

# ThinSoft

THINSOFT (HOLDINGS) INC  
博軟(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 8096)

Interim Report **2009**



## **Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

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

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

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

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

## RESULTS

The board of directors of ThinSoft (Holdings) Inc (the “Company”) presents the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30th June 2009 together with the comparative figures for the corresponding periods in last financial year.

### UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Notes	2009 HK\$'000	For the three months ended 30 June 2008 HK\$'000	2009 HK\$'000	For the six months ended 30 June 2008 HK\$'000
Revenue	3	3,076	3,812	5,572	8,982
Cost of sales		(48)	(491)	(85)	(1,096)
Gross profit		3,028	3,321	5,487	7,886
Other income	3	158	141	321	327
Selling and distribution expenses		(164)	(166)	(333)	(354)
General and administrative expenses		(4,452)	(3,321)	(7,779)	(6,125)
Provision for impairment loss of available-for-sales financial assets		-	(2,744)	(736)	(2,744)
Loss before income tax	5	(1,430)	(2,769)	(3,040)	(1,010)
Income tax expenses	6	(46)	(308)	(131)	(996)
Loss for the period		(1,476)	(3,077)	(3,171)	(2,006)
Other comprehensive income:					
Fair value adjustment recognised in the period		1,814	(439)	1,814	(439)
Currency translation differences		549	250	(9)	1,119
Other comprehensive income/(loss) for the period		2,363	(189)	1,805	680
Total comprehensive income/(loss) for the period		887	(3,266)	(1,366)	(1,326)
Loss attributable to equity holders of the Company		(1,476)	(3,077)	(3,171)	(2,006)
Total comprehensive income/(loss) attributable to equity holder of the Company		887	(3,266)	(1,366)	(1,326)
Loss per share attributable to the equity holder of the Company – basic	8	HK\$(0.29) cent	HK\$(0.61) cent	HK\$(0.63) cent	HK\$(0.40) cent

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	<i>Notes</i>	<b>At 30 June 2009 HK\$'000 HK\$ (Unaudited)</b>	At 31 December 2008 HK\$'000 HK\$ (Audited)
<b>Non-current assets</b>			
Available-for-sale financial assets	9	<b>6,112</b>	5,036
		<b>6,112</b>	5,036
<b>Current assets</b>			
Inventories	10	<b>443</b>	457
Trade receivables	11	<b>110</b>	480
Loan receivable	12	<b>5,550</b>	5,550
Prepayments, deposits and other receivables		<b>459</b>	434
Cash and cash equivalents	13	<b>21,430</b>	24,971
		<b>27,992</b>	31,892
<b>Total assets</b>		<b>34,104</b>	36,928
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		<b>25,063</b>	25,063
Share premium		<b>11,347</b>	11,347
Other reserves		<b>12,269</b>	10,464
Accumulated losses		<b>(16,202)</b>	(13,031)
<b>Total equity</b>		<b>32,477</b>	33,843
<b>Current liabilities</b>			
Trade payables	14	<b>344</b>	378
Accruals for legal and professional fee		<b>200</b>	900
Other accrued liabilities and other payables		<b>748</b>	604
Tax payable		<b>335</b>	1,203
Total current liabilities		<b>1,627</b>	3,085
<b>Total equity and liabilities</b>		<b>34,104</b>	36,928
<b>Net current assets</b>		<b>26,365</b>	28,807
<b>Total assets less current liabilities</b>		<b>32,477</b>	33,843

# UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to equity holders of the Company				Available-for-sale-financial assets	Accumulated losses	Total
	Share capital	Share Premium	Capital Reserve	Currency Translation			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2008	25,063	11,347	6,840	3,652	439	(8,585)	38,756
Loss for the period	-	-	-	-	-	(2,006)	(2,006)
Other comprehensive income/(loss)							
Reverse fair value adjustment recognised in previous year	-	-	-	-	(439)	-	(439)
Currency translation differences	-	-	-	1,119	-	-	1,119
Total comprehensive income/(loss) for the period ended 30 June 2008	-	-	-	1,119	(439)	(2,006)	(1,326)
Balance at 30 June 2008	25,063	11,347	6,840	4,771	-	(10,591)	37,430
Balance at 1 January 2009	25,063	11,347	6,840	3,624	-	(13,031)	33,843
Loss for the period	-	-	-	-	-	(3,171)	(3,171)
Other comprehensive (loss)/income							
Fair value adjustment recognised in the period	-	-	-	-	1,814	-	1,814
Currency translation differences	-	-	-	(9)	-	-	(9)
Total comprehensive (loss)/income for the period ended 30 June 2009	-	-	-	(9)	1,814	(3,171)	(1,366)
Balance at 30 June 2009	<b>25,063</b>	<b>11,347</b>	<b>6,840</b>	<b>3,615</b>	<b>1,814</b>	<b>(16,202)</b>	<b>32,477</b>

## UNAUDITED CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	For the six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
NET CASH GENERATED (USED IN)/FROM OPERATING ACTIVITIES	<b>(3,854)</b>	113
NET CASH GENERATED FROM INVESTING ACTIVITIES	<b>321</b>	327
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(3,533)</b>	440
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>24,971</b>	30,830
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>(8)</b>	658
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>21,430</b>	31,928
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	<b>21,430</b>	31,928

# NOTES

## 1. General Information

ThinSoft (Holdings) Inc (the "Company") is an investment holding company. The principal activities of the Company and its subsidiaries (together the "Group") are the development and distribution of Thin Computing solutions and related products.

ThinSoft (Holdings) Inc is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at 6th Floor, New Henry House, No. 10 Ice House Street, Central, Hong Kong and the address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These unaudited condensed consolidated financial information are presented in units of Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 12th August 2009.

## 2. Summary of Significant Accounting Policies

### 2.1 *Basis of preparation*

The condensed consolidated interim financial information for the six months ended 30th June 2009 has been prepared in accordance with HKAS 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2008, which have been prepared in accordance with HKFRSs.

### 2.2 *Accounting policies*

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31st December 2008, as described in those annual financial statements.

Taxes on Income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.



The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1st January 2009.

- HKAS 1 (revised), "Presentation of financial statements".

The Group has elected to present one performance statement under the revised disclosure requirements.

- HKFRS 8, "Operating segments". HKFRS 8 replaces IAS/HKAS 14. "Segment reporting"
- Amendment to HKFRS 7, "Financial instruments: disclosures".

The following new standards, amendments to standards and Interpretations are mandatory for the first time for the financial year beginning 1st January 2009, but are not currently relevant for the Group.

- HKAS 23 (amendment), "Borrowing costs".
- HKFRS 2 (amendment), "Share-based payment".
- HK(IFRIC) 9 (amendment), 'Reassessment of embedded derivatives' and HKAS 39 (amendment), 'Financial instruments: Recognition and measurement'.
- HKAS 32 (amendment), "Financial instruments: presentation".
- HK(IFRIC) 13, "Customer loyalty programmes".
- HK(IFRIC) 15, "Agreements for the construction of real estate".
- HK(IFRIC) 16, "Hedges of a net investment in a foreign operation".
- HKAS 39 (amendment), "Financial instruments: Recognition and measurement".

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1st January 2009 and have not been early adopted:

- HKFRS 3 (revised), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests In Joint Ventures'.
- HK(IFRIC) 17, "Distributions of non-cash assets to owners".
- HK(IFRIC) 18, "Transfers of assets from customers".
- Amendment to HKFRS 2, "Share-based payments".
- Amendment to HKFRS 5, "Non-current Assets held for sale and discontinued operations".
- Amendment to HKFRS 8, "Operating segments".
- Amendment to HKAS 1, "Presentation of financial statements".
- Amendment to HKAS 7, "Statement of cash flows".
- Amendment to HKAS 17, "Leases".
- Amendment to HKAS 36, "Impairment of assets".
- Amendment to HKAS 38, "Intangible assets".
- Amendment to HKAS 39, "Financial instruments: recognition and measurement".
- Amendment to HK(IFRIC) 16, "Hedges of a net investment in a foreign operation".

### 3. Revenue and other income

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Group's activities. Revenue is shown net of allowance for return and trade discounts, and applicable goods and services taxes and after eliminating sales within the Group.



An analysis of the Group's turnover, which represents revenue from the sales of goods, and other income is as follows:

	For the three months ended 30 June 2008		For the six months ended 30 June 2008	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Revenue:				
Sale of goods	3,076	3,812	5,572	8,982
Other income:				
Interest income	158	141	321	327
	<b>3,234</b>	<b>3,953</b>	<b>5,893</b>	<b>9,309</b>

#### 4. Segment information

##### (a) Business segments

*The segment results for the period ended 30th June 2009 and 2008 are as follows:*

	Software		Engineering		Upgrade kits		Vertical market solutions		Unallocated		Total	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Total segment revenue	4,169	7,720	-	3,318	1,370	1,279	33	35	-	-	5,572	12,352
Inter-segment revenue	-	-	-	(3,318)	-	(52)	-	-	-	-	-	(3,370)
Revenue	4,169	7,720	-	-	1,370	1,227	33	35	-	-	5,572	8,982
Operating profit	4,169	3,559	-	-	1,302	538	16	2	(8,112)	(2,690)	(2,625)	1,407
Other income											321	327
Provision for impairment loss of an available-for-sale financial asset											(736)	(2,744)
Loss before income tax											(3,040)	(1,010)
Income tax expense											(131)	(996)
Loss for the period											(3,171)	(2,006)

*The segment assets and liabilities at 30th June 2009 and 31st December 2008 are as follows:*

	Software		Engineering		Upgrade kits		Vertical market solutions		Unallocated		Total	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Assets	459	487	-	-	443	457	-	-	33,202	35,984	34,014	36,928
Liabilities	-	-	-	-	214	518	-	19	1,413	2,548	1,627	3,085

**(b) Geographical segments**

The Group's revenue is mainly generated within Europe and the United States.

*Revenue*

	<b>2009</b>	For the six months ended
	<b>HK\$'000</b>	30 June 2008
		HK\$'000
Europe	<b>1,952</b>	4,617
United States	<b>3,026</b>	3,036
Asia Pacific except Hong Kong, China and Singapore	<b>473</b>	851
Hong Kong and China	<b>93</b>	210
Singapore	<b>16</b>	30
Other countries	<b>12</b>	238
	<b>5,572</b>	8,982

Revenue is allocated based on the country in which the customer is located.

*Total assets*

	<b>2009</b>	At 31 December
	<b>HK\$'000</b>	2008
		HK\$'000 (Audited)
Singapore	<b>13,557</b>	10,619
Vietnam	<b>6,112</b>	4,891
United States	<b>841</b>	4,341
Hong Kong and China	<b>13,504</b>	17,077
	<b>34,014</b>	36,928

Total assets are allocated based on where the assets are located.

## 5. Expenses by nature

	For the three months ended 30 June 2008		For the six months ended 30 June 2008	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Costs of inventory sold	48	491	85	1,096
Auditors' remuneration	151	180	251	321
Employee benefits expenses (including directors' remuneration)	2,511	1,466	4,921	2,894
Operating leases payments	240	109	481	216
Net foreign exchange loss	504	446	185	688
Others	1,210	1,286	2,274	2,360
Total cost of sales, selling and distribution costs and administrative expenses	4,664	3,978	8,197	7,575

## 6. Income tax expenses

	For the three months ended 30 June 2008		For the six months ended 30 June 2008	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Current:				
Hong Kong	–	–	–	–
Outside Hong Kong	46	266	131	780
	46	266	131	780
Deferred	–	42	–	216
Total tax charge for the period	46	308	131	996

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the period.

ThinSoft Pte Ltd, a wholly-owned subsidiary incorporated in Singapore, is subject to Singapore income tax. Singapore income tax has been provided at the rate of 18% (2008: 18%) on the estimated assessable profits arising in Singapore for the period ended 30th June 2009.

ThinSoft (USA) Inc is a wholly-owned subsidiary incorporated in the State of Delaware in the United States of America. During the period under review, it has been operating in the State of New York and California in the United States of America and is subject to the United States federal income tax at progressive rates ranging from 15% to 39% (2008: 15% to 39%), New York state corporate tax at a rate of 7.5% (2008: 7.5%) and California state corporate tax at a rate of 8.84% (2008: 8.84%), respectively, on its estimated assessable profits arising on a world wide basis.

## 7. Dividends

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the period ended 30th June 2009 (2008: Nil).

## 8. Earnings/(loss) per share

The calculation of basic earnings per share for the three months and six months ended 30th June 2009 are based on the loss for the period attributable to ordinary equity holders of the Company of HK\$1,476,000 (2008: Loss of HK\$3,077,000) and HK\$3,171,000 (2008: Loss of HK\$2,006,000), and the 501,255,000 (2008: 501,255,000) and 501,255,000 (2008: 501,255,000) ordinary shares in issue during the period.

No diluted earnings per share for the three months and six months ended 30th June 2009 and 2008 are presented as there are no outstanding share options as at 30th June 2009 and 2008.

## 9. Available-for-sale financial assets

	<b>At 30 June 2009 HK\$'000 (Unaudited)</b>	At 31 December 2008 HK\$'000 (Audited)
Beginning of the period/year	<b>5,036</b>	9,057
Net gains/(loss) transfer to equity	<b>1,814</b>	(439)
Exchange differences	<b>(2)</b>	(84)
Provision for impairment loss	<b>(736)</b>	(3,498)
End of the period/year	<b>6,112</b>	5,036

Available-for-sale financial assets include the following:–

Unlisted equity investment in Hong Kong	<b>145</b>	145
Unlisted investment fund in Vietnam	<b>5,967</b>	4,891
	<b>6,112</b>	5,036

## 10. Inventories

	<b>At 30 June 2009 HK\$'000 (Unaudited)</b>	At 31 December 2008 HK\$'000 (Audited)
Finished goods	<b>443</b>	457

## 11. Trade receivables

	<b>At 30 June 2009 HK\$'000 (Unaudited)</b>	At 31 December 2008 HK\$'000 (Audited)
Trade receivables	<b>110</b>	480
Less: provision for impairment of receivables	-	-
Trade receivable – net	<b>110</b>	480

The majority of the Group's sales are on-line sales through the Internet paid by credit cards. The remaining amounts are with credit terms of 60 days.

	<b>At 30 June 2009 HK\$'000 (Unaudited)</b>	At 31 December 2008 HK\$'000 (Audited)
Within 30 days	<b>102</b>	480
Between 31 to 60 days	<b>4</b>	-
Between 61 to 90 days	<b>4</b>	-
	<b>110</b>	480

Trade receivables that are less than three months past due are not considered impaired. They belong to the age group of 61 to 90 days of the above aging analysis.

## 12. Loan receivable

On 1st December 2008, the Group entered into a loan agreement with Kiu Hung Energy Holdings Limited (“Kiu Hung”), pursuant to which the Group agreed to advance to Kiu Hung a loan of HK\$5,500,000 for a period of 12 months. The loan is interest bearing at 11% per annum, unsecured, and repayable on 4th December 2009. At any time after 6 calendar months from the date of the drawdown of the loan, the Group shall have the right to require Kiu Hung to repay the loan in full or any part thereof as requested by the Group provided that the Group shall have given to Kiu Hung not less than 1 calendar month prior written notice. Kiu Hung shall repay the loan in the amount as specified in the written notice together with all interest accrued and all money payable under the loan agreement on the date specified in the written notice.

Kiu Hung may prepay all or part of the loan 6 calendar months after the date of the drawdown of the loan provided that it shall have given to the Group not less than 1 calendar month prior written notice and that the amount of any partial prepayment shall not be less than HK\$500,000 or any integral multiples thereof.

The carrying value of this asset approximated its fair value as at 30th June 2009.

As at 30th June 2009, Mr. Dennis Yu Won Kong, a director and a substantial shareholder of the Company, is interested in approximately 11.65% of the total issued share capital of Kiu Hung. Mr. Dennis Yu Won Kong is also interested in 50% of the total issued share capital of Top Advance through Strong Choice Investments (Holdings) Limited, a company solely owned by Mr. Dennis Yu Won Kong. Top Advance is a company interested in 45% of the total issued share capital of Gold Dynasty Investments Limited (“Gold Dynasty”). As at the balance sheet date, Gold Dynasty held (i) convertible bonds issued by Kiu Hung with principal amount of approximately HK\$254,065,000 (“Convertible Bonds”) which is convertible into 362,949,764 conversion shares of Kiu Hung at a conversion price of HK\$0.7; and (ii) a promissory note issued by Kiu Hung in the amount of approximately HK\$95,416,000. Assuming the Convertible Bonds are converted into ordinary shares of Kiu Hung, Mr. Dennis Yu Won Kong will be deemed to be interested in approximately 18.81% of the then enlarged share capital of Kiu Hung.

As at 30th June 2009, Mr. Yue Wai Keung, another director and a substantial shareholder of the Company, is also interested in approximately 4.37% of the total issued share capital of Kiu Hung.

As at 30th June 2009, the loan receivable was neither past due nor impaired. There were no collateral held as security and other credit enhancement against the loan receivable. The maximum exposure to credit risk at the reporting date is the fair value of loan receivable mentioned above.

### 13. Cash and cash equivalents

	<b>At 30 June 2009 HK\$'000 (Unaudited)</b>	At 31 December 2008 HK\$'000 (Audited)
Cash at bank and in hand	<b>9,957</b>	15,789
Time deposits	<b>11,473</b>	9,182
	<b>21,430</b>	24,971

### 14. Trade payables

At 30th June 2009 and 31st December 2008, the aging analysis of the trade payables, based on the invoice date, were as follows:

	<b>At 30 June 2009 HK\$'000 (Unaudited)</b>	At 31 December 2008 HK\$'000 (Audited)
Within 30 days	<b>12</b>	31
Between 31 to 60 days	–	7
Between 61 to 90 days	–	–
Between 91 to 180 days	<b>332</b>	340
	<b>344</b>	378

The trade payables are non-interest-bearing and are normally settled on 30 to 90 days terms.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Operations Review

For the period under review, ThinSoft's business has come under pressure from general global economic conditions as well as from impending technology changes. While these pressures have depressed top line revenues from sales of the company's software solutions, they have also stimulated initiatives within the Group that will pay longer term dividends as world economies gradually recover.

Without a doubt, the effects of the world economic crisis have, in many cases, caused the demise of thousands of small businesses and, in many other cases, caused companies of all sizes to shrink their discretionary IT budgets. In addition, an impending release of Windows 7 by Microsoft has caused some IT managers to "hold off" on purchases of software solutions such as the Group's WinConnect Server XP and BeTwin XP.

These factors have directly impacted sales of the Group's software suites. Other than in the United States, where sales remained strong-off only 0.3 percent for the first six months of 2009, turnover in other regions of the world shrank by 57 percent.

While reduced revenues are difficult to digest for any company, ThinSoft has taken all necessary steps to reduce cost measures to help defray the financial burden without compromising new product initiatives that will enhance top line growth once the economies are again stimulated and the new Windows 7 platform is released. The Group's engineers in the United Kingdom, the United States and Singapore are working new software solutions that will work with Windows 7.

Overall, the Group believes the cost reduction initiatives and the new product developments will bring longer term benefits to the company that will far outweigh the short term sacrifices in performance.



## Financial review

Turnover for the period ended 30th June, 2009 was decreased by 38% to HK\$5.57 million when compared to the corresponding previous period of HK\$8.98 million.

Gross profit margin for the six-month period ended 30th June 2009 was at approximately 98.4%. The Group recorded a loss attributable to equity holders of the Company for the period under review of approximately HK\$3.17 million (2008: loss of approximately HK\$2.01 million). The loss is mainly caused by the drop of sales due to global economic downturn.

The Group continues to be in a good financial position. Cash and bank balances as at 30th June 2009 was approximately HK\$21.43 million (31st December 2008: approximately HK\$24.97 million). There were no bank borrowings as at 30th June 2009 (31st December 2008: Nil).

## Capital structure

There has been no change in the capital structure of the Company during period under review. The capital of the Company comprises only ordinary shares. The Company and the Group has no borrowing and long-term debts.

## Significant investments

For the period under review, the Group did not have any significant investments.

## Material acquisitions and disposals of subsidiaries/Future plans for material investments

There had been no material acquisitions and disposals during the period under review. At present, the Company and the Group have no plans for material investments or capital assets.

## Gearing ratio

As at 30th June 2009, the Group did not have any long-term debts and its shareholders' funds amounted to approximately HK\$34.11 million. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as at 30th June 2009.

## Liquidity and financial resources

The Group generally financed its operations with internally generated cash flows.

As at 30th June 2009, the Group had cash and cash equivalents of approximately HK\$21.43 million as compared to approximately HK\$24.97 million as at 31st December 2008.

## Charges on Group assets

As at 30th June 2009, the Group did not have any charges on its assets.

## Contingent liability

The Group did not have any significant contingent liabilities as at 30th June 2009.

## Segmental information

The segmental information of the Group's products is set out on pages 6 and 7.

## Employees

As at 30th June 2009, the Group had 15 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the period under review and the previous period amounted to approximately HK\$2.51 million and approximately HK\$2.41 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Each of the executive Directors has entered into a service contract with the Company for the term of two years commencing from 11th August 2008 and expiring on 12th August 2010 unless terminated by either party giving not less than three months' prior written notice to the other. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the directors, be adjusted and each will be entitled to a discretionary bonus.

At the date of this report, all share options granted to the employees of the Group pursuant to the Pre-IPO share option scheme adopted by the Company on 2nd February 2002 were lapsed and no share options have been granted under the Post-IPO share option scheme adopted by the Company on 2nd February 2002.

Other remuneration and benefits, including retirement benefits scheme, remained at appropriate level. Particulars are detailed in the relevant section of this report.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Beneficial owner	No. of shares held by controlled corporation	Total	Percentage of the issued share capital of the Company
Mr. Dennis Yu Won Kong (Notes 1 & 2)	630,000	375,000,000	375,630,000	74.94
Mr. Yue Wai Keung (Notes 1 & 3)	–	375,000,000	375,000,000	74.81

*Notes:*

- Inno Smart Group Limited is beneficially owned 50% by Daylight Express Investments Limited and 50% by Billion Sky Resources Limited. For the purpose of Part XV of the SFO, each of Daylight Express Investments Limited and Billion Sky Resources Limited is deemed to be interested in the shares of the Company held by Inno Smart Group Limited.
- Daylight Express Investments Limited is wholly owned by Strong Choice Investments (Holding) Limited, which is in turn wholly owned by Mr. Dennis Yu Won Kong, an executive Director. For the purpose of the Part XV of SFO, Daylight Express Investments Limited is deemed to be interested in the shares of the Company which Strong Choice Investments (Holding) Limited is interested in. Mr. Dennis Yu Won Kong is deemed to be interested in the shares of the Company which Daylight Express Investments Limited is interested in.
- Billion Sky Resources Limited is wholly owned by Mr. Yue Wai Keung, an executive Director. For the purpose of Part XV of SFO, Mr. Yue Wai Keung is deemed to be interested in the shares of the Company which Billion Sky Resources Limited is interested in.

Save as disclosed above, as at 30th June 2009, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of GEM Listing Rules relating to securities transactions by Directors.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th June 2009, the following person had interests and/or short positions in the shares and underlying shares of the Company which was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long position in ordinary shares of the Company

Name	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Inno Smart Group Limited ( <i>Note 1</i> )	Beneficial interest	375,000,000	74.81%
Strong Choice Investments (Holding) Limited ( <i>Notes 1 &amp; 2</i> )	Interest of controlled corporation	375,000,000	74.81%
Mr. Dennis Yu Won Kong ( <i>Notes 1 &amp; 2</i> )	Beneficial interest	630,000	0.13%
	Interest of a controlled corporation	375,000,000	74.81%
Ms. Ho Siu Lan Sandy ( <i>Notes 1 &amp; 2</i> )	Family interest	375,630,000	74.94%
Billion Sky Resources Limited ( <i>Notes 1 &amp; 3</i> )	Interest of a controlled corporation	375,000,000	74.81%
Mr. Yue Wai Keung ( <i>Notes 1 &amp; 3</i> )	Interest of a controlled corporation	375,000,000	74.81%
Ms. Man Wing Tuen ( <i>Notes 1 &amp; 3</i> )	Family interest	375,000,000	74.81%

*Notes:*

1. Inno Smart Group Limited is owned as to 50% by Daylight Express Investments Limited and 50% by Billion Sky Resources Limited. For the purpose of Part XV of the SFO, each of Daylight Express Investments Limited and Billion Sky Resources Limited is deemed to be interested in the shares of the Company held by Inno Smart Group Limited.
2. Daylight Express Investments Limited is wholly owned by Strong Choice Investments (Holding) Limited which is in turn wholly owned by Mr. Dennis Yu Won Kong. Ms. Ho Siu Lan Sandy is the spouse of Mr. Dennis Yu Won Kong. For the purpose of Part XV of the SFO, Daylight Express Investments Limited is deemed to be interested in the shares of the Company which Strong Choice Investments (Holding) Limited is interested in. Mr. Dennis Yu Won Kong is deemed to be interested in the shares of the Company which Daylight Express Investments Limited is interested in and Ms. Ho Siu Lan Sandy is deemed to be interested in the shares of the Company which Mr. Dennis Yu Won Kong is interested in.
3. Billion Sky Resources Limited is wholly owned by Mr. Yue Wai Keung. Ms. Man Wing Tuen is the spouse of Mr. Yue Wai Keung. For the purpose of Part XV of the SFO, Mr. Yue Wai Keung is deemed to be interested in the shares of the Company which Billion Sky Resources Limited is interested in and Ms. Man Wing Tuen is deemed to be interested in the shares of the Company which Mr. Yue Wai Keung is interested in.

Save as disclosed above, as at 30th June 2009, there was no person had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

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

During the six-month period ended 30th June 2009, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## **COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the Company's directors have complied with the required standard of dealings and the Company's code of conduct regarding securities transactions by the directors throughout the six-month period ended 30th June 2009.

## COMPETING INTEREST

None of the directors or the management shareholders and their respective associates of the Company (as defined in the GEM Listing Rules) had any business or interest which competes or may compete with the business of the Group nor any other conflicts of interest with the Group during the period under review.

## COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICE

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr Chen Tzyh-Trong, Mr Lee Chung Mong, and Mr Yeung Chi Hung. All of them are independent non-executive directors of the Company.

The Group's unaudited condensed consolidated interim financial information for the six months ended 30th June 2009 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

## DIRECTORS OF THE COMPANY

Executive directors of the Company as at the date of this report are Mr Dennis Yu Won Kong and Mr Yue Wai Keung; the non-executive directors are Mr Chan Kwan Pak and Mr Lam Kit Sun; and the independent non-executive directors are Mr Chen Tzyh-Trong, Mr Lee Chung Mong and Mr Yeung Chi Hung.

ON BEHALF OF THE BOARD

**Dennis Yu Won Kong**

*Chairman*

Hong Kong  
12th August 2009

