comprehensive income attributable to:		
Owners of the Company	(35,879)	(28,397)
Non-controlling interests	(645)	(3,955)
	<u>(36,524)</u>	<u>(32,352)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2010

		As at 30 September 2010 HK\$'000 (Unaudited)	As at 31 March 2010 HK\$'000 (Audited)
	<i>NOTES</i>		
Non-current assets			
Investment properties		70,713	62,876
Property, plant and equipment		43,274	42,917
Prepaid lease payments		76,066	70,720
Intangible assets		19,088	19,580
Goodwill		101,280	101,280
Interests in associates		24,809	25,033
Convertible note receivables at fair value through profit and loss		34,911	48,616
Derivative financial instruments		–	193
Trade receivables	8	9,827	–
Held-to-maturity investments		–	2,000
		<hr/> 379,968	<hr/> 373,215
Current assets			
Inventories		19,920	28,774
Prepaid lease payments		1,319	1,153
Trade and other receivables	8	62,442	58,427
Deposits paid		53,679	23,576
Convertible note receivables at fair value through profit and loss		26,301	12,996
Amount due from a related company		16	20
Derivative financial instruments		500	1,149
Held-to-maturity investments		2,000	–
Income tax recoverable		218	214
Pledged bank deposits		23,400	22,050
Bank balances and cash		49,235	105,462
		<hr/> 239,030	<hr/> 253,821

		As at 30 September 2010 HK\$'000 (Unaudited)	As at 31 March 2010 HK\$'000 (Audited)
	<i>NOTES</i>		
Current liabilities			
Trade and other payables	9	31,267	30,035
Amounts due to directors		39	39
Amounts due to related companies		17	15
Amounts due to minority shareholders		255	–
Derivative financial instruments		4,533	–
Obligation under finance lease, due within one year		237	356
Bank and other borrowings, due within one year		29,424	4,848
		<u>65,772</u>	<u>35,293</u>
Net current assets		<u>173,258</u>	218,528
Total assets less current liabilities		<u><u>553,226</u></u>	<u><u>591,743</u></u>
Capital and reserves			
Share capital		6,969	6,969
Reserves		505,158	540,935
Equity attributable to owners of the Company		512,127	547,904
Non-controlling interests		619	1,264
Total equity		<u>512,746</u>	<u>549,168</u>
Non-current liabilities			
Obligation under finance lease, due after one year		–	58
Bank and other borrowings, due after one year		34,481	38,708
Deferred taxation		5,999	3,809
		<u>40,480</u>	<u>42,575</u>
		<u><u>553,226</u></u>	<u><u>591,743</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

1. 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 of Hong Kong Limited (“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 2010.

2. 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 2010.

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 2010.

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.

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 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ²
HKFRS 9	Financial Instruments ⁴
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement ³
HK(IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments ²

- ¹ Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
- ² Effective for annual periods beginning on or after 1 July 2010.
- ³ Effective for annual periods beginning on or after 1 January 2011.
- ⁴ Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

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.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 “Operating Segments” with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The chief operating decision maker of the Group has been identified as the directors of the Company. 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.

In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in a re-designation 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’s operating and reportable segments are – digital entertainment business, packaging products business and watch business.

Principal activities are as follows:

Digital entertainment business	– Provision of internet café licenses, online game tournament services and online entertainment platforms
Packaging products business	– Manufacture and sale of packaging products
Watch business	– Trading of watches

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), exchange gain (loss), changes in fair value of investment properties, changes in fair value of convertible note receivables, gain on disposal of subsidiaries, share of results of associates and income tax expenses are managed on a group basis and are not allocated to operating segments.

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

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 2010

	Digital entertainment business <i>HK\$'000</i> (Unaudited)	Packaging products business <i>HK\$'000</i> (Unaudited)	Watch business <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Turnover	891	77,066	10,318	88,275
Segment profit (loss)	(21,997)	10,535	821	(10,641)
Interest income				1,394
Unallocated income				5,607
Unallocated corporate expenses				(38,142)
Loss from operations				(41,782)
Exchange gain				285
Changes in fair value of investment properties				7,543
Changes in fair value of convertible note receivables				(356)
Finance costs				(578)
Share of results of associates				(224)
Loss before income tax				(35,112)
Income tax expense				(2,256)
Loss for the period				(37,368)

For the six months ended 30 September 2009

	Digital entertainment business <i>HK\$ '000</i> (Unaudited)	Packaging products business <i>HK\$ '000</i> (Unaudited)	Watch business <i>HK\$ '000</i> (Unaudited)	Consolidated <i>HK\$ '000</i> (Unaudited)
Turnover	<u>1,556</u>	<u>51,406</u>	<u>3,382</u>	<u>56,344</u>
Segment profit (loss)	<u>(23,498)</u>	<u>7,989</u>	<u>435</u>	(15,074)
Interest income				923
Unallocated income				3,979
Unallocated corporate expenses				<u>(23,280)</u>
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 associates				<u>5</u>
Loss before income tax				(30,705)
Income tax expense				<u>(2,876)</u>
Loss for the period				<u><u>(33,581)</u></u>

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

	As at 30 September 2010 HK\$'000 (Unaudited)	As at 31 March 2010 HK\$'000 (Audited)
– Digital entertainment business	120,087	98,596
– Packaging products business	185,140	159,114
– Watch business	11,324	4,116
	<hr/>	<hr/>
Total segment assets	316,551	261,826
Interests in associates	24,809	25,033
Unallocated corporate assets	277,638	340,177
	<hr/>	<hr/>
Total assets	618,998	627,036
	<hr/> <hr/>	<hr/> <hr/>

Segment assets do not include convertible note receivables at fair value through profit and loss (HK\$61,212,000), interests in associates (HK\$24,809,000), derivative financial instruments (HK\$500,000), amount due from a related company (HK\$16,000), income tax recoverable (HK\$218,000), held-to-maturity investments (HK\$2,000,000), pledged bank deposits (HK\$23,400,000) and cash and cash equivalents (HK\$49,235,000) as these assets are managed on a group basis.

4. FINANCE COSTS

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests on bank and other borrowings wholly repayable within 5 years	159	451
Interests on bank and other borrowings not wholly repayable within 5 years	391	406
Imputed interest on convertible note	–	56
Finance leases	28	28
	<hr/>	<hr/>
	578	941
	<hr/> <hr/>	<hr/> <hr/>

5. INCOME TAX EXPENSE

	Six months ended	
	30 September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Income tax expense comprises:		
– Hong Kong Profits Tax	85	690
– PRC Enterprise Income Tax (“EIT”)	3	8
	<hr/>	<hr/>
	88	698
– Deferred tax	2,168	2,178
	<hr/>	<hr/>
	2,256	2,876
	<hr/> <hr/>	<hr/> <hr/>

- (i) The provisions for Hong Kong Profits Tax for the six months ended 30 September 2010 are calculated at 16.5% (six months ended 30 September 2009: 16.5%) of the estimated assessable profits for the period.
- (ii) Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.
- (iii) Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of subsidiaries of the Company in the PRC is 25% for the six months ended 30 September 2010 (six months ended 30 September 2009: 25%).

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at:

	Six months ended	
	30 September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
After charging:		
Total staff costs including directors' emoluments		
Staff salaries and other benefits	29,136	29,172
Equity settled share-based payments	102	26
Staff retirement benefits scheme contributions	827	438
	<hr/>	<hr/>
	30,065	29,636
	<hr/>	<hr/>
Depreciation and amortisation	6,709	7,882
Loss on disposal of property, plant and equipment	256	–
Changes in fair value of derivative financial instruments	5,373	900
Written off of property, plant and equipment	167	16
Operating lease rentals in respect of land and buildings	4,642	5,656
Cost of inventories recognised as expenses	58,518	30,995
And after crediting:		
Written back of impairment loss of other receivables	570	–
Interest income	1,394	923
Rental income	3,064	2,883
	<hr/> <hr/>	<hr/> <hr/>

7. LOSS PER SHARE

(a) Basic loss per share

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

	Six months ended	
	30 September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period attributable to the owners of the Company	36,719	29,618
	<hr/> <hr/>	<hr/> <hr/>

Weighted average number of ordinary shares

	Six months ended	
	30 September	
	2010	2009
	'000	'000
	(Unaudited)	(Unaudited)
Issued ordinary shares at the beginning of the period	6,968,711	4,853,482
Effect of conversion of convertible notes	–	1,385,245
Effect of issue of new shares	–	950
	<hr/>	<hr/>
Weighted average number of ordinary shares at the end of the period	6,968,711	6,239,677
	<hr/> <hr/>	<hr/> <hr/>

(b) Diluted loss per share

Diluted loss per share for the six months ended 30 September 2010 and 2009 has not been disclosed as the effect of the exercise of share options was anti-dilutive.

8. TRADE AND OTHER RECEIVABLES

	As at	As at
	30 September	31 March
	2010	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade receivables (<i>Note i</i>)	47,793	23,768
Less: Impairment loss recognised	–	–
	<hr/>	<hr/>
	47,793	23,768
	<hr/>	<hr/>
Other receivables	25,964	30,709
Less: Impairment loss recognised	(22,871)	(23,352)
	<hr/>	<hr/>
	3,093	7,357
	<hr/>	<hr/>
Deposits and prepayments	21,383	15,302
Deposit paid for acquisition of convertible note receivable (<i>Note ii</i>)	–	12,000
	<hr/>	<hr/>
	21,383	27,302
	<hr/>	<hr/>
	72,269	58,427
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) As at 30 September 2010, trade receivables are classified into:

	<i>HK\$'000</i> (Unaudited)
Non-current assets	9,827
current assets	37,966
	<hr/>
	47,793
	<hr/> <hr/>

- (ii) As at 31 March 2010, the earnest money of HK\$12,000,000 paid as deposit for the subscription of convertible notes in a company listed on the Stock Exchange was fully refunded on 16 April 2010 with interest charges of approximately HK\$252,000 following the subscription being voted down by the shareholders in a special general meeting held on 31 December 2009. Details of the transaction are set out in the Company's announcement dated 31 December 2009.

The Group grants a credit period normally ranging from cash on delivery to 90 days (year ended 31 March 2010: 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 further extend up to two years based on the financial strengths of individual customers.

An aged analysis of the trade receivables based on invoice date, net of impairment loss is recognised as follows:

	As at 30 September 2010 <i>HK\$'000</i> (Unaudited)	As at 31 March 2010 <i>HK\$'000</i> (Audited)
Within 60 days	34,785	11,811
61-90 days	6,619	3,817
91-180 days	3,980	5,154
181-365 days	2,380	2,764
Over 365 days	29	222
	<hr/>	<hr/>
	47,793	23,768
	<hr/> <hr/>	<hr/> <hr/>

The movements in the impairment losses of trade receivables are as follows:

	As at 30 September 2010 HK\$'000 (Unaudited)	As at 31 March 2010 HK\$'000 (Audited)
Balance at beginning of the period/year	–	9,116
Disposal of subsidiaries	–	(9,116)
	<hr/>	<hr/>
Balance at end of the period/year	<u>–</u>	<u>–</u>

The movements in the impairment losses of other receivables are as follows:

	As at 30 September 2010 HK\$'000 (Unaudited)	As at 31 March 2010 HK\$'000 (Audited)
Balance at beginning of the period/year	23,352	29,462
Recognised during the period/year	–	3,000
Reversal during the period/year	(570)	(5,330)
Disposal of subsidiaries	–	(3,924)
Exchange realignment	89	144
	<hr/>	<hr/>
Balance at end of the period/year	<u>22,871</u>	<u>23,352</u>

Included in the impairment loss of other receivables are individually impaired other receivables with an aggregate balance of approximately HK\$22,871,000 (31 March 2010: HK\$23,352,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

Trade receivables that were neither past due nor impaired relate to a wide range of customers for who has no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

9. TRADE AND OTHER PAYABLES

An aged analysis of trade payables presented based on the invoice date at the end of the reporting period included in trade and other payables is as follows:

	As at 30 September 2010 <i>HK\$'000</i> (Unaudited)	As at 31 March 2010 <i>HK\$'000</i> (Audited)
Within 60 days	6,034	6,145
61-90 days	1,235	613
91-180 days	37	545
181-365 days	917	443
Over 365 days	1,256	917
	<hr/>	<hr/>
	9,479	8,663
Accrued expenses and other payables	21,788	21,372
	<hr/>	<hr/>
	31,267	30,035
	<hr/> <hr/>	<hr/> <hr/>

DIVIDEND

The Board recommended that no interim dividend be paid for the six months ended 30 September 2010 (2009: Nil).

REVIEW AND OUTLOOK

Business Review

For the six months ended 30 September 2010 (“Period”), C Y Foundation Group Limited was pleased to announce that its turnover significantly increased 56.7% to HK\$88.3 million. During the Period, the manufacturing and sales of packaging products business (“Packaging Products”) business grew by 49.9% and the watch trading business represented a 205.1% increase. Loss attributable to shareholders amounted to HK\$36.7 million. During the Period, both the watch trading and Packaging Products businesses generated profits and the digital entertainment business is still at a loss.

Digital Entertainment Business

The Group has always been aiming to become a leading interactive digital entertainment company to provide quality entertainment content across China. During the Period, the business continues to record loss since the Group’s online games are still under final testing and pre-launch stage incurring high R&D and marketing expenses, although sales from other business has increased. The Group expects the revenue from digital entertainment business will soon be improved after the new product launches in the market.

The management is pleased to announce that during the Period, the Group was granted approval by both the Ministry of Culture (“MoC”) and General Administration of Press and Publication (“GAPP”) to operate massive multiplayer online role playing games (“MMORPG”) Rohan, which is believed to be the Group’s new source of revenue, is currently undergoing a closed beta test run. This is a major step toward the Company’s turnaround and full launch of the game in the China market.

Certain marketing campaigns for Rohan have been rolled out and perceived very encouraging feedback from the target players. In July 2010, the Group promoted Rohan heavily in the China Digital Entertainment Expo & Conference (“Chinajoy”) and received overwhelming response. The event provided a good opportunity for Rohan’s target players to get acquaintance and form their own community, which laid a solid foundation for the pre-launch test for “guild”, an organization formed by players for team playing which would lead to a stable and long term user base.

For the e-sport business, during the Period, the Group co-organized the first E-sport National Team Trial in China. The trial was titled as ‘T-Matrix Cup’, the name of a wholly owned subsidiary of the Group. The T-Matrix Cup was hosted by the General Administration of Sports of the PRC (國家體育總局) and organized by China Sport Industry Group. The China Sport Industry Group is the only listed company controlled by General Administration of Sports and is the largest sports company in China. The co-organization was another milestone for the Group’s e-sport business as well as an opportunity to develop ties with key industry partners. Meanwhile, the Group co-operated with the Communist Youth League of China in the International E-sport Festival (“IEF”) 2010 final this year from 28 October to 30 October. The festival was a huge success and attracted 100,000 participants from 13 countries. The Group has co-organized this event since 2008.

During the Period, the Group signed a bingo and digital arcade games software development and license agreements with BG Global Gaming Limited and Winning Asia Technology Limited respectively. A deposit of HK\$30 million was paid by the Group for the development of online bingo and digital arcade games. The Group believes the new software development will strengthen the competitiveness of its product platform.

Packaging Products business

Since the acquisition of Kingbox (Asia) Limited (“Kingbox”) in the fiscal year 2008/09, it has been a stable source of income for the Group. During the Period, the Packaging Products business delivered satisfactory performance.

During the Period, Kingbox continued to target the medium to high-end markets for its customers based in Europe, the USA and Southeast Asian regions for its packaging product business, with revenue amounting to HK\$77.1 million, representing a 49.9% surge compared to the same period last year (For the six months ended 30 September 2009: HK\$51.4 million). The increase in turnover was mainly due to the increases in sales and appreciation of Euros and GBP. The increase in sales mainly came from the gradual recovery of business from the financial crisis and the continuing active new market expansion.

In order to capture more business opportunities in the PRC, during the Period, Kingbox successfully transformed one of its factories in the PRC into a foreign investment enterprise and was granted the right to directly sell its products in the PRC market and also acquired a new warehouse in Hong Kong for future business expansion.

Watch Trading Business

During the Period, watch trading business received significant increase in sales performance. Thanks to the continuous efforts put into marketing and branding activities, revenue from the watch trading business increased by 205.1%. The management believes that leveraging on the unique history of the ‘Shanghai Watch’ brand will bolster the continuous expansion of the watch trading business.

Prospects

Looking forward, the Group will continue to put more effort into the digital entertainment business. The promotional and marketing activities of Rohan marked a major milestone for the Group's digital entertainment business in China. The game forms the cornerstone of the Group's strategy to expand and accelerate the development of online game across the country. With licenses obtained and open beta testing underway, the games are on the right track to the full launch. Rohan, which received overwhelming response in its previous beta testing, is expected to generate impressive revenue for the Group after its grand launch into market.

On the other hand, we believe that the Packaging Products and watch trading businesses will continue to improve in the future due to the global market recovery. With solid businesses in different regions such as Europe, the United States and Southeast Asia, the management will continue to explore and develop the PRC market and is confident that the Group will benefit from the rapid economic growth of the PRC market in the coming years.

Financial Review

Results

During the Period, the Group's turnover surged 56.7% to HK\$88.3 million (For the six months ended 30 September 2009: HK\$56.3 million). The significant increase was mainly due to the promising performance of the Packaging Products and watch trading businesses.

Loss attributable to shareholders amounted to HK\$36.7 million, compared to HK\$29.6 million for the same period last year. During the Period, the increases in loss was mainly due to the increase in selling and distribution costs, administrative expenses (mainly the consultancy fees and legal and professional fees) and loss on change in fair value of the derivative financial instruments in spite of the increases in turnovers and change in fair value of investment properties of the Group.

Subsequent to the full provision of the debt due from 江蘇東海華宇實業有限公司 ("Huayu"), up to the date of this Interim Report, Huayu repaid a total of RMB5.2 million in which RMB0.5 million was treated as write back of other receivable and income of the Group during the Period.

The Group develops and produces super high brightness LED-backlit LCD monitors through Well Union Investment Ltd ("Well Union"), an associated company of the Group. During the Period, the sales of Well Union record improvement, however it still record lost due to increase in material cost. The revenue of Well Union is expected to keep improving and turnaround during the next period.

Significant Acquisitions and disposals of subsidiaries and associated companies

There was no significant acquisitions and disposals of subsidiaries or associated companies during the Period.

Capital Resources and Currency Exposure

As at 30 September 2010, the bank and cash balances (including pledged bank deposits) of the Group amounted to approximately HK\$72.6 million. The Group's bank loans were approximately HK\$63.9 million, of which HK\$29.4 million were payable within one year. The Group's bank loans are mainly denominated in Hong Kong dollars and Euros and granted on a floating rate basis.

The gearing ratio of interest bearing loans (net of the zero coupon rate convertible notes) against the total equity as at 30 September 2010 was 12.5%. As the majority of bank deposits and cash on hand were denominated in Australian dollars, US dollars, Renminbi, Euros, British pounds and Hong Kong dollars, the Group's exchange risk exposure depended on the movement of the exchange rate of the aforesaid currencies. Moreover, the trading receipt of foreign currencies would also be used to settle loans advanced in the same foreign currencies.

Pledge of Assets

As at 30 September 2010, the building and prepaid lease payments of the Group with carrying value of approximately HK\$12.1 million and HK\$61.6 million respectively were pledged for bank loans. In addition, the Group's banking facilities were secured by pledged bank deposits and held-to-maturity investments of approximately HK\$23.4 million and HK\$2 million respectively.

Capital and Other Commitments

As at 30 September 2010, there was no material capital expenditure contracted for but not provided in the condensed consolidated financial information.

As at 30 September 2010, the licensing arrangement is contracted for a term of three years. Pursuant to the licensing arrangement, subject to the condition of obtaining certain online game licenses and open beta service, the Group has to pay the licensor, a non-refundable minimum guarantee in the total sum of US\$5 million, payable by three annual installments.

Employee Information

The Group had 1,986 employees as at 30 September 2010, including 69 employees stationed in Hong Kong and 1,917 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. Staff 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.

Contingent Liabilities

1. Confiscation of gaming machines acquired from a company owned as to 50% by an ex-director

On 29 October 2008, the Company announced that gaming machines and the applicable software (collectively “Weike Machines”) would be acquired from Weike (S) Pte Limited (“Weike”), a company owned as to 50% by Mr Poh Po Lian (“Mr Poh”), the then director of the Company and a current ultimate shareholder of the Company at a consideration of HK\$9,893,000.

Subsequent to the delivery of the products, it was noted that the functionality and performance of the Weike Machines were not in conformity with the Company’s specification. Despite the various rounds of efforts of the technical teams of both sides in solving the problems, the Company’s specifications remained unmatched. Furthermore, the Weike Machines were confiscated by the public security bureau of Shanghai (“PRC Police”) on 13 June 2010 for not having obtained the endorsement of the Shanghai Municipal Administration of Culture Radio Film & TV. In this respect, a wholly own subsidiary of the Company thereby instructed lawyers to submit to Shanghai No.2 Intermediate People’s Court a claim against Weike. Details of the claim were disclosed in the section headed “Litigation” below.

In view of the violation of the rules as claimed by the PRC Police, the Group also have consulted an external lawyer in the PRC who advised that no contingency liability on the Group from such violation should be expected from the regulatory body(ies) in the PRC.

2. Litigation

On 14 April 2010, Luck Continent Limited (“Luck Continent”), a substantial shareholder of the Company, as Petitioner, filed a petition (“Petition”) to the court against various parties including Mr Cheng Chee Tock Theodore (“Mr Cheng”), the chairman of the Company, Ms Leonora Yung (“Ms Yung”), the spouse of Mr Cheng, 6 corporate shareholders of the Company interested by Ms Yung (“Yung Companies”, and altogether with Mr Cheng and Ms Yung, as “Private Parties”), and the Company. In the Petition, Luck Continent raised various allegations against the Private Parties and/or the Company and intended to seek for (1) an order for revising the articles of the Company to effect that (a) removal of director(s) of the Company shall be made effective by an ordinary resolution instead of a special resolution, and (b) shareholders in general meeting of the Company may fill or authorise the board of directors to fill any vacancy in the number left unfilled at any general meeting; (2) an injunction restraining Ms Yung and the Yung Companies to vote at the special general meeting of the Company held on 30 April 2010 (which has been spent); (3) an order that the Company shall cause a subsidiary of the Company not to proceed with a project in relation to a transaction at a Suzhou site and to demand for the repayment of the earnest money having been paid; (4) a declaration that the appointment of 3 executive directors of the Company made on 16 November 2009 be invalid and of no effect; and (5) the appointment of a receiver and/or manager, and/or such person(s) for the purpose of conducting an independent investigation and/or audit of the matters

complained of in the Petition. On 20 April 2010 and 27 April 2010, Luck Continent further issued via its lawyer 2 letters (“Legal Letters”) for the attention of the Private Parties and/or the Company raising various other concerns and allegations relating to the Group’s investments and the reason for the resignation of the Company’s auditor. On 30 April 2010, Luck Continent also filed a summons (“First Summons”) to Court to seek for, inter alia, an independent investigation accountant (“IIA”) to look into various matters alleged by Luck Continent in the Petition.

The Board had thoroughly reviewed and looked into each of the concerns raised by Luck Continent in the Petition and the Legal Letters. The Board noticed that some of the allegations were wrong and is of the opinion that there is no valid grounds for any other concern raised which should render such concern for action that Luck Continent is now seeking. In response to the Petition and the First Summons, (1) on 14 May 2010, the Audit Committee resolved to engage Ernst and Young Transactions Limited (“EY”) as the IIA. On 15 July 2010, EY issued the IIA report (“IIA Report”) for the attention of the Audit Committee. (2) on 24 June 2010, the Company filed an affirmation to Court to rebut and/or explain Luck Continent’s allegations/concerns in the Petition as well as the Legal Letters as far as the Company is concerned. On 24 June 2010, Luck Continent, being in disagreement on the appointment of EY as the IIA, filed summons (“Second Summons”) to the Court to restore the First Summons with modification of (1) including 2 executives of Ferrier Hodgson Limited as a choice as the IIA; and (2) revoking the appointment of EY as the IIA. The Board is of the view that (1) it is the Company’s contention that the Court has no jurisdiction to make an order for the appointment of an IIA as Luck Continent wishes; and (2) there being no ground or justification for EY not being suitable to be appointed as IIA while the investigation work of EY had completed. Accordingly, the Board anticipates that the order sought by Luck Continent in the Second Summons would not be granted by Court. A hearing in respect of the appointment of IIA is fixed to be heard on 4 January 2011 and 5 January 2011. Details of this litigation were disclosed in the announcements of the Company dated 21 April 2010, 4 May 2010, 12 May 2010 and 14 May 2010 respectively.

On 29 October 2008, Billion Cosmos Investment Limited (a wholly owned subsidiary of the Company) as purchaser and Weike(S) Pte Limited (a company owned as to 50% equity interest by Mr Poh, the then director and a current ultimate shareholder of the Company) as vendor, entered into an agreement relating to acquisition of Weike Machines at the total consideration of HK\$9,893,000. On 13 June 2010, the Weike Machines were confiscated by the public security bureau of Shanghai for not having obtained the endorsement of the Shanghai Municipal Administration of Culture Radio Film & TV. Pursuant to the Agreement, the vendor is responsible for obtaining the endorsement. A wholly own subsidiary of the Company thereby instructed lawyers to submit to Shanghai No.2 Intermediate People’s Court a claim against the vendor, in which the subsidiary sought orders for (i) refund of RMB8,704,851 (being the full consideration in RMB for the purchase of the Weike Machines), (ii) damages of amount provisionally assessed at RMB5,000,000, (iii) vendor’s delivery to the subsidiary materials in relation to the Weike Machines in respect of customs, commodity inspection and tax, and (iv) all costs of the claim to be borne by the

vendor. On 26 July 2010, the Court issued to the subsidiary a notice of acceptance of lawsuit confirming its acceptance of the filing of the claim. Details of this litigation were disclosed in the announcements of the Company dated 29 October 2008, 28 June 2010 and 4 August 2010 respectively.

On 15 September 2010 the Company was served with the summons issued against, inter alia, the Company by Luck Continent, in which Luck Continent is seeking for the Court to order, among other things, until determination of the action or further order of the Court (i) Mr Lai Kar Yan and Mr Yeung Lui Ming, both of Messrs Deloitte Touche Tohmatsu or (ii) alternatively, Mr Roderick John Sutton and Mr Fok Hei Yu, both of FTI Consulting (formerly known as Ferrier Hodgson Limited and FS Asia Advisory Limited respectively) be appointed as joint and several receivers and managers (“Receivers”) of the Group for the proper management and the preservation of assets of the Group and the protection of its interests. In this respect, the Company has served affirmations in opposition. The hearing for the appointment of Receivers has been fixed on 6 April 2011 and 7 April 2011. Details of this litigation were disclosed in the announcements of the Company dated 16 September 2010, 21 September 2010 and 18 October 2010 respectively.

Events After The End of The Reporting Period

In September 2010, the Group entered into a sales and purchase agreement for the disposal of a property in Hong Kong at a consideration of approximately HK\$70.9 million. This transaction will be completed on or before 28 December 2010. Details of the transaction were disclosed in the announcement of the Company dated 17 September 2010.

On 27 October 2010, the Company was served with a summons (“AGM Summons”) by Luck Continent as plaintiff against the Company alleging that the Company has breached the relevant bye-laws as a result of not convening the annual general meeting of the Company for the financial year ended 31 March 2010 (“2010 AGM”) within the time limit prescribed under the bye-laws of the Company. Luck Continent also seeks an order from the Court against the Company to give notice of the 2010 AGM to be held on a date not more than 25 days from the notice of the 2010 AGM for the purpose of transacting the businesses including to receive and consider the audited financial accounts of the Company for the year ended 31 March 2010; to nominate, appoint and vote on the directors to fill vacancies arising from the retirement by rotation; and to appoint the auditor for the Company and to fix its remuneration (“Orders”). On 10 November 2010, the Company was served with a summons by Luck Continent, in which Luck Continent is seeking for the final judgment of the Court against the Company for, among other things, the Orders. The Company is seeking legal advice in respect of the AGM Summons. Details of this litigation were disclosed in the announcements of the Company dated 27 October 2010 and 11 November 2010 respectively.

In November 2010, the Group entered into a provisional sales and purchase agreement for the disposal of a property in Hong Kong at a consideration of HK\$7.8 million. This transaction will be completed on or before 1 March 2011.

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 14 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 for Securities Transactions by Directors of Listed Issuers (“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.

REVIEW OF RESULTS

The Group’s unaudited condensed consolidated results for the Period have been reviewed by 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, 29 November 2010

As at the date hereof, the executive directors of the Company are Mr CHENG Chee Tock Theodore (Chairman), Mr WOELM Samuel, Mr WU Chuang John, Mr CAO Dongxin, Mr HO Chi Chung Joseph, Mr YU Ping, Mr ZHANG Yiwei, Mr TANG Ming and Mr HU Xichang; and the independent non-executive directors are Mr WANG Shanchuan, Mr NG Pui Lung and Mr FUNG Pui Cheung Eugene.