

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

2010



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 30 June 2010 together with the comparative figures for the corresponding periods in last financial year.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		For the three months ended		For the six months ended	
		30 June		30 June	
		2010	2009	2010	2009
	<i>Notes</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	2,659	3,076	5,308	5,572
Cost of sales		(25)	(48)	(46)	(85)
Gross profit		2,634	3,028	5,262	5,487
Other income	3	2	158	4	321
Selling and distribution expenses		(156)	(164)	(286)	(333)
General and administrative expenses		(3,893)	(4,452)	(7,851)	(7,779)
Provision for impairment loss of available-for-sales financial assets		-	-	-	(736)
Loss before income tax	5	(1,413)	(1,430)	(2,871)	(3,040)
Income tax expenses	6	(27)	(46)	(80)	(131)
Loss for the period attributable to equity holder of the Company		(1,440)	(1,476)	(2,951)	(3,171)
Loss per share attributable to the equity holder of the Company	8				
- basic		HK\$(0.054) cent	HK\$(0.059) cent	HK\$(0.113) cent	HK\$(0.127) cent
- diluted		HK\$(0.054) cent	HK\$(0.059) cent	HK\$(0.113) cent	HK\$(0.127) cent

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	For the three months ended		For the six months ended	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period		(1,440)	(1,476)	(2,951)	(3,171)
Other comprehensive income:					
Fair value adjustment recognised in the period		(435)	1,814	(1,063)	1,814
Currency translation differences		96	549	24	(9)
Other comprehensive (loss)/income for the period		(339)	2,363	(1,039)	1,805
Total comprehensive (loss)/income for the period attributable to equity holder of the Company		(1,779)	887	(3,990)	(1,366)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	<i>Notes</i>	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
Non-current assets			
Available-for-sale financial assets	9	6,400	7,439
Deferred income tax assets		–	68
		6,400	7,507
Current assets			
Inventories	10	422	442
Trade receivables	11	41	178
Prepayments, deposits and other receivables	12	4,375	186
Deposit paid for a proposed acquisition	13	81,633	11,400
Cash and cash equivalents	14	9,135	11,448
		95,606	23,654
Total assets		102,006	31,161
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		26,263	25,063
Share premium		84,069	11,347
Other reserves		12,832	13,871
Accumulated losses		(23,417)	(20,466)
Total equity		99,747	29,815
Current liabilities			
Trade payables	15	333	328
Accruals and other payable		1,854	1,018
Tax payable		72	–
Total current liabilities		2,259	1,346
Total equity and liabilities		102,006	31,161
Net current assets		93,347	22,308
Total assets less current liabilities		99,747	29,815

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to equity holders of the Company						
	Share capital HK\$'000	Share Premium HK\$'000	Capital Reserve HK\$'000	Currency Translation HK\$'000	Available-for-sale-financial assets HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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 income/(loss)							
Revaluation surplus on available-for-sale financial assets	-	-	-	-	1,814	-	1,814
Currency translation differences	-	-	-	(9)	-	-	(9)
Total comprehensive income/(loss) for the period ended 30 June 2009	-	-	-	(9)	1,814	(3,171)	(1,366)
Balance at 30 June 2009	25,063	11,347	6,840	3,615	1,814	(16,202)	32,477
Balance at 1 January 2010	25,063	11,347	6,840	3,895	3,136	(20,466)	29,815
Issuance of new share	1,200	72,722	-	-	-	-	73,922
Loss for the period	-	-	-	-	-	(2,951)	(2,951)
Other comprehensive (loss)/income							
Revaluation deficit on available-for-sale financial assets	-	-	-	-	(1,063)	-	(1,063)
Currency translation differences	-	-	-	24	-	-	24
Total comprehensive (loss)/income for the period ended 30 June 2010	-	-	-	24	(1,063)	(2,951)	(3,990)
Balance at 30 June 2010	26,263	84,069	6,840	3,919	2,073	(23,417)	99,747

UNAUDITED CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(6,045)	(3,854)
NET CASH GENERATED FROM FINANCING ACTIVITIES	73,921	–
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(70,229)	321
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,353)	(3,533)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,448	24,971
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	40	(8)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,135	21,430
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	9,135	21,430

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 11 August 2010.

2. Principal accounting policies and basis of preparation

2.1 Basis of preparation

The unaudited consolidated interim financial information for the six months ended 30 June 2010 has 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"). The consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

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 31 December 2009, as described in those annual financial statements.

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

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but does not have a material impact on the Group.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- HKFRS 9, "Financial Instruments".
- HKAS 24 (revised), "Related party disclosures".
- Amendment to HKFRS 32, "Clarification of right issue".
- Amendment to HK(IFRIC) 14, "Prepayment of a minimum funding requirement".
- HK(IFRIC) 19, "Extinguishing financial liabilities with equity instruments".
- HKFRS 1 (revised), "First-time adoption of HKFRS".
- 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 1, "Additional Exemptions for First-time Adopters".
- Amendment to HKFRS 2, "Group cash-settled share-based payment transactions".
- 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 18, "Revenue".
- 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) 9, "Reassessment of embedded derivatives".
- 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:

	2010 HK\$'000		For the three months ended 30 June 2009 HK\$'000		2010 HK\$'000		For the six months ended 30 June 2009 HK\$'000	
Revenue:								
Sale of goods	2,659		3,076		5,308		5,572	
Other income:								
Interest income	2		158		4		321	
	2,661		3,234		5,312		5,893	

4. Segment information

(a) Business segments

The segment results for the period ended 30 June 2010 and 2009 are as follows:

	Software		Engineering		Upgrade kits		Vertical market solutions		Unallocated		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Total segment revenue	5,173	4,169	-	-	135	1,370	-	33	-	-	5,308	5,572
Operating profit	5,173	4,169	-	-	89	1,302	-	16	(8,137)	(8,112)	(2,875)	(2,625)
Other income											4	321
Provision for impairment loss of an available-for-sale financial asset											-	(736)
Loss before income tax											(2,871)	(3,040)
Income tax expense											(80)	(131)
Loss for the period											(2,951)	(3,171)

The segment assets and liabilities at 30 June 2010 and 31 December 2009 are as follows:

	Software		Engineering		Upgrade kits		Vertical market solutions		Unallocated		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Assets	325	178	-	-	422	442	-	-	101,259	30,541	102,006	31,161
Liabilities	-	-	-	-	333	474	-	17	1,926	855	2,259	1,346

(b) Geographical segments

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

Revenue

	2010 HK\$'000	For the six months ended 30 June 2009 HK\$'000
Europe	1,408	1,952
United States	1,664	3,026
Asia Pacific except Hong Kong, China and Singapore	2,145	473
Hong Kong and China	26	93
Singapore	21	16
Other countries	44	12
	5,308	5,572

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

Total assets

	2010 HK\$'000	At 31 December 2009 HK\$'000 (Audited)
Singapore	13,095	9,184
Vietnam	6,251	7,290
United States	-	1,380
Hong Kong and China	82,660	13,307
	102,006	31,161

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

5. Expenses by nature

	For the three months ended 30 June 2009		For the six months ended 30 June 2009	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Costs of inventory sold	25	48	46	85
Auditors' remuneration	90	151	180	251
Employee benefits expenses (including directors' remuneration)	2,657	2,511	5,103	4,921
Operating leases payments	226	240	494	481
Net foreign exchange loss/(gain)	(174)	504	16	185
Others	1,250	1,210	2,344	2,274
Total cost of sales, selling and distribution costs and administrative expenses	4,074	4,664	8,183	8,197

6. Income tax expenses

	For the three months ended 30 June 2009		For the six months ended 30 June 2009	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Current:				
Hong Kong	–	–	–	–
Outside Hong Kong	27	46	80	131
	27	46	80	131
Deferred	–	–	–	–
Total tax charge for the period	27	46	80	131

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% (2009: 18%) on the estimated assessable profits arising in Singapore for the period ended 30 June 2010.

7. Dividends

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the period ended 30 June 2010 (2009: Nil).

8. Earnings/(loss) per share

	Ordinary shares of HK\$0.05 each		Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$	No. of shares	HK\$
<i>Authorised:</i>				
At 30 June 2009	2,000,000,000	100,000,000	–	–
Share subdivision (<i>Note a</i>)	(2,000,000,000)	(100,000,000)	10,000,000,000	100,000,000
At 30 June 2010	–	–	10,000,000,000	100,000,000
<i>Issued and fully paid:</i>				
At 30 June 2009	501,255,000	25,062,750	–	–
Reduction of par value of ordinary shares due to share subdivisions (<i>Note a</i>)	(501,255,000)	(25,062,750)	2,506,275,000	25,062,750
Issuance of new shares (<i>Note b</i>)			120,000,000	1,200,000
At 30 June 2010	–	–	2,626,275,000	26,262,750

Note a:

Pursuant to an ordinary resolution passed on 4 November 2009, each of the existing issued and unissued ordinary shares of HK\$0.05 each in the share capital of the Company was subdivided into five ordinary shares of HK\$0.01 each (the “Share Subdivision”), which was approved by the shareholders of the Company and became effective on 5 November 2009.

Note b:

Pursuant to the announcement dated 2 February 2010, 120,000,000 ordinary shares were issued and subscribed. After the completion of the subscription, there were 2,626,275,000 shares in issue.

The basic earnings per share for the three months and six months ended 30 June 2010 are calculated by dividing the loss for the period attributable to ordinary equity holders of the Company of HK\$1,440,000 (2009: Loss of HK\$1,476,000) and HK\$2,951,000 (2009: Loss of HK\$3,171,000) by the weighted average number of 2,655,456,000 (2009: 2,506,275,000) and 2,607,397,000 (2009: 2,506,275,000) ordinary shares in issue during the corresponding period.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. During the period ended 30 June 2010 and 2009, there were no potential dilutive ordinary shares outstanding. As a result, the diluted loss per share is the same as basic loss per share.

9. Available-for-sale financial assets

	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
Beginning of the period/year	7,439	5,035
Net gains/(loss) transfer to equity	(1,063)	3,136
Exchange differences	24	4
Provision for impairment loss	-	(736)
End of the period/year	6,400	7,439

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

Unlisted equity investment in Hong Kong	149	149
Unlisted investment fund in Vietnam	6,251	7,290
	6,400	7,439

10. Inventories

	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
Finished goods	422	442

11. Trade receivables

	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
Trade receivables	41	178
Less: provision for impairment of receivables	–	–
Trade receivable – net	41	178

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.

	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
Within 30 days	19	178
Between 31 to 60 days	4	–
Between 61 to 90 days	18	–
	41	178

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. Prepayment, deposit and other receivables

The prepayment includes the professional fee incurred for the possible acquisition amounting HK\$4,049,000 (2009: nil).

13. Deposit paid for a proposed acquisition

On 14 December 2009, the Company entered into a non-legally binding Memorandum of Understanding (“MOU”) with an independent third party (the “Guarantor”) in relation to the possible acquisition of the entire equity interest in Smooth Joy International Limited (“Smooth Joy”) which, after Smooth Joy’s reorganisation prior to the completion of the proposed acquisition, will be principally engaged in trading, marketing and wholesaling of fuel oil and related products in the Southern and Eastern Regions of the People’s Republic of China. The estimated consideration will range between RMB1.2 billion and RMB1.5 billion (approximately HK\$1,368 million and HK\$1,710 million, respectively). Upon signing of the MOU, the Company paid an amount of RMB10 million (approximately HK\$11,400,000) as deposit paid for the proposed acquisition.

On 26 January 2010, the Company entered into an agreement (the “Agreement”) with the Guarantor and a company beneficially owned by the Guarantor (the “Vendor”) pursuant to which the Company agreed to acquire the entire equity interest in Smooth Joy at a consideration of RMB1.4 billion (approximately HK\$1.6 billion). Upon signing of the Agreement, the Company paid an amount of RMB 62 million (approximately HK\$70,233,000) as second deposit paid for the proposed acquisition. In accordance with the terms of the Agreement, if the conditions precedent as set out in the Agreement cannot be fulfilled by 31 October 2010 or such later date as both parties may agree in writing, the Vendor shall refund the deposits received (without interest) to the Group and the Agreement shall cease and terminate and neither party shall have any obligations and liabilities towards each other thereunder save for antecedent breaches of the terms of the Agreement.

14. Cash and cash equivalents

	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
Cash at bank and in hand	1,337	4,205
Time deposits	7,798	7,243
	9,135	11,448

15. Trade payables

At 30 June 2010 and 31 December 2009, the aging analysis of the trade payables, based on the invoice date, were as follows:

	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
Within 30 days	2	2
Between 31 to 60 days	–	–
Between 61 to 90 days	–	–
Between 91 to 180 days	331	326
	333	328

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

16. Related party transactions

The Group is controlled by Inno Smart Group Limited (“ISG”) (incorporated in the BVI with limited liability) which owns approximately 71.39% (31 December 2009: 74.81%) of the Company’s shares as at 30 June 2010. The remaining 28.61% (31 December 2009: 25.19%) of the shares are widely held. The directors regard ISG as the Group’s ultimate holding company.

The following transactions were carried out with related parties:

	<i>Note</i>	For the three months ended 30 June		For the six months ended 30 June	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Consulting fee paid to related party	<i>(i)</i>	150	–	300	–
Interest from Kiu Hung	<i>(ii)</i>	–	151	–	303
		150	151	300	303

Notes:

- (i) It represented fees for consultancy services provided by a company with a common director of the Company. The consultancy fees were charged at prices mutually agreed between both parties.
- (ii) Two directors of the Company are the shareholders of Kiu Hung. Interest was charged at a rate of 11% per annum on the principal amount of loan receivable.

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

While the United States and Europe continue to struggle with their respective economic issues, the Group finds reason for significant optimism in the Asia Pacific region. For the six month period ended 30 June 2010, the turnover generated from Asia Pacific region increased by approximately HK\$1.7 million which is about more than 4.5 times higher than in the same period a year ago. This is evident that ThinSoft products remain attractive and have broad appeal throughout the world.

Recovery in the major economies of the world is essential to all global companies and the Group looks forward to the end of this very challenging era. Nonetheless, ThinSoft continues its mission to promote and advance the attributes of its WinConnect and BeTwin software solutions and views its revenue growth in the Asia Pacific region during the period under review as proof of the value proposition of its products offered.

Group management understands that managing during uncertain economic times requires patience and confidence which they will continue to demonstrate while waiting for global business conditions to improve.

Financial review

Turnover for the period ended 30 June, 2010 was decreased by 5% to HK\$5.31 million when compared to the corresponding previous period of HK\$5.57 million.

Gross profit margin for the six-month period ended 30 June 2010 was at approximately 99.1%. The Group recorded a loss attributable to equity holders of the Company for the period under review of approximately HK\$2.95 million (2009: loss of approximately HK\$3.17 million). The loss is mainly caused by the drop of sales due to global economic downturn and slow recovering.

The Group continues to be in a good financial position. Cash and bank balances as at 30 June 2010 was approximately HK\$9.14 million (31 December 2009: approximately HK\$11.45 million). There were no bank borrowings as at 30 June 2010 (31 December 2009: Nil).

On 19 January 2010, the Company entered into a placing and subscription agreement with Inno Smart Group Limited ("ISG"), the ultimate holding company of the Company, and an independent third party as the placing agent in relation to (i) the placing of 120,000,000 existing shares held by ISG, through the placing agent. The placing was completed on 2 February 2010 and (ii) the subscription of 120,000,000 new shares of the company at HK\$0.635 per share by ISG. The total proceeds from subscription was HK\$76.20 million.

Pursuant to the announcement on 5 February 2010, the Company entered into the Agreement with a third party to which the Company agreed to acquire the entire equity interest in Smooth Joy at a consideration of RMB1.4 billion (approximately HK\$1.6 billion) on 26 January 2010 (the "Acquisition"). On 26 January 2010, the Group further paid a cash amount of RMB62 million (approximately HK\$70.23 million) upon signing the Agreement. As of the 30 June 2010, the total deposit paid by the Group in relation to the acquisition is approximately HK\$81.63 million. Please refer to the Company announcements on 14 December 2009, 27 January 2010 and 5 February 2010, for the detail of the Acquisition. The Acquisition is yet to be completed. Further details on the Acquisition will be announced by the Company at appropriate time.

Capital structure

Besides the issuance of new share as disclosed in note 8(b), 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

Besides the proposed acquisition as disclosed in note 13, there had been no material acquisitions and disposals during the period under review.

Gearing ratio

As at 30 June 2010, the Group did not have any long-term debts and its shareholders' funds amounted to approximately HK\$99.75 million (31 December 2009: HK\$29.82 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 30 June 2010 (31 December 2009: Nil).

Liquidity and financial resources

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

As at 30 June 2010, the Group had cash and cash equivalents of approximately HK\$9.14 million as compared to approximately HK\$11.45 million as at 31 December 2009.

Charges on Group assets

As at 30 June 2010, the Group did not have any charges on its assets.

Contingent liability

The Group did not have any significant contingent liabilities as at 30 June 2010.

Segmental information

The segmental information of the Group's products is set out on pages 9 and 10.

Employees

As at 30 June 2010, the Group had 14 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\$5.10 million and approximately HK\$4.92 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 11 August 2008 and expiring on 12 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 2 February 2002 were lapsed and no share options have been granted under the Post-IPO share option scheme adopted by the Company on 2 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 30 June 2010, 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)	3,150,000*	1,875,000,000*	1,878,150,000*	71.51
Mr. Yue Wai Keung (Notes 1 & 3)	–	1,875,000,000*	1,875,000,000*	71.39

Notes:

1. 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.
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, 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.
3. 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 30 June 2010, 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.

As at 30 June 2010, 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:

- * The number of ordinary shares held has been revised to reflect the subdivision of Company shares effective from 5 November 2009. Refer to NOTE 8(a) for details.

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	1,875,000,000*	71.39%
Strong Choice Investments (Holding) Limited <i>(Notes 1 & 2)</i>	Interest of controlled corporation	1,875,000,000*	71.39%
Mr. Dennis Yu Won Kong <i>(Notes 1 & 2)</i>	Beneficial interest	3,150,000*	0.12%
	Interest of a controlled corporation	1,875,000,000*	71.39%
Ms. Ho Siu Lan Sandy <i>(Notes 1 & 2)</i>	Family interest	1,878,150,000*	71.51%
Billion Sky Resources Limited <i>(Notes 1 & 3)</i>	Interest of a controlled corporation	1,875,000,000*	71.39%
Mr. Yue Wai Keung <i>(Notes 1 & 3)</i>	Interest of a controlled corporation	1,875,000,000*	71.39%
Ms. Man Wing Tuen <i>(Notes 1 & 3)</i>	Family interest	1,875,000,000*	71.39%

Notes:

- 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 30 June 2010, 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.

- * The number of ordinary shares held has been revised to reflect the subdivision of Company shares effective from 5 November 2009. Refer to NOTE 8(a) for details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six-month period ended 30 June 2010, 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 30 June 2010.

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 financial information for the six-months ended 30 June 2010 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