



**INNO-TECH
HOLDINGS LIMITED**
匯創控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 8202)



First Quarterly Report

08/09

* For identification purposes only

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 high 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 decision to invest only after due and careful consideration. The greater risk profile and other characteristic 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 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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims 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 Inno-Tech Holdings Limited (the “Directors”) 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 for the purpose of giving information with regard to Inno-Tech Holdings Limited. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded bases and assumption that are fair and reasonable.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ms. Wong Yuen Yee (*Chairman*)

Mr. Wong Yao Wing, Robert
(*Deputy Chairman*)

Mr. Wong Kwok Sing

Mr. Lam Shiu San

Mr. Wong Tak Leung, Charles*

Mr. Lai Ying Sum*

Mr. Cheng King Hung*

* *Independent non-executive Directors*

COMPLIANCE OFFICER

Mr. Wong Yao Wing, Robert

AUTHORISED REPRESENTATIVES

Mr. Wong Yao Wing, Robert

Ms. Wong Yuen Yee

COMPANY SECRETARY

Mr. Li Kar Fai, Peter, *CPA*

QUALIFIED ACCOUNTANT

Mr. Li Kar Fai, Peter, *CPA*

AUDIT COMMITTEE MEMBERS

Mr. Wong Tak Leung, Charles
(*Chairman of audit committee*)

Mr. Lai Ying Sum

Mr. Cheng King Hung

AUDITORS

PCP CPA Limited

LEGAL ADVISERS TO THE COMPANY

Troutman Sanders (*as to Hong Kong Laws*)

PRINCIPAL BANKERS

Banco de Oro Unibank Inc.

Wing Lung Bank Limited

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 903

Tung Wai Commercial Building

109 – 111 Gloucester Road

Wanchai

Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited

6 Front Street

Hamilton HM 11

Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

COMPANY WEBSITE

<http://www.it-holdings.com>

GEM STOCK CODE

8202

HIGHLIGHTS

- Turnover for the three months ended 30 September 2008 amounted to approximately HK\$27,494,000, representing a decrease of approximately 26.59% as compared to amount reported in the corresponding period in 2007.
- Loss from ordinary activities attributable to equity holders amounted to approximately HK\$(9,086,000) for the three months ended 30 September 2008.
- Loss per share amounted to HK(0.72 cent) for the three months ended 30 September 2008.
- The Board did not recommend the payment of a dividend for the three months ended 30 September 2008.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 September 2008

The board of directors (the “Board”) of Inno-Tech Holdings Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30 September 2008, together with the unaudited comparative figures for the three months ended 30 September 2007 are as follow:–

		Unaudited	
		Three months ended	
		30 September	
		2008	2007
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	3	27,494	37,454
Cost of sales		(23,824)	(30,344)
		<hr/>	<hr/>
Gross profit		3,670	7,110
Other revenue		1,926	3,503
Marketing and promotion expenses		(1,963)	(1,367)
Administrative expenses		(10,456)	(3,657)
Finance costs		(542)	(239)
Share of losses of associates		(1,721)	–
		<hr/>	<hr/>
(Loss)/profit before income tax		(9,086)	5,350
Income tax	4	–	(37)
		<hr/>	<hr/>
(Loss)/profit for the period		(9,086)	5,313
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Company		(9,086)	4,615
Minority Interests		–	698
		<hr/>	<hr/>
		(9,086)	5,313
		<hr/>	<hr/>
(Loss)/earnings per share			
– Basic	5	(0.72 cent)	0.39 cent
		<hr/>	<hr/>
– Diluted		N/A	N/A
		<hr/>	<hr/>

Notes:

1. Change of Year End Date

The year end date of the Company was changed from 31 March to 30 June with effect from 28 March 2008. Pursuant to the change, the final audited results and the audited financial statements of the Group for the financial year 2007/08 cover 15 months from 1 April 2007 to 30 June 2008 had been issued on 29 September 2008 in accordance with the requirement under 18.03 of the GEM Listing Rules.

2. Basis of Preparation of the accounts

The unaudited consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Listing Rules of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Group has applied the same principal accounting policies and methods of computation in the unaudited consolidated financial statements as are applied in its annual financial statements for the year ended 30 June 2008. The principal accounting policies adopted are disclosed in the Company's 07/08 Annual Report dated 29 September 2008.

These unaudited consolidated financial statements should be read in conjunction with the Company's 07/08 Annual Report.

3. Turnover

Turnover represents the amounts received and receivable for the design of residential intranet, provision of e-property management software application consulting services and trading of home-automation, provision of hotel services and other products in Hong Kong and the People's Republic of China (the "PRC").

The amount of each significant category of revenue recognised in turnover during the period is as follows:

	Unaudited Three months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Income from design of residential intranet, provision of home automation services and trading of related products	26,356	37,454
Income from hotel services	1,138	–
	27,494	37,454

4. Taxation

Provision for Hong Kong profits tax is calculated at the rate of 16.5% (2007: 17.5%) of the estimated assessable profits arising in Hong Kong for the period.

5. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the unaudited consolidated loss attributable to equity holders for the three months ended 30 September 2008 of approximately HK\$(9,086,000) (2007: profit of HK\$4,615,000) and on the weighted average of 1,268,589,048 (2007: 1,160,174,509) ordinary shares in issue during the period.

(b) Diluted (loss)/earnings per share

The diluted (loss)/earnings per share is not shown as it is not materially different from the basic (loss)/earnings per share.

6. Movements of reserves

	Share Capital HK\$'000	Share Premium HK\$'000	Employee Compensation Reserve HK\$'000	Convertible Notes Reserve HK\$'000	Contributed Surplus HK\$'000	Capital Redemption Reserve HK\$'000	Exchange Reserve HK\$'000	Retained Profits HK\$'000	Total HK\$'000
At 1 July 2007	22,224	298,193	464	160	5,625	43	(34)	9,855	336,530
Profit for the period	-	-	-	-	-	-	-	5,313	5,313
Issuance of shares	1,379	6,558	(378)	(160)	-	-	-	-	7,399
Share issuance cost	-	(247)	-	-	-	-	-	-	(247)
At 30 September 2007	<u>23,603</u>	<u>304,504</u>	<u>86</u>	<u>-</u>	<u>5,625</u>	<u>43</u>	<u>(34)</u>	<u>15,168</u>	<u>348,995</u>
At 1 July 2008	24,544	342,866	23,220	-	5,625	43	(245)	(60,332)	335,721
Loss for the period	-	-	-	-	-	-	-	(9,086)	(9,086)
Issuance of shares	2,865	43,170	-	-	-	-	-	-	46,035
Share issuance cost	-	(1,548)	-	-	-	-	-	-	(1,548)
Exchange difference on consolidation	-	-	-	-	-	-	75	-	75
At 30 September 2008	<u>27,409</u>	<u>384,488</u>	<u>23,220</u>	<u>-</u>	<u>5,625</u>	<u>43</u>	<u>(170)</u>	<u>(69,418)</u>	<u>371,197</u>

DIVIDEND

The Directors did not recommend the payment of a dividend for the three months ended 30 September 2008 (2007 : Nil).

BUSINESS REVIEW

For the three months ended 30 September 2008, the Group's unaudited consolidated turnover amounted to approximately HK\$27,494,000 (2007: HK\$37,454,000).

The Group recorded a net loss of approximately HK\$(9,086,000) for the three months ended 30 September 2008 (2007: net profit HK\$5,313,000). Basic loss per share for the three months ended 30 September 2008 was HK(0.72 cents) (2007: basic earnings per share: HK0.39 cents).

Software Application Solutions

The domestic sale of i-Panel and Apbus products and the provision of intranet design for residential communities remained the core business of the Group. As it is the dual corporate strategy of the Group to strengthen its existing business, and at the same time seeking opportunities to expand into other industries such as health care industry, economy hotel industry as well as advertising industry utilizing its existing business platform. The Company has been expanded into the health care and economy hotel industry during the past year and will actively seek potential business partners in other areas such as out-door advertisement.

Economy Hotel Business

The Group has been expanding into the economy hotel industry. The Group announced on 11 October 2007, that it has entered into a joint venture agreement with Swiss-Belt Hotel International Limited ("SBI") to form a joint venture which will be principally engaged in the management, training and operation of economy hotels in the PRC. In June 2008, the Group entered into a joint venture agreement with Zhe Jiang Harmony Group ("ZJHG") which will then engaged in the management and operation of economy hotels in the PRC. ZJHG agreed to provide 200 hotel properties for the Group to choose and considered appropriate to be leased by the joint venture company by 30 June 2010. Such hotel properties will be leased to the joint venture company by ZJHG rental free for a period of not less than 15 years. Forming joint venture with strategic business partner in hotel operation and management business enables the Group to expand its branded hotel chains rapidly into a list of big five in the PRC.

In addition to the above major joint venture agreements, the Group announced on 29 October 2007 that the Group has entered into nine management contracts with Independent Third Parties in relation to the management of nine hotels located at Kaiping City, Dongguan City, Shaoguan and Zhaoqing, Guangdong Province, the PRC.

To further strengthen Group's long term development in the economy hotel industry, the Group had completed the acquisition of two hotel properties in the PRC.

Investment in Health Care Business

In January 2008, United Premier Medical Group Limited (“UPMG”), which is owned as to approximately 35.57% by Autoscale Resources Limited (“Autoscale”), a subsidiary which is owned as to approximately 56% by the Group entered into the Share Exchange Agreement with China Health Care Corporation (“CHCC”) (formerly known as The Cavalier Group). In July 2008, the Share Exchange Agreement was completed, UPMG commenced operating under the name of CHCC and trading on the Over-The-Counter Bulletin Board of the United States under code number CNHL. The Directors are of the view that this would provide an opportunity to enhance the value the Group’s investment in UPMG.

OUTLOOK

The Company’s progress in the hotel business sectors has been in line with our corporate strategy. The recent economic sluggishness could present opportunities for the Group’s long term investments which enhance the Group’s further expansion into different business sectors in the PRC.

The Group, through its Board and management, has demonstrated its commitment to identify and capitalize new opportunities to achieve the financial growth for the Company and to maximize shareholder value.

MATERIAL ACQUISITIONS AND DISPOSALS DURING THE PERIOD AND FUTURE PLANS FOR MATERIAL INVESTMENTS

There were no material acquisitions and disposals of investments by the Group during the three months ended 30 September 2008.

EMPLOYEES

The number of employees (including Directors) was 120 as at 30 September 2008 (2007: 18), and the total staff costs (including Directors’ remuneration) for the three months ended 30 September 2008 was approximately HK\$5,446,000 (2007: HK\$4,716,000). Other benefits provided by the Group to the employees include MPF, medical coverage and share-based payments.

SHARE OPTION SCHEME

(i) Pre-IPO Share Option Scheme

The Company's pre-IPO share option scheme ("Pre-IPO Share Option Scheme") adopted on 5 July 2002, the principal terms of which were set out in the prospectus of the Company dated 30 July 2002 (the "Prospectus"), there were 24,000,000 share options granted. Up to 30 September 2008, there were 17,520,000 share options have been exercised and 1,680,000 share options have been lapsed. The remaining 4,800,000 share options under the Pre-IPO Share Option Scheme will lapse on 4 July 2012. Details of which were as follow:-

	Date of grant	Number of share options					Option period	Exercise price per share
		Outstanding 1 July 2008	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 September 2008		
Directors	5 July 2002	-	-	-	-	-	5 July 2002 to 4 July 2012	HK\$0.28
Employees	5 July 2002	4,800,000	-	-	-	4,800,000	5 July 2002 to 4 July 2012	HK\$0.28
Total		<u>4,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,800,000</u>		

(ii) Post-IPO Share Option Scheme

Pursuant to a written resolution passed by the sole shareholder of the Company on 5 July 2002, the Company conditionally adopted the share option scheme, the principal terms of which are set out in the section “Share Option Schemes” on Appendix IV of the Prospectus (“Post-IPO Share Option Scheme”). Up to 30 September 2008, there were 292,887,924 share options granted and there were 134,976,186 share options under the Post-IPO Share Option Scheme have been exercised and no options has been cancelled or lapsed. The remaining 10,500 share options (exercise price HK\$0.22), 1,000,000 share options (exercise price HK\$0.114), 69,780,000 share options (exercise price HK\$0.63), 53,121,238 share options (exercise price HK\$0.174) and 34,000,000 share options (exercise price HK\$0.195) under the Post-IPO Share Option Scheme will lapse on 5 January 2014, 19 September 2015, 22 August 2017, 8 September 2018 and 10 September 2018 respectively. Details of which were as follow:–

	Date of grant	Number of share options				Outstanding as at 30 September 2008	Option period	Exercise price per share
		Outstanding 1 July 2008	Granted during the period	Exercised during the period	Lapsed during the period			
Directors	6 January 2004	-	-	-	-	-	6 January 2004 to 5 January 2014	HK\$0.22
	20 September 2005	-	-	-	-	-	20 September 2005 to 19 September 2015	HK\$0.114
	23 August 2007	34,720,000	-	-	-	34,720,000	23 August 2007 to 22 August 2017	HK\$0.63
Employees	6 January 2004	10,500	-	-	-	10,500	6 January 2004 to 5 January 2014	HK\$0.22
	20 September 2005	1,000,000	-	-	-	1,000,000	20 September 2005 to 19 September 2015	HK\$0.114
	23 August 2007	35,060,000	-	-	-	35,060,000	23 August 2007 to 22 August 2017	HK\$0.63
	26 October 2007	-	-	-	-	-	26 October 2007 to 25 October 2017	HK\$0.466
	9 September 2008	-	88,664,984	35,543,746	-	53,121,238	9 September 2008 to 8 September 2018	HK\$0.174
	11 September 2008	-	34,000,000	-	-	34,000,000	11 September 2008 to 10 September 2018	HK\$0.195
Total		<u>70,790,500</u>	<u>122,664,984</u>	<u>35,543,746</u>	<u>-</u>	<u>157,911,738</u>		

INTERESTS OF THE DIRECTORS OR CHIEF EXECUTIVES IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2008, the interests or short positions of the Directors in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance (“SFO”)) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV and Section 347 of the SFO (including interests or short positions which is taken or deemed to have taken under such provisions of the SFO); or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or as required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange are as follow:–

(a) Interests in the Company

Name of Director	Number of ordinary shares held					Percentage of the Company's issued share capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests	Aggregate Interests	
Ms. Wong Yuen Yee <i>(note)</i>	144,030,597	-	97,362,000	-	241,392,597	17.61%
Mr. Wong Kwok Sing <i>(note)</i>	7,678,500	-	97,362,000	-	105,040,500	7.66%
Mr. Wong Yao Wing, Robert <i>(note)</i>	144,030,596	-	97,362,000	-	241,392,596	17.61%
Mr. Lam Shiu San <i>(note)</i>	6,018,500	-	97,362,000	-	103,380,500	7.54%
Mr. Cheng King Hung	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>700,000</u>	<u>0.05%</u>

Note: The 97,362,000 Shares are held by Multiturn Trading Limited, which is beneficially owned as to 31.21%, 30.9%, 30.9% and 6.99% by Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Wong Yao Wing, Robert and Mr. Lam Shiu San, respectively. Accordingly each of Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Wong Yao Wing, Robert and Mr. Lam Shiu San is deemed to be interested in the 97,362,000 Shares held by Multiturn Trading Limited under the SFO.

Save as disclosed above, as at 30 September 2008, none of Directors or chief executives of the Company has any interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which are 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 or short positions which is taken or deemed to have under such provisions of the SFO); or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or as required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

(b) Post-IPO Share Option Scheme

Details of the share options granted to certain Directors pursuant to the Post-IPO Share Option Scheme as at 30 September 2008 are as follow:–

	Date of grant	Number of share options				Outstanding as at 30 September 2008	Option period	Exercise price per share
		Outstanding as at 1 July 2008	Granted during the period	Exercised during the period	Lapsed during the period			
Ms. Wong Yuen Yee	23 August 2007	7,930,000	-	-	-	7,930,000	23 August 2007 to 22 August 2017	HK\$0.63
Mr. Wong Kwok Sing	23 August 2007	7,930,000	-	-	-	7,930,000	23 August 2007 to 22 August 2017	HK\$0.63
Mr. Wong Yao Wing, Robert	23 August 2007	7,930,000	-	-	-	7,930,000	23 August 2007 to 22 August 2017	HK\$0.63
Mr. Lam Shiu San	23 August 2007	7,930,000	-	-	-	7,930,000	23 August 2007 to 22 August 2017	HK\$0.63
Mr. Wong Tak Leung, Charles	23 August 2007	1,000,000	-	-	-	1,000,000	23 August 2007 to 22 August 2017	HK\$0.63
Mr. Lai Ying Sum	23 August 2007	1,000,000	-	-	-	1,000,000	23 August 2007 to 22 August 2017	HK\$0.63
Mr. Cheng King Hung	23 August 2007	1,000,000	-	-	-	1,000,000	23 August 2007 to 22 August 2017	HK\$0.63
Total		<u>34,720,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,720,000</u>		

Save as disclosed above, as at 30 September 2008, none of the Directors or their associates as well as the chief executives of the Group had any interests or short positions in the Shares and underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules. During the reporting period, there were no debt securities issued by the Group.

(c) Directors' and chief executive's rights to acquire Shares or debt securities

Save as disclosed above, as at 30 September 2008, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors or chief executive to acquire benefits by means of the acquisition of Shares in, or debt securities, including debentures, of the Company or any other corporation, and neither the Directors and chief executive of the Company, nor any of their spouse or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (“SFO”) OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed hereunder, none of the Directors or chief executives of the Company is aware of any person who has any interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or are required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein; or are required, pursuant to Section 324 of the SFO, to notify the Company and the Stock Exchange; or who is expected, directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 September 2008:–

Name	Number of shares	Percentage of shareholdings
Ms. Wong Yuen Yee	144,030,597	10.51%
Mr. Wong Yao Wing, Robert	144,030,596	10.51%
Multiturn Trading Limited (<i>Note 1</i>)	97,362,000	7.10%

Notes:

1. Multiturn Trading Limited is beneficially owned as to 31.21%, 30.9%, 30.9% and 6.99% by Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Wong Yao Wing, Robert and Mr. Lam Shiu San, respectively, all of whom are executive Directors.

Save as disclosed above, as at 30 September 2008, the Directors are not aware of any other person who had interest or short position in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

COMPETING INTERESTS

None of the directors or the management shareholders or any of their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which causes or may cause any significant competition with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the Code for dealing in securities of the Company by the Directors. All Directors confirmed that they complied with the required standards as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the period.

CONTINGENT LIABILITIES

The Company and a subsidiary of the Group are defendants in a legal action involving the alleged default payment for one of the installment payments to the plaintiff. The said subsidiary of the Group had acquired certain intellectual property in 2004 with consideration payable by quarterly installments and the Company is a guarantor.

The plaintiff is claiming for the amount of HK\$2,550,000, being the full remaining balances of the consideration payable to the plaintiff in June 2006, together with interest thereon and cost. The Group settled the disputed installment payment as well as the subsequent installments which were due for repayment from time to time. The remaining balance of the consideration payable of HK\$300,000 to the plaintiff as at 30 September 2008 had already been included in the Group's consolidated balance sheet.

The directors of the Company, based on legal advice, consider that the action will remain pending for a while but it can be successfully defended and therefore no further provision will be required.

Save as discussed above, no member of the Group is engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

CORPORATE GOVERNANCE PRACTICES

The Company recognizes that establishment and implementation of good corporate governance standards helps the group to achieve its corporate objectives and fulfill the expectations of shareholders and stakeholders effectively. Therefore, the Board of Directors ("the Board") of the Company, with effect from 1 April 2005 has fully applied the principles and complied with the requirements of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 15 to the GEM Listing Rules:–

- (1) Due to practical reasons, 14 days advance notifications have not been given to all meetings of the board. Reasonable notifications have been given in respect of those meetings of the board where it is not practicable to give 14 days advance notification. The board will use its best endeavours to give 14 days advance notifications of board meeting to the extend practicable. (Code Provisions A.1.1 and 1.1.3);

- (2) As at the date of this report, we have no formal guidelines for employees dealings in securities (Code Provision A.5.4) although a formal guideline has been adopted for directors. Actions will be taken by the board to formalize the circumstances under which employees can deal in the shares of the Company before end of the current financial year;
- (3) Actions have yet taken to review the internal control systems of the Group. The Board plans to engage an external auditor to undertake the review before the end of the current financial year and to take appropriate course of action in this regard based on the recommendation of the external auditor (Code Provision C.2.1); and
- (4) No formal schedule of matters reserved to the Board and those delegated to the management has been adopted by the Group although there are guidelines for the responsibilities and duties to members of the board and members of the managements taking up different position. The Board has delegated its Human Resources Department to prepare the formal schedule for the approval of the board before the end of the current financial year (Code Provision D.1.2).

AUDIT COMMITTEE

The Company established an audit committee on 5 July 2002 with terms of reference in compliance with Rule 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee currently comprises Mr. Wong Tak Leung, Charles, Mr. Lai Ying Sum and Mr. Cheng King Hung who are the independent non-executive Directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The Group's unaudited results for the three months ended 30 September 2008 have been reviewed by the audit committee, which is of the opinion that the audited consolidated financial statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements in Hong Kong and that adequate disclosures have been made.

By order of the Board
Wong Yuen Yee
Chairman

Hong Kong, 14 November 2008