



C Y FOUNDATION GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code #1182)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

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 2007 together with the comparative figures for the last corresponding period are as follows:

		Six months ended	
		30 September	
	<i>Note</i>	2007	2006
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
			(Restated)
Continuing Operations			
Turnover	3	29,345	36,514
Cost of sales		(15,781)	(18,480)
Gross profit		13,564	18,034
Other revenue		19,366	468
Selling and distribution costs		(15,129)	(16,338)
Administrative expenses		(30,814)	(8,018)
Loss from operations	4	(13,013)	(5,854)
Finance costs	5	(1,158)	(327)
Excess of net assets value over the consideration arising from acquisition of subsidiaries		1,336	–
Loss before income tax		(12,835)	(6,181)
Income tax	6	–	–
Loss from continuing operations		(12,835)	(6,181)
Discontinued operation			
Loss from discontinued operation		–	(14,830)
Loss for the period		(12,835)	(21,011)
Loss attributable to:			
Equity holders of the Company		(12,605)	(21,011)
Minority interest		(230)	–
		(12,835)	(21,011)
Loss per share			
Basic	7		
– Continuing operations		(0.37) cent	(7.07) cents
– Discontinued operation		–	(16.96) cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2007

		As at 30 September 2007 <i>HK\$'000</i> (Unaudited)	As at 31 March 2007 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		4,942	730
Loan receivables		17,098	–
Licenses		27,036	–
		<u>49,076</u>	<u>730</u>
Current assets			
Inventories		1,530	17,206
Trade and other receivables	8	28,465	15,231
Pledged bank deposits		–	497
Bank fiduciary deposit		557,200	328,276
Cash and cash equivalents		197,128	460,573
		<u>784,323</u>	<u>821,783</u>
LIABILITIES			
Current liabilities			
Trade and other payables	9	54,773	745,830
Current portion of obligations under finance lease		356	–
Short term loan, secured		–	25,380
		<u>55,129</u>	<u>771,210</u>
Net current assets		<u>729,194</u>	<u>50,573</u>
Total assets less current liabilities		778,270	51,303
Non-current liabilities			
Obligations under finance lease		948	–
Convertible note		18,891	3,016
Provision for long service payments		959	959
		<u>20,798</u>	<u>3,975</u>
NET ASSETS		<u>757,472</u>	<u>47,328</u>

	As at 30 September 2007 HK\$'000 (Unaudited)	As at 31 March 2007 HK\$'000 (Audited)
CAPITAL AND RESERVES		
Share capital	3,687	3,087
Reserves	752,734	44,241
	<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company	756,421	47,328
MINORITY INTEREST	1,051	–
	<hr/>	<hr/>
TOTAL EQUITY	757,472	47,328
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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2007 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2007.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention.

Except for the accounting policies of consolidation and intangible assets, the accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2007. In particular, we have consolidated Beijing Horizon Trading Company Limited (“Beijing Horizon”) and its subsidiaries into the financial statements of the Group notwithstanding the lack of legal equity ownership of Beijing Horizon, because in substance certain contractual arrangements enacted with Beijing Horizon give the Company control over Beijing Horizon by way of controlling more than one half of the voting rights of Beijing Horizon, governing its financial and operational policies and appointing or removing the majority of the members of its controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual arrangements also transfer the risks and rewards of Beijing Horizon to the Company.

In the current period, the Group has applied, for the first time, a number of new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA which are effective for the financial year ending 31 March 2008.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 - Group and Treasury Share Transactions

The adoption of the new 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 has been required.

The Group has not early applied the following new/revised standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and financial position of the Group.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 12	Service Concession Arrangements ²
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ²

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 January 2008

³ Effective for annual periods beginning on or after 1 July 2008

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group comprised the following main business segments:

- (a) Online game tournament services
- (b) Apparel trading
- (c) Strategic investments and others

The analysis of the Group's turnover and results for the six months ended 30 September 2007 and 2006 regarding business segments is as follows:

For the six months ended 30 September 2007

	Continuing operations			Discontinued operation	Consolidated
	Online game tournament services	Apparel trading	Strategic investments and others	Securities trading	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	131	29,214	-	29,345	29,345
Segment results	(1,548)	(8,553)	-	(10,101)	(10,101)
Interest income				19,007	19,007
Unallocated income				9	9
Group overheads				(21,928)	(21,928)
Loss from operations				(13,013)	(13,013)
Finance costs				(1,158)	(1,158)
Excess of net assets value over the consideration arising from acquisition of subsidiaries				1,336	1,336
Loss before income tax				(12,835)	(12,835)
Income tax				-	-
Loss from continuing operations				(12,835)	(12,835)
Loss for the period					(12,835)

For the six months ended 30 September 2006 (Restated)

	Continuing operations			Discontinued operation		
	Online game tournament services <i>HK\$'000</i> (Unaudited)	Apparel trading <i>HK\$'000</i> (Unaudited)	Strategic investments and others <i>HK\$'000</i> (Unaudited)	Sub-total <i>HK\$'000</i> (Unaudited)	Securities trading <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Turnover	<u>–</u>	<u>36,514</u>	<u>–</u>	<u>36,514</u>	<u>55</u>	<u>36,569</u>
Segment results	<u>–</u>	<u>(4,997)</u>	<u>–</u>	<u>(4,997)</u>	<u>(1,542)</u>	<u>(6,539)</u>
Interest income				149		149
Group overheads				<u>(1,006)</u>		<u>(1,006)</u>
Loss from operations				(5,854)		(7,396)
Finance costs				(327)		(327)
Loss on disposal of available-for-sale financial assets				<u>–</u>	<u>(13,288)</u>	<u>(13,288)</u>
Loss before income tax				(6,181)		(21,011)
Income tax				<u>–</u>		<u>–</u>
Loss from continuing operations				<u>(6,181)</u>		
Loss for the period						<u>(21,011)</u>

Geographical segments

The Group's operations are principally located in the PRC and Hong Kong.

The analysis of the Group's turnover and results by geographical segment is as follows:

	Six months ended 30 September					
	Hong Kong		The PRC		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:						
Turnover						
– Continuing operations	21,949	24,744	7,396	11,770	29,345	36,514
– Discontinued operation	–	55	–	–	–	55
	21,949	24,799	7,396	11,770	29,345	36,569
Segment results						
– Continuing operations	(13,608)	(4,751)	773	(1,430)	(12,835)	(6,181)
– Discontinued operation	–	(14,830)	–	–	–	(14,830)
	(13,608)	(19,581)	773	(1,430)	(12,835)	(21,011)

4. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging/(crediting):

	Six months ended	
	30 September	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Continuing operations		
Cost of sales	15,781	18,480
Auditors' remuneration		
Non-audit fee	280	–
Depreciation	830	999
Loss on disposal/write-off of property, plant and equipment	–	451
Operating lease rentals in respect of land and buildings	4,325	909
Royalty expenses	1,636	–
Staff salaries and other benefits	15,421	3,395
Staff retirement benefits scheme contributions, net of forfeited contributions of HK\$ Nil (Six months ended 30 September 2006: HK\$ Nil)	121	–
Total staff costs including directors' emoluments	<u>15,542</u>	<u>3,395</u>
Discontinued operations		
Cost of sales	–	59
Depreciation	–	16
Operating lease rentals in respect of land and buildings	–	422
Staff salaries and other benefits	–	363
Staff retirement benefits scheme contributions, net of forfeited contributions of HK\$ Nil (Six months ended 30 September 2006: HK\$ Nil)	–	–
Total staff costs including directors' emoluments	<u>–</u>	<u>363</u>

5. FINANCE COSTS

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Continuing operations		
Interest on short term loan wholly repayable within five years	311	327
Imputed interest on convertible note	847	–
	<u>1,158</u>	<u>327</u>
Discontinued operation	<u>–</u>	<u>–</u>

6. INCOME TAX

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profits for the six months ended 30 September 2007 and 2006.

Pursuant to a notice dated 7 March 2005 issued by Shanghai Local Tax Bureau Xu Hui Branch, 上海歐裝貿易有限公司 (“上海歐裝”), a subsidiary of the Group, is exempted from PRC enterprise income tax (“EIT”) for the period from 1 May 2004 to 31 December 2006. No provision has been made for 上海歐裝 for the six months ended 30 September 2007 as 上海歐裝 sustained a loss for taxation purpose during the period.

No provision for EIT has been made for other subsidiaries operating in the PRC as they did not generate any assessable profits during the six months ended 30 September 2007 and 2006.

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	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Loss		
Loss for the purpose of the basic loss per share		
Continuing operations	(12,835)	(6,181)
Discontinued operation	–	(14,830)
	<u>–</u>	<u>(14,830)</u>
Continuing and discontinued operations	(12,835)	(21,011)
	<u>(12,835)</u>	<u>(21,011)</u>
Weighted average number of ordinary shares		
	<i>'000</i>	<i>'000</i>
Issued ordinary shares at beginning of period	3,087,422	1,748,433
Effect of share consolidation	–	(1,661,011)
Effect of issue of new shares	422,951	–
	<u>–</u>	<u>–</u>
Weighted average number of ordinary shares at end of period	3,510,373	87,422
	<u>3,510,373</u>	<u>87,422</u>
Basic loss per share		
Continuing operations	(0.37) cent	(7.07) cents
	<u>–</u>	<u>(16.96) cents</u>
Discontinued operation	–	(16.96) cents
	<u>–</u>	<u>(16.96) cents</u>
Continuing and discontinued operations	(0.37) cent	(24.03) cents
	<u>(0.37) cent</u>	<u>(24.03) cents</u>

(b) Diluted loss per share

Diluted loss per share for the six months ended 30 September 2007 has not been disclosed as the potential ordinary shares outstanding during the period had an anti-dilutive effect on the basic loss for the period. Diluted loss per share was not presented for the six months ended 30 September 2006 as there were no dilutive potential shares in issue during the period.

8. TRADE AND OTHER RECEIVABLES

	As at 30 September 2007 <i>HK\$'000</i> (Unaudited)	As at 31 March 2007 <i>HK\$'000</i> (Audited)
Trade receivables (<i>Note (a)</i>)	2,396	6,822
Other receivables	4,177	3,121
Deposits and prepayments	19,626	5,288
Due from a director	206	–
Due from minority shareholders of a subsidiary	2,060	–
	<u>28,465</u>	<u>15,231</u>

Note:

- (a) An ageing analysis of trade receivables, net of provision for impairment loss for bad and doubtful debts is as follows:

	As at 30 September 2007 <i>HK\$'000</i> (Unaudited)	As at 31 March 2007 <i>HK\$'000</i> (Audited)
0 – 60 days	2,114	6,820
61 – 90 days	33	–
91 – 180 days	138	–
181 – 365 days	109	–
Over 1 year	2	2
	<u>2,396</u>	<u>6,822</u>

The Group allows a credit period normally ranging from cash on delivery to 60 days (At 31 March 2007: 60 days) to its trade customers.

9. TRADE AND OTHER PAYABLES

	As at 30 September 2007 <i>HK\$'000</i> (Unaudited)	As at 31 March 2007 <i>HK\$'000</i> (Audited)
Trade payables (<i>Note (a)</i>)	1,244	1,427
Bills payable	9	336
Deposits received	909	4,539
Accruals and other payables	51,902	19,785
Due to a director	709	–
Due to the ultimate holding company	–	719,743
	<hr/>	<hr/>
	54,773	745,830
	<hr/> <hr/>	<hr/> <hr/>

Note:

(a) An ageing analysis of trade payables is as follows:

	As at 30 September 2007 <i>HK\$'000</i> (Unaudited)	As at 31 March 2007 <i>HK\$'000</i> (Audited)
0 – 60 days	–	183
61 – 90 days	–	–
91 – 180 days	–	–
181 – 365 days	–	–
Over 1 year	1,244	1,244
	<hr/>	<hr/>
	1,244	1,427
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DIVIDEND

The Board did not recommend any interim dividend for the underlying period (2006: Nil).

REVIEW AND OUTLOOK

Financial Review

Operating results

For the six months ended 30 September 2007, the Group recorded a turnover of HK\$29.3 million as compared to HK\$36.5 million for the last corresponding period. The decrease was due to the gradual phasing out of the apparel trading business as well as the Group's new focus on its new business development in online game tournaments. The Group also reported a net loss attributable to shareholders of HK\$12.8 million as compared to a loss of HK\$21.0 million in the last corresponding period. The loss was mainly attributable to the loss from the gradually discontinued operation - apparel trading business and the establishing cost for the online game tournament business.

As the new business of online game tournaments is still at its early development stage and takes time to establish, the current financial figures reflect mainly the being phased out apparel business operation. The benefits from the anticipated high growth in online game tournaments is expected to emerge from the next financial year and onwards.

Business Review – Old Business

At the beginning of the period under review, the Board had determined to focus on the development of the new online game tournaments business and has gradually shifted the resources away from its apparel business. This business recorded a turnover of HK\$29.2 million and a net loss of HK\$8.9 million for the period under review. The portfolio of the apparel trading is expected to be scaled down in the forthcoming financial year.

New Course – Online Game Tournaments

The revenue from the new business started to accrue to the Group from August 2007. During two months' period, the revenue generated from the new business of the Group amounted to approximately HK\$0.13 million and the net loss for this period was approximately HK\$3.9 million. The Group's core business is to organize and manage nationwide online game tournaments. Players from all over China will participate in online tournaments that will feature casual games such as mahjong, doudizhu, Texas Hold'em poker, tuolaji, and animated entertainment games.

Tournaments

The Group operates online P2P (player to player) game tournaments for prizes all across China. The Group is the company dedicated to the online tournament market in China and sees enormous potential in a country where the online gaming market is estimated to comprise more than 45 million players (2006) and is growing at more than 39% per year.

The online tournament market in China is new. The Group maintains a first mover advantage and is developing unique tournament formats suitable for multiple market segments. The Group's online tournaments will feature hugely popular card games such as Doudizhu and Texas Hold'em.

Distribution Channel

The Group's main distribution channel is internet cafes; there are over 120,000 licensed internet cafes nationwide with 27 million visitors per day. Through Network Media Center, the Group has access to a wide range of resources to accelerate the roll out and popularity of our online tournament platform, including a network of 20,000 internet cafes.

Tournament Platform

The Group will accelerate roll out of tournaments to a large network of internet cafes by developing a proprietary tournament platform. The platform will contain a full suite of services that will offer players a seamless and exciting game-user experience. This will include membership, payment, prize distribution and tournament statistics services.

Enternet

The online tournaments will gain further support and exposure through our high-end flagship entertainment centers, located in the major cities across China. The entertainment centers feature a full spectrum of entertainment including P2P tournament playing section, VIP rooms, digital cinemas playing international films and live sports, internet cafe and a refreshment area. Our first entertainment center opened on 14 September 2007 in Shanghai. Future locations to be open soon include Shenzhen and Beijing.

Acquisition

During the period, the Group acquired T-Matrix Culture Company Limited to speed up the roll out of the Group's online tournament platform. T-Matrix has over 1,000 internet cafe franchisees and allied internet cafe partners in over 9 provinces across China. T-Matrix is one of only 7 active license owners authorised by the PRC's Ministry of Culture to franchise internet cafes nationwide in China. Internet cafes in this T-Matrix group will become the Group's online tournament platform and hold nationwide tournaments. The acquisition of T-Matrix had expedited the establishment of marketing channels in promoting the online game tournaments. The Group began operating online tournaments throughout the T-Matrix network since early August 2007.

Rolling out of tournaments

Various electronic tournaments have been launched since mid of the year. The latest one named China Youth Electronic Tournament or CYET was launched in October 2007 and had proved a huge success with nearly 29,000 players signing up for the tournament. Since then, CYET has been launched in over 230 internet cafes in Wuxi, China.

The entertainment centre and the tournaments took the Group a great step forward towards our objective of establishing a sizeable online gaming community. The Group looks forward to rolling out more tournament via its proprietary platform to more cities across China and the growth of our player base as well as the geographical reach.

Capital resources and currency exposure

As at 30 September 2007, the cash and cash equivalents (including bank fiduciary deposit) of the Group amounted to approximately HK\$754.3 million and there was no bank borrowing. The gearing ratio of interest bearing borrowing (net of the zero coupon rate convertible notes) against the total equity at 31 March 2007 was 53.6%. As majority of the cash on hand is in US currency, the Group's exchange risk exposure is mainly in the downward trend of US currency. Therefore, the Group has planned to convert a portion of the US currency on hand to other major currencies in order to reduce the potential exchange fluctuations.

Capital commitment

As at 30 September 2007, the Group has not committed nor had any plan to commit for any material investment or capital assets.

Subsequent event

Subsequent to the period under review, the Group announced the acquisition of a property in Hong Kong and a property in Beijing for office use. The consideration was and will be financed partly by the internal source of funding of the Group and partly by mortgage financing from bank.

Prospects

The Board is highly positive on the growth potential of the new business based on the market size of China's online game players and its fast growth rate. With the huge success of CYET in Wuxi, the Group is planning to roll out more tournament events in more cities including Zhengzhou, Chengdu, Guangzhou, Wuhan and Shanghai over the next few months. The Group expects to see a huge increase in the growth of its player base as the brand expands across China. The next major tournament will culminate with a 1 million Renminbi final to be held in Shanghai at the end of April 2008.

Aside from this, The Group plans to work closely with its strategic partner to utilise its vast resources such as its 75 million membership base and relationships with over 20,000 internet cafes across China to maximize the market position of its online tournament platform.

EMPLOYEE INFORMATION

At the end of the underlying period, the Group employed 106 permanent employees, including 23 employees in Hong Kong and 83 in the PRC. The Group continued to review the remuneration packages of employees with reference to the level and composition of pay, general market condition and individual performance. Staff benefits include contribution to Mandatory Provident Fund Scheme and discretionary bonus, share option scheme, medical allowance and hospitalisation scheme and housing allowance.

CORPORATE GOVERNANCE

The summary of the major areas of deviations from the Code on Corporate Governance Practices (“CG Code”) during the underlying period is as follows.

CG Code	Deviation
A.2.1 Segregated roles of chairman and CEO	<ul style="list-style-type: none">• Before 9 May 2007, the Group did not maintain a CEO in the Board and the Chairman assumed the general duties of a CEO.• On 9 May 2007, a CEO was appointed to the Board.
A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election	<ul style="list-style-type: none">• Before 9 May 2007, all Independent Non-executive Directors (“INED(s)”) were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company’s Bye-laws.• With effect from 9 May 2007, all INEDs and Non-executive Directors (“NED(s)”) shall retire but be eligible for re-election at every annual general meeting of the Company.
B.1.1 A remuneration committee should be set up with majority members to be INEDs	<ul style="list-style-type: none">• During the period from 9 May 2007 until 31 May 2007, the Remuneration Committee was not composed of a majority of INEDs due to the resignation of all former INEDs from the Board and/or the Remuneration Committee.• On 1 June 2007, 2 new INEDs were appointed as the new members of the Remuneration Committee fulfilling the requirement.

All of the above deviations have been remedied and complied with before the end of the underlying period as stated above.

REVIEW OF RESULTS

The Group's unaudited condensed consolidated results for the six months ended 30 September 2007 have been reviewed by the auditors and the Audit Committee of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 September 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Cheng Chee Tock Theodore
Chairman

Hong Kong, 19 December 2007

As at the date hereof, the Executive Directors of the Company are Mr. Cheng Chee Tock Theodore (Chairman), Dato Poh Po Lian, and Mr. Sam Woelm; Non-executive Directors are Mr. Wu Chuang John and Mr. Cao Dongxin; and the Independent Non-executive Directors are Mr. Sze Tsai Ping Michael, Dr. Chow Steven, and Mr. Wang Shan Chuan.