



LONG SUCCESS INTERNATIONAL (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code:8017)

INTERIM
REPORT **2009**

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

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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.

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

HIGHLIGHTS

- Turnover of the Group for the six months ended 30 September 2009 was approximately HK\$51,196,000 as compared to HK\$11,134,000 for the corresponding period in 2008.
- Net loss attributable to shareholders for the six months ended 30 September 2009 was approximately HK\$10,937,000 as compared to HK\$10,415,000 for the corresponding period in 2008. The Group recorded net loss attributable to the shareholders that was mainly due to (i) the non-cash cost associated with equity-settled share options; (ii) the interest expenses on the convertible notes and on the bank borrowings; and (iii) the decline in revenue of IT consulting services. The profit contribution for the period from July to September 2009 by the paper manufacturing factory has narrowed the loss of the Company.
- Loss per share for the Group was HK1.394 cents for the six months ended 30 September 2009 as compared to HK1.527 cents for the corresponding period in 2008.
- The Board does not declare any interim dividend for the six months ended 30 September 2009.

INTERIM RESULTS

The unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2009 together with the comparatives for the corresponding periods in 2008 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Note	Unaudited			
		Six months ended		Three months ended	
		30 September		30 September	
		2009	2008	2009	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	4	51,196	11,134	50,026	5,589
Other income		913	1,977	513	577
Materials used and work performed and capitalized		(41,709)	(2,893)	(41,449)	(690)
Staff costs		(9,008)	(16,663)	(6,911)	(2,948)
Depreciation of property, plant and equipments		(3,998)	(124)	(3,743)	(57)
Other expenses		(5,621)	(3,272)	(4,484)	(2,164)
Finance costs		(1,458)	(5)	(1,457)	(1)
(Loss)/Profit before tax		(9,685)	(9,846)	(7,505)	306
Income tax expense	5	(551)	(274)	(501)	(207)
(Loss)/Profit for the period		(10,236)	(10,120)	(8,006)	99
Attributable to:					
Equity holders of the parent		(10,937)	(10,415)	(8,661)	(65)
Minority interests		701	295	655	164
		(10,236)	(10,120)	(8,006)	99
Loss per share attributable to ordinary equity holders of the parent	6	(1.394)	(1.527)	(1.104)	(0.009)
Basic (HK cents per share)		(1.394)	(1.527)	(1.104)	(0.009)
Diluted (HK cents per share)		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 September 2009	Audited 31 March 2009
	Note	HK\$'000	HK\$'000
Non-current assets			
Goodwill		69,021	15,890
Land use rights		19,258	-
Property, plant and equipment	8	165,483	3,321
Available-for-sale financial assets	9	180	180
Deposit for acquisition		-	47,500
Loans receivable	11	600	348
Total non-current assets		<u>254,542</u>	<u>67,239</u>
Current assets			
Inventories		33,240	-
Trade receivables	10	2,435	2,746
Loans receivable	11	8,161	8,478
Prepayments, deposits and other receivables		101,847	1,576
Available-for-sale financial assets	9	29,000	32,000
Cash and cash equivalents		2,270	2,940
Total current assets		<u>176,953</u>	<u>47,740</u>
Current liabilities			
Trade payables	12	2,532	3,229
Accruals and other payables		176,981	5,679
Secured bank loan		6,812	-
Convertible notes		13,934	-
Provision for taxation		1,477	1,033
Total current liabilities		<u>201,736</u>	<u>9,941</u>
Net current (liabilities)/assets		<u>(24,783)</u>	<u>37,799</u>
Total assets less current liabilities		<u>229,759</u>	<u>105,038</u>
Non-current liabilities			
Convertible bonds – due after one year		32,094	-
Promissory notes – due after one year		46,500	-
Total non-current liabilities		<u>78,594</u>	<u>-</u>
Net assets		<u>151,165</u>	<u>105,038</u>
Capital and reserves			
Share capital	13	33,778	30,320
Reserves		90,439	74,400
Equity attributable to equity holders of the parent		124,217	104,720
Minority interests		26,948	318
Total equity		<u>151,165</u>	<u>105,038</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008

Unaudited											
Attributable to equity holders of the parent											
	Share capital	Share premium	Merger reserve	Exchange reserve	Share option reserve	Convertible notes reserves	Convertible bonds reserves	Accumulated losses	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	27,273	123,470	(341)	(29)	882	-	-	(39,313)	111,942	9,117	121,059
Loss for the period	-	-	-	-	-	-	-	(10,415)	(10,415)	295	(10,120)
Share issue expenses	-	(74)	-	-	-	-	-	-	(74)	-	(74)
Exercise of warrants	13	60	-	-	-	-	-	-	73	-	73
Equity-settled share-based payment	-	-	-	-	13,812	-	-	-	13,812	-	13,812
Exchange differences arising on translation of foreign subsidiaries	-	-	-	(339)	-	-	-	-	(339)	-	(339)
At 30 September 2008	<u>27,286</u>	<u>123,456</u>	<u>(341)</u>	<u>(368)</u>	<u>14,694</u>	<u>-</u>	<u>-</u>	<u>(49,728)</u>	<u>114,999</u>	<u>9,412</u>	<u>124,411</u>

For the six months ended 30 September 2009

Unaudited											
Attributable to equity holders of the parent											
	Share capital	Share premium	Merger reserve	Exchange reserve	Share option reserve	Convertible notes reserves	Convertible bonds reserves	Accumulated losses	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009	30,320	140,499	(341)	156	11,003	-	-	(76,917)	104,720	318	105,038
Loss for the period	-	-	-	-	-	-	-	(10,937)	(10,937)	701	(10,236)
Placing of new shares	2,600	7,800	-	-	-	-	-	-	10,400	-	10,400
Issue of shares upon exercise of share options	858	4,680	-	-	-	-	-	-	5,538	-	5,538
Equity-settled share-based payments	-	-	-	-	5,549	-	-	-	5,549	-	5,549
Issue of convertible notes	-	-	-	-	-	1,066	-	-	1,066	-	1,066
Issue of convertible bonds	-	-	-	-	-	-	7,906	-	7,906	-	7,906
Exchange differences arising on translation of foreign subsidiaries	-	-	-	(25)	-	-	-	-	(25)	-	(25)
Equity contribution by minority shareholders	-	-	-	-	-	-	-	-	-	25,929	25,929
At 30 September 2009	<u>33,778</u>	<u>152,979</u>	<u>(341)</u>	<u>131</u>	<u>16,552</u>	<u>1,066</u>	<u>7,906</u>	<u>(87,854)</u>	<u>124,217</u>	<u>26,948</u>	<u>151,165</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	37,299	(8,084)
Net cash used in investing activities	(161,359)	(5,925)
Net cash generated from/(used in) financing activities	123,415	(103)
Net decrease in cash and cash equivalents	(645)	(14,112)
Cash and cash equivalents at the beginning of period	2,940	19,189
Effect of foreign exchange rate changes	(25)	(339)
Cash and cash equivalents at the end of period	2,270	4,738
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	2,270	4,738

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 September 2009 have been prepared in accordance with the Hong Kong Accounting Standard No.34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the GEM Listing Rules.

The condensed consolidated financial statements are unaudited but have been reviewed by the audit committee of the Company (the "Audit Committee").

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and method of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in the Group's audited financial statements for the year ended 31 March 2009.

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), amendments to Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are relevant to the Group and effective for accounting periods beginning on or after 1 April 2009. The adoption of these new HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not early adopted the new HKFRSs, that have been issued but are not yet effective. The Directors anticipate that the application of the new HKFRSs will have no material impact on the results and financial position of the Group.

4. REVENUE AND SEGMENT INFORMATION

The Group is organized into four major business segments: (i) sale of paper products; (ii) sharing of profits of a junket representative of a VIP lounge of a casino in Macau; (iii) provision of money lending services, and (iv) sale of customized software and related computer equipment and provision of technical support. An analysis of the Group's turnover and segment profit/(loss) by business segments is as follows:

	Unaudited Six months ended 30 September 2009		Unaudited Six months ended 30 September 2008	
	Turnover HK\$'000	Segment Profit/(Loss) HK\$'000	Turnover HK\$'000	Segment Profit/(Loss) HK\$'000
Sale of paper products	47,917	1,817	-	-
Profits assigned from a junket representative of a VIP lounge of a casino in Macau	208	208	689	689
Interest income from money lending business	630	(50)	1,229	510
Sale of customized software and related computer equipment and provision of technical support	2,441	(254)	9,216	4,170
	<u>51,196</u>	<u>1,721</u>	<u>11,134</u>	<u>5,369</u>
Other revenue		913		1,977
Unallocated corporate expense		(10,861)		(17,187)
Finance costs		(1,458)		(5)
Loss before tax		(9,685)		(9,846)
Income tax expense		(551)		(274)
Loss for the period		<u>(10,236)</u>		<u>(10,120)</u>

	Unaudited Six months ended 30 September 2009 Turnover HK\$'000	Unaudited Six months ended 30 September 2008 Turnover HK\$'000
Hong Kong	2,637	8,401
Macau	208	689
The PRC	48,351	2,044
	51,196	11,134

5. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profit for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. LOSS PER SHARE

The calculation of the basic loss per share attributable to ordinary equity holders of the parent is based on the Group's loss attributable to equity holders of the parent for the six months ended 30 September 2009 of approximately HK\$10,937,000 (2008: HK\$10,415,000) and on the weighted average number of 784,640,605 (2008 as restated: 682,133,571) ordinary shares in issue during the period.

The comparative amount of the basic loss per share for 2008 has been adjusted to reflect the impact of the Share Consolidation effected during the period.

The basic and diluted loss per share are the same for the six months ended 30 September 2009 and 2008, as the Company recorded losses attributable to the equity holders of the parent and hence, the incremental shares from the assumed exercises of share options and warrants outstanding as at 30 September 2009 and 2008 are not included in calculating the diluted basic loss per share.

7. INTERIM DIVIDEND

The board of directors of the Company (the "Board") does not recommend the payment of interim dividend for the period (2008: Nil).

8. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 30 September 2009 HK\$'000	Unaudited 30 September 2008 HK\$'000
Opening net book amount	3,321	667
Relating to acquisition of subsidiaries	165,716	-
Additions	446	4,024
Disposals	-	(180)
Depreciation	(3,998)	(124)
Written back on disposals	-	15
Exchange difference	(2)	-
	<hr/>	<hr/>
Closing net book amount	<u>165,483</u>	<u>4,402</u>

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Unaudited 30 September 2009 HK\$'000	Audited 31 March 2009 HK\$'000
Non-current		
Club membership	<u>180</u>	<u>180</u>
Current		
Time deposits	<u>29,000</u>	<u>32,000</u>

The time deposits have maturity of four months and carry fixed-rate interests at 5% per annum. Full principal amount will be repaid on maturity dates, subject to renewal at the Group's request.

10. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	Unaudited 30 September 2009 HK\$'000	Audited 31 March 2009 HK\$'000
Within three months	107	731
Over three months but within six months	199	165
Over six months but within one year	533	1,185
Over one year but within two years	1,125	665
Over two years but within three years	471	-
	<u>2,435</u>	<u>2,746</u>

The Group normally grants its customers credit periods for sales of goods ranging from 0 to 14 days. Consideration in respect of contracts for development of customized software, sales of related computer equipment, the provision of technical support and maintenance services is payable pursuant to the terms of the respective contracts. The Group generally granted credit period of 6 months to the junket representative of a VIP lounge of a casino in Macau.

11. LOANS RECEIVABLE

Loans receivable have arisen from the Group's money lending operations during the year. The ageing of loans receivable is analysed by the remaining periods to their contractual maturity dates as follows:

	Unaudited 30 September 2009 HK\$'000	Audited 31 March 2009 HK\$'000
On demand	358	724
Within three months	3,312	3,431
In three to six months	4,192	3,495
In six months to one year	299	828
In one to two years	248	348
In two to three years	352	-
	<u>8,761</u>	<u>8,826</u>
Total	<u>8,761</u>	<u>8,826</u>
Amount classified as current assets	<u>8,161</u>	<u>8,478</u>
Amount classified as non-current assets	<u>600</u>	<u>348</u>

12. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Unaudited 30 September 2009 HK\$'000	Audited 31 March 2009 HK\$'000
Within three months	447	214
Over three months but within six months	283	512
Over six months but within one year	-	345
Over one year but within two years	-	2,158
Over two years but within three years	1,802	-
	<u>2,532</u>	<u>3,229</u>

13. SHARE CAPITAL

	Number of shares Six months ended 30 September		Amount Six months ended 30 September	
	2009 '000	2008 '000	2009 HK\$'000	2008 HK\$'000
Authorised				
Ordinary shares of HK\$0.04 each (2008: HK\$0.01 each) (Note: (i))	<u>2,500,000</u>	10,000,000	<u>100,000</u>	100,000
Issued and fully paid:				
At beginning of period	3,031,982	2,727,270	30,320	27,273
Exercise of share options	70,798	-	858	-
Exercise of warrants	-	1,307	-	13
Placement of shares	65,000	-	2,600	-
Shares consolidation	<u>(2,323,335)</u>	-	-	-
At end of period	<u>844,445</u>	<u>2,728,577</u>	<u>33,778</u>	<u>27,286</u>

Note:

- (i) At the Annual General Meeting of the Company held on 11 August 2009, the resolution in respect of the share consolidation was approved by the shareholders and became effective on 12 August 2009. The effect of share consolidation was every four issued shares of HK\$0.01 each were consolidated into one consolidated share of HK\$0.04 each ("Adjusted Share"). As a result, the adjusted share capital of the Company became HK\$33,778,000 consisting of 844,445,000 ordinary shares of HK\$0.04 each.

14. POST BALANCE SHEET EVENTS

There is no significant post balance sheet event for the Half-Yearly period.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

(A) *Very substantial acquisition*

Referring to the announcements dated 12 February 2009 and 31 March 2009 respectively, and the circular dated 14 May 2009 (“Circular”), the Board entered into an acquisition agreement (“Acquisition Agreement”) whereby the Board proposed to acquire the entire equity interest in Mega Bright Investment Development Limited (“Mega Bright”) (which holds 51% equity interest in Jining Gangning Paper Co. Ltd. (“Jining Gangning”), in Shandong Province in the People’s Republic of China (“PRC”)) at a consideration of HK\$190 million (the “Consideration”, subject to adjustments). On 3 June 2009, the shareholders at the special general meeting approved the Acquisition Agreement and the transactions contemplated thereunder. The completion of acquisition of Mega Bright took place on 1 July 2009. According to the Acquisition Agreement, the vendor shall provide profit guarantees of not less than RMB60 million profit after tax on Jining Gangning for each of the two years ending 31 December 2010 and 31 December 2011. Jining Gangning is engaged in the manufacture and sale of various types of kraft paper. Its production facilities comprise 2-paper production lines, a stock or pulp preparation section for making paper products, a waste water treatment plant, various plant utilities, and laboratory, office and material handling equipment. Jining Gangning has a factory complex which comprises two parcels of adjoining land of approximately 82,667 square meters with 31 various major buildings and structures erected thereon. According to the valuation reports as set out in the Circular, the market values of plant and machinery and property were approximately RMB112 million and RMB55 million as at 30 April 2009 respectively.

The payment of the Consideration has been satisfied by (i) cash payment of HK\$103.5 million in two (2) installments, of which HK\$26.6 million is still outstanding; (ii) the issuance of convertible bonds by the Company in the aggregate principal amount of HK\$40 million convertible into 83,333,333 shares of HK\$0.04 each (“Convertible Bonds”), and (iii) the issuance of promissory notes in the principal sum of HK\$46.5 million by the Company.



(B) *Issue of redeemable convertible note*

Referring to the announcement dated 19 June 2009, the Company entered into a subscription agreement with the subscriber to subscribe for the redeemable convertible note in the principal amount of HK\$15,000,000 with 36% interest rate per annum and due one year from the date of issue at the initial conversion price of HK\$0.13 per conversion share ("Redeemable Convertible Note"). Assuming full conversion of the Redeemable Convertible Note at the initial conversion price, the Redeemable Convertible Note will be convertible into 115,384,615 shares of HK\$0.01 each. Details of the issue of the Redeemable Convertible Note are set out in the Company's announcements dated 19 June 2009. The Redeemable Convertible Note was issued to the subscriber on 13 July 2009. The conversion price has been adjusted to HK\$0.52 by virtue of the Share Consolidation (as defined below) and the maximum number of conversion shares has been changed to 28,846,153 shares of HK\$0.04 each accordingly.

(C) *Share consolidation and change of board lot size*

Referring to the announcement dated 3 July 2009 and the circular dated 13 July 2009, the Board proposed to implement a share consolidation on the basis that every four issued and unissued shares of HK\$0.01 each in the share capital of the Company would be consolidated into one consolidated share of HK\$0.04 each ("Share Consolidation"). The Board also proposed to change the board lot size for trading in the shares from 4,000 shares to 10,000 consolidated shares upon the Share Consolidation becoming effective. Details of the Share Consolidation and change of board lot size are set out in the Company's announcement dated 3 July 2009 and the circular dated 13 July 2009. On 11 August 2009, the shareholders at the annual general meeting approved the Share Consolidation and change of board lot size. The Share Consolidation and change of board lot size became effective on 12 August 2009. The conversion prices of the Convertible Bonds and the Redeemable Convertible Note have been adjusted by virtue of the Share Consolidation, details of which are set out in the announcement dated 11 August 2009.

(D) *Subscription for new shares*

Referring to the announcement dated 3 August 2009, the Company entered into a subscription agreement with certain subscribers who subscribed for 260,000,000 new shares of HK\$0.01 each ("Subscription Shares") in the share capital of the Company at a subscription price of HK\$0.04 each. The net proceeds from the subscription were approximately HK\$10,300,000. The completion of the subscription took place on 12 August 2009 and the subscribers were issued and allotted 65,000,000 shares of HK\$0.04 each by virtue of the Share Consolidation.

BUSINESS AND FINANCIAL REVIEW

During the period under review, the Group's revenue increased by approximately 360% to HK\$51.20 million for the six months ended 30 September 2009 from HK\$11.13 million for the corresponding period in 2008. The increase in revenue was mainly due to the contribution of Jining Gangning, the paper manufacturing factory in Shandong Province in the PRC. The completion of acquisition of Mega Bright, which held 51% equity interest in Jining Gangning, took place on 1 July 2009 and Jining Gangning recorded HK\$47.92 million of revenue for the period from July to September 2009. However, the decrease in revenue of IT consulting services and gaming and entertainment business in Macau during the period under review had narrowed the rise in total revenue. The gloomy economic outlook has posed pressure on the IT consulting services and there was a great cut back in such demand. In July 2008, the measures adopted by the Guangdong government to further tighten the individual visits to Macau under the individual visit scheme and the global financial meltdown drove down the VIP gaming revenue during the period under review.

Loss attributable to shareholders was HK\$10.94 million as compared to HK\$10.42 million for the corresponding period of last year. The net loss attributable to the shareholders was mainly due to (i) the non-cash cost associated with equity-settled share options; (ii) the interest expenses on the convertible notes and on the bank borrowings; and (iii) the decline in revenue of IT consulting services. The profit contribution for the period from July to September 2009 by the paper manufacturing factory has narrowed the loss of the Company. After the completion of acquisition of Mega Bright, the Group decided to expand the production capacity and to upgrade the production technology of the paper manufacturing factory. Starting from July 2009, production line no.1 with a production capacity of 50,000 tons per year ceased to produce paper products and has been under technical upgrading for higher production capacity and for production of premium paper products. This technical upgrading was expected to be completed by the end of 2009. The low utilization rate of the production lines and the increase in administration cost for takeover of the management of the paper manufacturing factory had narrowed its profit contribution for the period from July to September 2009 to the Group.



PROSPECTS

In view of the difficult operation environment for the IT consulting services and gaming and entertainment business in Macau, the Group intends to de-emphasize these two sectors in the future. The Group discerns that the Chinese economy has been amongst the most resilient in the global economic downturn. The mainland government's stimulus packages to boost domestic consumption and the economy are advantages to the development of the Group's paper manufacturing business in the PRC. With the completion of acquisition of Mega Bright on 1 July 2009, the Group will further enhance its production capacity; upgrade paper products value; and explore new premium production lines through significant and continuous capital investment. The Board believes that the paper manufacturing business will be the core business of the Group and remains optimistic about its performance to bring a higher return to the shareholders in the future. Going forward, the Board will continue to look for appropriate investment opportunities in PRC to expand and diversify its portfolio.

CAPITAL RESOURCES AND LIQUIDITY

Cash and bank balances as at 30 September 2009 were approximately HK\$2,270,000 compared to approximately HK\$2,940,000 as at 31 March 2009. As at 30 September 2009, the Group's current assets were approximately 0.88 times over its current liabilities, compared to approximately 4.8 times as at 31 March 2009. The Group's gearing ratio was 80.0%, based on the total borrowings; issued convertible notes; issued convertible bonds and promissory notes over the equity attributable to equity holders of the Company. Liabilities were generally financed by internal resources of the Group.

CHARGE OF GROUP'S ASSETS

As at 30 September 2009, a parcel of land in Shandong Province in the PRC with a site area of approximately 36,333 square meters was pledged to a bank to secure a loan granted to the Group (2008: Nil).

FOREIGN CURRENCY EXPOSURE

Whilst the sales, expenditures, assets and liabilities were mainly denominated in Hong Kong dollars and Renminbi, the Board believes that the Group's exposure to foreign currency fluctuations is minimal and no hedging is considered necessary.

CONTINGENT LIABILITIES

Before 30 September 2009, a District Court action was commenced by a customer against a subsidiary of the Group in respect of claims for damages of HK\$784,320 and a return of service price of HK\$10,080 paid by the customer, and interests thereon, by reason of that subsidiary's repudiatory breach of certain computer software implementation and maintenance contract and total failure of consideration and/or money had and received.

No settlement has yet been reached for the above litigation and no judgment has yet been made against the above-mentioned subsidiary of Group in respect of these claims. The Directors consider that it is not possible to estimate the eventual outcome of these claims with reasonable certainty at the current stage. Nevertheless, the Directors are of the opinion that the above-mentioned subsidiary of the Group has valid defence and consider such claims would not have material adverse impact on the financial position of the Group. Accordingly, no provision had been made for these claims as at 30 September 2009.

EMPLOYEE INFORMATION

As at 30 September 2009, the Group had approximately 406 (2008: 28) employees in Hong Kong and the PRC. The total remuneration to employees, including the executive Directors for the period under review, amounted to approximately HK\$9.0 million (2008: HK\$16.7 million). Employees in Hong Kong are entitled to provident fund contributions and medical insurance. For employees in the PRC, the Group is required to contribute to state-sponsored retirement plans at certain prescribed rates based on their basic salaries. In addition, the Group provides comprehensive on-the-job trainings to its employees and sponsors employees participating in job-related training courses to ensure that their qualifications always meet the changing market standards. Apart from provident fund scheme, medical insurance and discretionary bonuses, share options are also awarded to employees according to the assessment of individual performance. The remuneration policy and packages of the Group's employees are regularly reviewed by the Board.

SHARE OPTION SCHEME

A share option scheme (the "Scheme") was approved and adopted by the shareholders of the Company at an annual general meeting held on 21 August 2006. Under the Scheme, the Directors are authorized to grant options to the participants of the Group including any employee, Director, adviser, consultant, licensor, distributor, supplier, agent, customer, joint venture partner, strategic partner and services provider to or of any member of the Group whom the Board considers in its sole discretion to subscribe for shares of the Company. A summary of the movement of the share options for the six months ended 30 September 2009 is as follows:

Grantee	At	Granted	Exercised	Lapsed	Share consolidation	At 30	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price (HK\$)
	1 April 2009	during the period	during the period	during the period	during the period	September 2009			
Directors									
Ng Kwok Chu, Winfield	1,000,000	-	-	-	750,000	250,000	20/02/08	20/02/08 to 19/02/18	0.244
	1,000,000	-	-	-	750,000	250,000	02/05/08	02/05/08 to 01/05/18	0.196
Ng Chau Tung, Robert	1,000,000	-	-	-	750,000	250,000	20/02/08	20/02/08 to 19/02/18	0.244
	1,000,000	-	-	-	750,000	250,000	02/05/08	02/05/08 to 01/05/18	0.196
Wong Kam Leong	27,000,000	-	-	-	20,250,000	6,750,000	09/05/08	09/05/08 to 08/05/18	0.192
	-	3,000,000	-	-	2,250,000	750,000	18/05/09	18/05/09 to 17/05/19	0.168
	-	750,000	-	-	-	750,000	01/09/09	01/09/09 to 31/08/19	0.160
Li Jie Yi	27,000,000	-	5,000,000	-	16,500,000	5,500,000	09/05/08	09/05/08 to 08/05/18	0.192
	-	3,000,000	-	-	2,250,000	750,000	18/05/09	18/05/09 to 17/05/19	0.168
	-	750,000	-	-	-	750,000	01/09/09	01/09/09 to 31/08/19	0.160
Yip Wai Ki	-	3,000,000	-	-	2,250,000	750,000	18/05/09	18/05/09 to 17/05/19	0.168
	-	750,000	-	-	-	750,000	01/09/09	01/09/09 to 31/08/19	0.160
Wu Bing Xiang	-	8,200,000	-	-	-	8,200,000	01/09/09	01/09/09 to 31/08/19	0.160
Tse Ching Leung	-	700,000	-	-	-	700,000	01/09/09	01/09/09 to 31/08/19	0.160
Cheng Tze Kit, Larry	4,800,000	-	4,800,000	-	-	-	07/07/08	07/07/08 to 06/07/18	0.144
Sub-total	62,800,000	20,150,000	9,800,000	-	46,500,000	26,650,000			

Grantee	At 1 April 2009	Granted during the period	Exercised during the period	Lapsed during the period	Share		Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price (HK\$)
					consolidation during the period	At 30 September 2009			
Employees									
In aggregate	14,000,000	-	-	-	10,500,000	3,500,000	20/02/08	20/02/08 to 19/02/18	0.244
In aggregate	2,000,000	-	-	-	1,500,000	500,000	22/02/08	22/02/08 to 21/02/18	0.248
In aggregate	18,000,000	-	-	-	13,500,000	4,500,000	02/05/08	02/05/08 to 1/05/18	0.196
In aggregate	50,000,000	-	24,997,972	25,000,000	1,521	507	09/05/08	09/05/08 to 08/05/18	0.192
In aggregate	-	34,000,000	31,750,000	-	2,250,000	-	18/05/09	18/05/09 to 17/05/19	0.168
In aggregate	-	50,250,000	4,250,000	-	-	46,000,000	01/09/09	01/09/09 to 31/08/19	0.160
Sub-total	84,000,000	84,250,000	60,997,972	25,000,000	27,751,521	54,500,507			
Other Eligible Persons									
In aggregate	100,000,000	-	-	-	75,000,000	25,000,000	09/05/08	09/05/08 to 08/05/18	0.192
In aggregate	106,000,000	-	-	-	79,500,000	26,500,000	17/09/08	17/09/08 to 16/09/18	0.202
In aggregate	26,000,000	-	-	-	19,500,000	6,500,000	31/12/08	31/12/08 to 30/12/18	0.140
In aggregate	-	16,000,000	-	-	-	16,000,000	01/09/09	01/09/09 to 31/08/19	0.160
Sub-total	232,000,000	16,000,000	-	-	174,000,000	74,000,000			
Total	378,800,000	120,400,000	70,797,972	25,000,000	248,251,521	155,150,507			

DIRECTORS

The Directors during the period and up to the date of this report were:

Executive Directors

Mr. Wong Kam Leong

Ms. Li Jie Yi

Mr. Yip Wai Ki

Mr. Wu Bing Xiang (Appointed on 1 September 2009)

Independent non-executive Directors

Mr. Ng Kwok Chu, Winfield

Mr. Ng Chau Tung, Robert

Mr. Tse Ching Leung (Appointed on 1 September 2009)

Mr. Cheng Tze Kit, Larry (Resigned on 1 September 2009)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 September 2009, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (a) 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 which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company:

Name	Type of interest	Number of ordinary shares of the Company	Number of underlying shares of the Company	Aggregate long positions in shares of the Company	Percentage of Shareholding
Directors					
Wong Kam Leong	Corporate Interest	213,125,000 (Note 1)	-	-	-
	Personal Interest		8,250,000 (Note 2)	221,375,000	26.22%
Li Jie Yi	Personal Interest	-	7,000,000 (Note 3)	7,000,000	0.83%
Yip Wai Ki	Personal Interest	500,000	1,500,000 (Note 4)	2,000,000	0.24%
Wu Bing Xiang	Personal Interest	-	8,200,000 (Note 5)	8,200,000	0.97%
Ng Kwok Chu, Winfield	Personal Interest	-	500,000 (Note 6)	500,000	0.06%
Ng Chau Tung, Robert	Personal Interest	-	500,000 (Note 6)	500,000	0.06%
Tse Ching Leung	Personal Interest	-	700,000 (Note 7)	700,000	0.08%

Notes:

1. The 213,125,000 shares in the Company are beneficially owned by and registered in the name of Wide Fine International Limited ("Wide Fine"), a company incorporated in Hong Kong with limited liability and is wholly-owned by Mr. Wong Kam Leong.
2. As at 30 September 2009, the named Director held 8,250,000 share options conferring rights to subscribe for 8,250,000 shares.
3. As at 30 September 2009, the named Director held 7,000,000 share options conferring rights to subscribe for 7,000,000 shares.
4. As at 30 September 2009, the named Director held 1,500,000 share options conferring rights to subscribe for 1,500,000 shares.
5. As at 30 September 2009, the named Director held 8,200,000 share options conferring rights to subscribe for 8,200,000 shares.
6. As at 30 September 2009, the named Director held 500,000 share options conferring rights to subscribe for 500,000 shares.
7. As at 30 September 2009, the named Director held 700,000 share options conferring rights to subscribe for 700,000 shares.

Save as disclosed above, as at 30 September 2009, none of the Directors and the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) 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 which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30 September 2009, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

Long positions in ordinary shares of the Company:

Name	Number of ordinary shares held	Number of underlying shares held	Total	Percentage of shareholding
Wide Fine International Limited (Note 1)	213,125,000	-	213,125,000	25.24%
Tong Jian (Note 2)	13,555,000	28,846,153	42,401,153	5.02%

Notes:

1. Wide Fine International Limited is beneficially and wholly owned by Mr. Wong Kam Leong, an executive Director.
2. On 19 June 2009, Tong Jian ("Mr. Tong") entered into a subscription agreement with the Company to subscribe for the Redeemable Convertible Note in the principal amount of HK\$15,000,000 with 36% interest rate per annum and due one year from the date of issue at the conversion price of HK\$0.52 (being the adjusted conversion price after the Share Consolidation) per conversion share. Assuming full conversion of the Redeemable Convertible Note at the conversion price, it will be convertible into 28,846,153 shares of HK\$0.04 each. The Redeemable Convertible Note was issued to Mr. Tong on 13 July 2009.

Save as disclosed above, as at 30 September 2009, the Company had not been notified of any other person (other than a Director or the chief executive of the Company) having an interest or short position in the shares and underlying shares of the Company that was required to be reported pursuant to section 336 of the SFO.

COMPETING INTERESTS

As at 30 September 2009, the Directors were not aware of any business or interest of each Director, management shareholder and the respective associates of which that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices ("GC Code") contained in Appendix 15 of the GEM Listing Rules throughout the period, except Mr. Wong Kam Leong was both the chairman and chief executive officer of the Company. Such practice deviates from the provision A.2.1 of the GC Code which requires that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Board has discussed and concluded that the current practice of having the position of the chairman and the chief executive officer being held by the same individual is fair and reasonable and does not intend to change the current practice at the moment.

AUDIT COMMITTEE

In compliance with Rules 5.28 and 5.33 of the GEM Listing Rules, the Company has established an audit committee comprising independent non-executive Directors, namely Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert and Mr. Tse Ching Leung. The Group's unaudited results for the six months ended 30 September 2009 have been reviewed by the audit committee. Members of the committee were of the opinion that the preparation of such results complied with the applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made.

BOARD PRACTICES AND PROCEDURES

Save as disclosed above, throughout the six months ended 30 September 2009, the Company has complied with Rule 5.34 of the GEM Listing Rules concerning board practices and procedures.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 September 2009, neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standards of dealings regarding securities transactions by directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specified enquiry with the Directors, all the Directors confirmed that they have complied with the code of conduct and the required standard of dealings throughout the period under review.

On behalf of the Board

Wong Kam Leong

Chairman

13 November 2009, Hong Kong

As at the date hereof, the executive Directors are Mr. Wong Kam Leong, Ms. Li Jie Yi, Mr. Yip Wai Ki, and Mr. Wu Bing Xiang, and the independent non-executive Directors are Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert and Mr. Tse Ching Leung.