



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

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



Interim Report
08/09

* For identification purposes only

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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

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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

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COMPANY WEBSITE

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

GEM STOCK CODE

8202

HIGHLIGHTS

- Turnover for the six months ended 31 December 2008 amounted to approximately HK\$36,284,000, representing a decrease of approximately 40.60% as compared to amount reported in the corresponding period in 2007.
- Loss attributable to equity holders amounted to approximately HK\$24,824,000 for the six months ended 31 December 2008.
- Basic loss per share amounted to HK1.82 cents for the six months ended 31 December 2008.
- The Board did not recommend the payment of a dividend for the six months ended 31 December 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 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 and six months ended 31 December 2008, together with comparative figures for the three months and six months ended 31 December 2007 are as follow:–

	Notes	Unaudited Three months ended 31 December		Unaudited Six months ended 31 December	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	3	8,790	23,631	36,284	61,085
Cost of sales		(7,354)	(14,762)	(31,178)	(45,106)
Gross profit		1,436	8,869	5,106	15,979
Other revenue		154	1,089	359	4,592
Marketing and promotion expenses		(1,565)	(1,516)	(3,528)	(2,883)
Administrative expenses		(15,168)	(7,236)	(25,624)	(10,893)
Finance costs		(595)	(415)	(1,137)	(654)
Share of losses of associates		–	–	–	–
(Loss)/profit before income tax	4	(15,738)	791	(24,824)	6,141
Income tax	5	–	–	–	(37)
(Loss)/profit attributable to equity holders		(15,738)	791	(24,824)	6,104
Attributable to:					
(Loss)/earnings per share					
– Basic	6	(1.08) cents	0.07 cent	(1.82) cents	0.52 cent
– Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2008

		Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
	Notes		
Non-current assets			
Goodwill	8	60,643	60,643
Property, plant and equipment	9	51,560	24,285
Construction in progress	10	337	–
Prepaid lease payments		33,879	34,319
Intangible assets	11	76,772	79,355
Interest in associates	12	2,353	2,353
Interest in a jointly controlled entity	13	–	–
Loans to an associate		–	6,273
		<hr/> 225,544 <hr/>	<hr/> 207,228 <hr/>
Current assets			
Trading securities – pledged		–	1,024
Derivative financial instruments – pledged		–	170
Inventories	14	14,267	1,175
Accounts receivables	15	95,256	85,162
Prepayments, deposits and other receivables		74,406	82,989
Loans to an associate		12,626	6,440
Tax recoverable		222	317
Pledged deposits		10,000	13,000
Cash and cash equivalents		1,797	37,305
		<hr/> 208,574 <hr/>	<hr/> 227,582 <hr/>
Current liabilities			
Bank loans and overdrafts	16	11,944	14,837
Trade payables, accrued expenses and other payables	17	14,339	20,904
Amounts due to directors		3,088	55,559
		<hr/> 29,371 <hr/>	<hr/> 91,300 <hr/>
Net current assets		<hr/> 179,203 <hr/>	<hr/> 136,282 <hr/>
Total assets less current liabilities		<hr/> 404,747 <hr/>	<hr/> 343,510 <hr/>

		Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Bank loan	16	21,666	–
Deferred taxation		7,789	7,789
		<hr/> 29,455 <hr/>	<hr/> 7,789 <hr/>
Net assets		375,292	335,721
		<hr/> 375,292 <hr/>	<hr/> 335,721 <hr/>
Capital and reserves			
Share capital	18	31,350	24,544
Reserves		343,942	311,177
		<hr/> 375,292 <hr/>	<hr/> 335,721 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2008

	Share Capital	Share Premium	Employee Compensation Reserve	Convertible Notes Reserve	Contributed Surplus	Capital Redemption Reserve	Exchange Reserve	Retained Profits	Unaudited Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2007	22,225	298,193	464	160	5,625	43	(34)	9,855	336,531
Profit for the period	-	-	-	-	-	-	-	6,104	6,104
Total recognised income and expenses for the period	-	-	-	-	-	-	-	6,104	6,104
Issuance of shares	1,562	12,170	(378)	(160)	-	-	-	-	13,194
Share issuance cost	-	(252)	-	-	-	-	-	-	(252)
At 31 December 2007	<u>23,787</u>	<u>310,111</u>	<u>86</u>	<u>-</u>	<u>5,625</u>	<u>43</u>	<u>(34)</u>	<u>15,959</u>	<u>355,577</u>
At 1 July 2008	24,544	342,866	23,220	-	5,625	43	(245)	(60,332)	335,721
Loss for the period	-	-	-	-	-	-	-	(24,824)	(24,824)
Total recognised income and expenses for the period	-	-	-	-	-	-	-	(24,824)	(24,824)
Issuance of shares	6,806	59,135	-	-	-	-	-	-	65,941
Share issuance cost	-	(1,623)	-	-	-	-	-	-	(1,623)
Exchange difference on consolidation	-	-	-	-	-	-	77	-	77
At 31 December 2008	<u>31,350</u>	<u>400,378</u>	<u>23,220</u>	<u>-</u>	<u>5,625</u>	<u>43</u>	<u>(168)</u>	<u>(85,156)</u>	<u>375,292</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2008

	Unaudited six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Net cash from operating activities	(82,027)	(61,526)
Net cash used in investing activities	(35,786)	(9,072)
	<hr/>	<hr/>
Net cash generated from financing activities	85,287	31,220
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(32,526)	(39,378)
Cash and cash equivalents at the beginning of the period	32,379	121,519
	<hr/>	<hr/>
Cash and cash equivalent at the end of the period	<u>(147)</u>	<u>82,141</u>
Analysis of cash and cash equivalents:		
Cash and cash equivalents in the condensed consolidated balance sheet	1,797	86,922
Bank overdrafts	(1,944)	(4,781)
	<hr/>	<hr/>
Cash and cash equivalents	<u>(147)</u>	<u>82,141</u>

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 current year 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 condensed consolidated financial statements have been prepared under the historical cost convention.

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 condensed 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 Group's 07/08 Annual Report dated 29 September 2008.

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

3. Turnover

Turnover represents 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").

4. (Loss)/profit before income tax

(Loss)/profit before income tax is arrived at after charging:

	Unaudited six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Finance cost		
Interest on bank loans and overdrafts wholly repayable within five years	1,137	615
Interest on convertible note	-	39
Auditors' remuneration	474	230
Staff cost	9,946	7,017
Amortisation of intangible assets	10,183	6,110
Depreciation on owned assets	3,555	2,113
Operating lease charges in respect of office premises	1,224	406
Retirement costs	152	90

5. Income tax

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.

- (a) The amount of taxation charged to the unaudited condensed consolidated income statement represents

	Unaudited Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong profits tax	<u> -</u>	<u> 37</u>

- (b) Reconciliation between tax expenses and accounting profit at applicable tax rates

	Unaudited Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
(Loss)/profit before income tax	<u>(24,824)</u>	<u>6,141</u>
Calculated at a taxation rate of 16.5% (2007: 17.5%)	<u>(4,096)</u>	<u>1,075</u>
Tax effect of income not taxable for tax purpose	<u> -</u>	<u>(1,271)</u>
Tax effect of deductible temporary differences not recognised	<u>4,096</u>	<u>233</u>
	<u> -</u>	<u> 37</u>

6. (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 and six months ended 31 December 2008 of approximately HK\$(15,738,000) and HK\$(24,824,000) respectively (2007: profit of HK\$791,000 and HK\$6,104,000 respectively) and on the weighted average of 1,455,615,202 and 1,362,102,125 respectively (2007: 1,185,194,617 and 1,172,684,563 respectively) ordinary shares in issue during the period.

- (b) *Diluted (loss)/earnings per share*

No diluted earnings per share has been presented for the three months and six months ended 31 December in 2008 and 2007 as the Company's share options are anti-dilutive.

7. Segment information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

Intelligent system: the development and sale of intelligent home electronic application system.

Hotel management: the provision for hotel management services.

	Intelligent system		Hotel management		Consolidated	
	Unaudited		Unaudited		Unaudited	
	Six months ended					
	31 December	31 December	31 December	31 December	31 December	31 December
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Revenue from external customers	<u>33,782</u>	60,959	<u>2,502</u>	126	<u>36,284</u>	61,085
Segment results	<u>(9,536)</u>	9,381	<u>(15,288)</u>	(3,240)	<u>(24,824)</u>	6,141
Share of loss of associates					<u>-</u>	<u>-</u>
(Loss) before income tax					<u>(24,824)</u>	6,141
Income tax					<u>-</u>	<u>(37)</u>
(Loss)/profit for the period attributable to equity holders					<u>(24,824)</u>	<u>6,104</u>

	Intelligent system		Hotel management		Consolidated	
	Unaudited		Unaudited		Unaudited	
	31 December	31 December	31 December	31 December	31 December	31 December
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>280,544</u>	383,433	<u>151,221</u>	17,072	<u>431,765</u>	400,505
Interest in associates	<u>2,353</u>	3,039	<u>-</u>	-	<u>2,353</u>	3,039
Total assets					<u>434,118</u>	<u>403,544</u>
Segment liabilities	<u>(31,441)</u>	(47,817)	<u>(27,385)</u>	(150)	<u>(58,826)</u>	47,967
Total liabilities					<u>(58,826)</u>	<u>47,967</u>
Capital expenditure	<u>22,203</u>	<u>8,956</u>	<u>17,166</u>	<u>116</u>	<u>39,369</u>	<u>9,072</u>

(b) *Geographical segments*

The Group's business is mainly participated in Hong Kong and the People's Republic of China.

Analysis of segment revenue, assets and capital expenditure is as follows:

	Hong Kong		People's Republic of China Unaudited		Consolidated	
	Six months ended		Six months ended		Six months ended	
	31 December 2008 HK\$'000	31 December 2007 HK\$'000	31 December 2008 HK\$'000	31 December 2007 HK\$'000	31 December 2008 HK\$'000	31 December 2007 HK\$'000
Segment revenue:						
Revenue from external customers	<u>33,105</u>	<u>60,714</u>	<u>3,179</u>	<u>371</u>	<u>36,284</u>	<u>61,085</u>
Other segment information:						
Total assets	<u>282,897</u>	<u>386,472</u>	<u>151,221</u>	<u>17,072</u>	<u>434,118</u>	<u>403,544</u>
Capital expenditure	<u>24,090</u>	<u>8,956</u>	<u>15,279</u>	<u>116</u>	<u>39,369</u>	<u>9,072</u>

8. Goodwill

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2007 HK\$'000
Carrying amount	<u>60,643</u>	<u>60,643</u>

9. Property, plant and equipment

	Unaudited 2008 HK\$'000
Net book value as at 1 July	24,285
Additions	31,432
Disposals	(602)
Depreciation	(3,555)
Net book value as at 31 December	<u>51,560</u>

10. Construction in progress

	Unaudited 2008 HK\$'000
As at 1 July	–
Additions	337
As at 31 December	<u>337</u>

11. Intangible assets

	Unaudited 2008 HK\$'000
Net book value as at 1 July	79,355
Additions	7,600
Amortisation	(10,183)
	<hr/>
Net book value as at 31 December	<u>76,772</u>

12. Interest in associates

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Share of net assets	<u>2,353</u>	<u>2,353</u>

13. Interest in a jointly controlled entity

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Share of net assets	<u>-</u>	<u>-</u>

14. Inventories

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Finished goods	13,163	200
Work in progress	472	412
Raw materials	320	276
Spare parts and consumables	312	287
	<hr/>	<hr/>
	<u>14,267</u>	<u>1,175</u>

15. Accounts receivables

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Trade debtors	73,596	65,386
Less: allowance for doubtful debts	<u>-</u>	<u>(113)</u>
	73,596	65,273
Amounts due from customers	21,660	19,675
Receivable from a jointly controlled entity	-	95
Receivable from associates	<u>-</u>	<u>119</u>
	<u>95,256</u>	<u>85,162</u>

The ageing analysis of trade debtors is as follow:-

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Current	13,765	45,896
Less than 1 month past due	11,640	7,522
1 to 3 months past due	25,842	8,112
Over 3 months past due	<u>22,349</u>	<u>3,743</u>
	<u>73,596</u>	<u>65,273</u>

Customers are generally granted with credit terms of 120 days.

16. Bank loans and overdrafts

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Non-current secured bank loans	<u>21,666</u>	–
Secured bank overdrafts	1,944	4,837
Secured bank loans	<u>10,000</u>	<u>10,000</u>
	<u>11,944</u>	<u>14,837</u>
Total	<u><u>33,610</u></u>	<u><u>14,837</u></u>
Within 1 year or on demand	11,944	14,837
After 1 year but within 2 years	9,444	–
After 2 year but within 5 years	12,222	–
Over 5 years	–	–
	<u>33,610</u>	<u>14,837</u>

17. Trade payables, accrued expenses and other payables

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Trade payables	8,570	5,842
Amount due to a related company	286	286
Accrued expenses and other payables	<u>5,483</u>	<u>14,776</u>
	<u><u>14,339</u></u>	<u><u>20,904</u></u>

The ageing analysis of trade payables, accrued expenses and other payables is as follows:

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Within 1 year or on demand	<u><u>14,339</u></u>	<u><u>20,904</u></u>

18. Share capital

	Number of shares '000	Unaudited 2008 HK\$'000
Authorised		
Ordinary shares of HK\$0.02 each	<u>5,000,000</u>	<u>100,000</u>
Issued and fully paid		
As at 1 July 2008	1,227,187	24,544
Issuance of ordinary shares	<u>340,320</u>	<u>6,806</u>
As at 31 December 2008	<u>1,567,507</u>	<u>31,350</u>

19. Commitments

(a) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Within 1 year	4,169	3,392
After 1 year but within 5 years	13,900	7,787
After 5 years	<u>13,422</u>	<u>8,711</u>
	<u>31,491</u>	<u>19,890</u>

(b) Capital commitments

Capital commitments outstanding at 31 December 2008 not provided for in the financial statements of the Group were as follows:

	Unaudited 31 December 2008 HK\$'000	Audited 30 June 2008 HK\$'000
Contracted but not provided for:		
Acquisition of a property	-	30,217
Acquisition of software	-	1,211
Decoration of hotel properties	-	39,416
Capital contribution of subsidiaries	51,111	51,111
Investment in joint venture	<u>18,333</u>	<u>18,333</u>
	<u>69,444</u>	<u>140,288</u>

20. Retirement benefits

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. The Group participates in a Mandatory Provident Fund ("MPF"), managed by independent approved MPF trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

DIVIDEND

The Directors did not recommend the payment of a dividend for the six months ended 31 December 2008 (2007: Nil).

BUSINESS REVIEW

For the six months ended 31 December 2008, the Group's unaudited consolidated turnover amounted to approximately HK\$36,284,000 (2007: HK\$61,085,000).

The Group recorded a loss of approximately HK\$(24,824,000) for the six months ended 31 December 2008 (2007: profit of HK\$6,104,000). Basic loss per share for the six months ended 31 December 2008 was HK1.80 cents (2007: basic earnings per share: HK0.52 cent).

Software Application Solutions

The domestic sale of i-Panel and Adbus 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.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2008, the net current assets of the Group were approximately HK\$149,748,000 (2007: HK\$234,534,000). Out of the current assets as at 31 December 2008, approximately HK\$9,853,000 (2007: HK\$82,141,000) were pledged deposits and cash and cash equivalents. The current ratio of the Group as at 31 December 2008 and 31 December 2007 were 710% and 632% respectively. As at 31 December 2008, bank borrowings amounted to approximately HK\$31,666,000 (2007: HK\$30,275,000). The net debt (i.e. total bank borrowings less cash and cash equivalent and pledged deposits) as at 31 December 2008 was HK\$21,813,000 (2007: net cash position of HK\$51,866,000) and accordingly net debt gearing ratio (i.e. net debt/net assets) as at 31 December 2008 was 5.81% (2007: Nil).

Capital structure

For the six months ended 31 December 2008, the Company issued 107,704,193 and 135,000,000 new ordinary shares through placing to certain directors of the Company in August 2008 and independent third parties in November 2008 respectively.

For the six months ended 31 December 2008, there were 97,615,619 ordinary shares issued pursuant to the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme.

Foreign currency risk

During the six months ended 31 December 2008, the majority of the Group's income and expenses was denominated in Hong Kong dollar while an insignificant portion of expenses was denominated in Renminbi. As at 31 December 2008, bank borrowings of approximately HK\$21,666,000 were denominated in Renminbi. The management of the Company is of the opinion that the Group has insignificant exposure to interest rate risk and foreign exchange risk. As a result, the Group had not used any financial instruments for hedging against fluctuation in interest rate nor foreign currencies for the six months ended 31 December 2008.

Charges on group's assets

As at 31 December 2008 bank deposits of HK\$10,000,000 (2007: HK\$13,000,000) and buildings with net book value of approximately HK\$5,291,000 (2007: Nil) have been pledged against banking facilities granted to the Group.

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.

Reference to the Circular dated 23 January 2009, subject to the approval of the special general meeting of the Company dated 16 February 2008, the Company will acquire approximately 23% interest in Great China Media Holdings Limited (the "Acquisition"). Following the completion of the Acquisition, the Company can enhance the value of the Group's economy hotel business so as to strengthen the operating results of the Group and to maximize shareholders' returns. The Directors are of the view that the external walls and certain interior area of the hotels within the hotel portfolio managed by the Group present excellent advertising spaces to generate additional income for the Group.

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

On 10 December 2008, Shiny Step Investments Limited (the "**Purchaser**"), a wholly owned subsidiary of the Company, and Capital Base Holdings Limited (the "**Vendor**") entered into a sale and purchase agreement whereby the Purchaser agreed to purchase from the Vendor 238 shares of US1.00 each in the issued share capital of Great China Media Holdings Limited at HK\$43,384,000, to be satisfied by the issue of a redeemable convertible note of the Company with the principal amount of HK\$43,384,000 carrying rights to convert the outstanding principal amount into shares of HK\$0.02 each of the Company at the initial conversion price of HK\$0.0638 per Share subject to the terms and conditions thereof (the "**Acquisition**"). Save as the "Acquisition" mentioned above, there were no material acquisitions and disposals of investments by the Group during the six months ended 31 December 2008.

EMPLOYEES

The number of employees (including Directors) was 118 as at 31 December 2008 (2007: 19), and the total staff costs (including Directors' remuneration) for the six months ended 31 December 2008 were approximately HK\$9,946,000 (2007: HK\$7,017,000). 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 31 December 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 as at 1 July 2008	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 December 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	-	4,800,000	5 July 2002 to 4 July 2012	HK\$0.28
Total		<u>4,800,000</u>	<u>-</u>	<u>4,800,000</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 31 December 2008, there were 395,587,924 share options granted and there were 197,048,059 share options under the Post-IPO Share Option Scheme have been exercised and no options has been cancelled or lapsed. Details of which were as follow:–

	Date of grant	Number of share options				Outstanding as at 31 December 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			
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	57,815,619	-	30,849,365	9 September 2008 to 8 September 2018	HK\$0.174
	11 September 2008	-	34,000,000	12,000,000	-	22,000,000	11 September 2008 to 10 September 2018	HK\$0.195
	24 November 2008	-	41,700,000	27,800,000	-	13,900,000	24 November 2008 to 23 November 2018	HK\$0.07
	16 December 2008	-	61,000,000	-	-	61,000,000	16 December 2008 to 15 December 2018	HK\$0.0762
Total		<u>70,790,500</u>	<u>225,364,984</u>	<u>97,615,619</u>	<u>-</u>	<u>198,539,865</u>		

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

As at 31 December 2008, the interests or short positions of the Directors and 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					Aggregate Interests	Percentage of the Company's issued share capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests			
Ms. Wong Yuen Yee (note 1)	144,030,597	-	97,362,000	-	-	241,392,597	14.94%
Mr. Wong Kwok Sing (note 1)	7,678,500	-	97,362,000	-	-	105,040,500	6.50%
Mr. Wong Yao Wing, Robert (note 1)	140,720,596	-	97,362,000	-	-	238,082,596	14.74%
Mr. Lam Shiu San (note 1)	6,018,500	-	97,362,000	-	-	103,380,500	6.40%
Mr. Cheng King Hung (note 2)	<u>200,000</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>700,000</u>	<u>0.04%</u>

Notes:

1. 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.
2. Mr. Cheng King Hung is deemed to have interest in 700,000 Shares, of which 200,000 Share are held by him and his wife jointly and 500,000 Shares are held by his wife.

(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 31 December 2008 are as follow:–

	Date of grant	Number of share options				Outstanding as at 31 December 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 31 December 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) 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 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.

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

As at 31 December 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 as at 31 December 2008.

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

As at 31 December 2008, so far as is known to the Directors, the following persons, not being Directors or chief executive of the Company had, or were deemed to have, interests or short position 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 who is directly or indirectly, to be interested in 10% 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:

(i) Interest in the Company

Name	Capacity and Nature of interest	Shares/ equity derivatives	Number/ amount of Shares/equity derivatives held	Percentage of the Company's issued share capital as at 31 December 2008
Chan Chee Lok Kenneth	Beneficial owner	Shares	106,500,000	6.59%
Multiturn Trading Limited (Note 1)	Corporate	Shares	97,362,000	6.03%

Note:

- 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.

(ii) Interests in other members of the Group

Name of the member of the Group	Name of shareholders	Interest as at 31 December 2008
Autoscale Resources Limited	Wong Yao Sing, Herbert	34%

Save as disclosed above, as at 31 December 2008, the Directors are not aware of any other person, other than the Directors and the chief executive of the Company who had, or was deemed to have, interest or short position 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 who is directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or options in respect of such share capital.

SERVICE CONTRACTS OF DIRECTORS

As at 31 December 2008, none of the Directors had or proposed to enter any service contract with the Company or any other member of the Group which is not expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation.

COMPETING INTERESTS

As at 31 December 2008, so far as the Directors are aware, none of the Directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, 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 one of its subsidiaries are defendants in a legal action involving the alleged default in one of the installment payments of purchase price to the plaintiff from which the said subsidiary of the Company acquired certain intellectual property rights in 2004.

The plaintiff claimed HK\$2,550,000, being the remaining balances of the consideration payable to the plaintiff in full together with interest thereon and cost in June 2006. The defendants settled the disputed installment payment as well as the subsequent installment payments of consideration. As at 31 December 2008, the remaining balances of consideration of payable to the plaintiff amounted to HK\$50,000. As such sum has been fully provided in the Group's financial statements, it is expected that no further provision will be required and no material impact will be caused to the trading and financial condition of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

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 extent 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 six months ended 31 December 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, 13 February 2009

As at the date of this report, the directors of the Company are:-

Executive Directors:

Ms. Wong Yuen Yee (*Chairman*)

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

Mr. Wong Kwok Sing

Mr. Lam Shiu San

Independent Non-Executive Directors:

Mr. Wong Tak Leung, Charles

Mr. Lai Ying Sum

Mr. Cheng King Hung