**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in doubt** about any aspect of this circular or as to the action to be taken, you should consult appropriate independent advisers to obtain independent professional advice.

**If you have sold or transferred** all your securities in **Inno-Tech Holdings Limited**, you should at once hand this circular to the purchaser, transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

# INNO-TECH HOLDINGS LIMITED
# 匯 創 控 股 有 限 公 司 *

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8202)**

# MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ISSUED SHARE CAPITAL OF GAOFENG HOLDING CO. LIMITED

**Independent financial adviser to the Independent Board Committee and the Independent Shareholders**

VEDA | CAPITAL
智略資本

A letter from the Board (as defined in this circular) is set out on pages 5 to 21 of this circular. A letter from the Independent Board Committee (as defined in this circular) containing its advice and recommendation to the Independent Shareholders (as defined in this circular) is set out on page 41 of this circular. A letter from Veda Capital Limited (as defined in this circular) to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 40 of this circular.

A notice convening a special general meeting of the Company ("**SGM**") to be held at Room 903, Tung Wai Commercial Building, 109–111 Gloucester Road, Wanchai, Hong Kong at 11:30 a.m. on 30 September 2009 is set out on pages SGM-1 to SGM-3 of this circular. A proxy form is also enclosed. Whether or not you intend to attend and vote at the SGM or any adjourned meeting in person, please complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

*This circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the Company's website at www.it-holdings.com.*

* *for identification purposes only*

11 September 2009

# CONTENTS

**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 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

| | |
|---|---|
| "Acquisition" | the acquisition of 47.2% of the issued share capital of HK Gaofeng by Dragon Emperor from the Vendor as contemplated under the Sale and Purchase Agreement; |
| "Announcements" | announcements of the Company dated 6 May 2009, 8 May 2009 and 2 June 2009 respectively; |
| "associates" | has the meaning ascribed thereto under the GEM Listing Rules; |
| "Board" | the Board of Directors; |
| "Business Day" | a day (other than Saturday or Sunday) on which banks are generally open in Hong Kong for normal business; |
| "Company" | Inno-Tech Holdings Limited (匯創控股有限公司)*, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on GEM; |
| "Completion" | completion of the Sale and Purchase Agreement; |
| "connected person(s)" | has the meaning ascribed thereto under the GEM Listing Rules; |
| "Conversion Price" | HK$0.138 per Share, being the initial price per Share (subject to adjustment) at which the Convertible Note may be converted; |
| "Convertible Note" | the convertible note in the principal amount of HK$75,000,000 to be issued by the Company to the Vendor maturing on the second anniversary of the Issue Date; |
| "Director(s)" | the director(s) of the Company; |
| "Dragon Emperor" | Dragon Emperor International Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company; |
| "EBITDA" | earnings before interest, tax, depreciation and amortization; |
| "Enlarged Group" | the Group and the Target Group; |
| "GEM" | the Growth Enterprise Market of the Stock Exchange; |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM; |
| "Group" | the Company and its subsidiaries; |

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| "HK Gaofeng" | Gaofeng Holding Co. Limited, a company incorporated in Hong Kong with limited liability and owned as to 13.6% by Dragon Emperor, as to 1.8% by Inno Gold Mine and as to 84.6% by the Vendor as at the Latest Practicable Date; |
| "Hong Kong" | The Hong Kong Special Administrative Region of the PRC; |
| "Independent Board Committee" | an independent board committee of the Board comprising all independent non-executive Directors, namely Mr. Wong Tak Leung, Charles, Mr. Lai Ying Sum and Mr. Cheng King Hung; |
| "Independent Shareholders" | holders of Shares other than the Vendor and his associates; |
| "Inno Gold Mine" | Inno Gold Mining Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company; |
| "Issue Date" | date of issue of the Convertible Note; |
| "Jiangxi Commerce Administrative Bureau" | 江西省商務主管部門 (the Commerce Administrative Bureau of Jiangxi Province, PRC*); |
| "Jiu Jiang Gaofeng" | 九江高豐礦業有限公司 (Jiu Jiang Gaofeng Mining Company Limited*), a limited liability company established in the PRC and wholly owned by HK Gaofeng; |
| "Latest Practicable Date" | 8 September 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein; |
| "Management Agreement" | the management agreement dated 26 March 2009 entered into between Jiu Jiang Gaofeng and Zhang Jia Fan Gold Mine in relation to provision of consultation services to manage the gold mine operated by Zhang Jia Fan Gold Mine, further particulars of the Management Agreement are set out in the paragraph headed "Information on the Target Group" of the "Letter from the Board" of this circular; |
| "Maturity Date" | the second anniversary of the Issue Date; |
| "Option" | the right to request the Vendor to transfer certain shares in HK Gaofeng to Dragon Emperor; |

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| "Option Deed" | the option deed (as supplemented by a supplemental deed dated 2 June 2009) entered into between the Vendor and Dragon Emperor to effectuate the grant of the Option dated 15 May 2009; |
| "PRC" | The People's Republic of China, which for the sole purpose of this circular excludes Hong Kong, Macau Special Administrative Region and Taiwan; |
| "Sale and Purchase Agreement" | the sale and purchase agreement dated 9 June 2009 entered into between Dragon Emperor and the Vendor in relation to the Acquisition and supplemented by two supplemental agreements dated 26 August 2009 and 8 September 2009 respectively; |
| "Sale Shares" | 4,720 shares of HK$1.00 each in the issued share capital of HK Gaofeng; |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); |
| "SGM" | a special general meeting of the Company to be convened to be held at Room 903, Tung Wai Commercial Building, 109–111 Gloucester Road, Wanchai, Hong Kong at 11:30 a.m. on 30 September 2009 by the notice of meeting set forth in this circular or any adjournment of that meeting; |
| "Share(s)" | ordinary share(s) of HK$0.02 each in the issued share capital of the Company; |
| "Shareholder(s)" | holder(s) of Share(s); |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |
| "Substantial Shareholders" | has the meaning ascribed thereto under the GEM Listing Rules; |
| "Takeovers Code" | The Code on Takeovers and Mergers in Hong Kong; |
| "Target Group" | HK Gaofeng and Jiu Jiang Gaofeng; |
| "Valuation Report" | the valuation report prepared by Greater China Appraisal Limited as at 28 April 2009 in respect of 100% interest of the Management Agreement; |

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| "Veda Capital" | Veda Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; |
| "Vendor" | Mr. Wong Chung Pong, Christopher; |
| "Zhang Jia Fan Gold Mine" | 德興市張家畈金礦 (De Xing City Zhang Jia Fan Gold Mine*), a company established in the PRC and, subject to the approval from Jiangxi Commerce Administrative Bureau being obtained, shall be owned as to 81.5% by Jiu Jiang Gaofeng; |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong; |
| "RMB" | Renminbi, the lawful currency of the PRC; and |
| "%" | per cent. |

*In this circular, all amounts in RMB are converted into HK$ at the exchange rate of RMB1.00:HK$1.146. The conversion rate is for the purpose of illustration only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at the aforementioned or any other rates.*

*Certain English translations of Chinese names or words marked with * in this circular are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words.*

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

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8202)**

*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 Director*

*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

11 September 2009

*To the Shareholders*

Dear Sir or Madam,

# MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ISSUED SHARE CAPITAL OF GAOFENG HOLDING CO. LIMITED

## INTRODUCTION

Reference is made to the Announcements.

On 6 May 2009, a sale and purchase agreement in relation to the entire issued share capital of Dragon Emperor was entered into between Ms. Ou Yang Ying, the Vendor and Inno Gold Mine pursuant to which, inter alia, the Vendor agreed to grant to Dragon Emperor the Option.

On 15 May 2009, the Vendor and Dragon Emperor entered into the Option Deed pursuant to which, inter alia, (i) the Vendor granted the Option to Dragon Emperor to request the Vendor to transfer up to 4,720 shares in the capital of HK Gaofeng to Dragon

* *for identification purposes only*

Emperor at a consideration with reference to the Valuation Report; and (ii) the parties agreed that the Vendor shall be appointed the Chief Operating Officer of the Company responsible for the gold mining operation of the Group and shall enter into a service contract at the request of the Company on completion of the Option Deed.

On 10 June 2009, the Board announced that on 9 June 2009, Dragon Emperor exercised the Option by serving a written notice to the Vendor pursuant to the Option Deed. The parties agreed to transfer the Sale Shares in accordance with the terms and subject to the conditions set out in the Sale and Purchase Agreement and entered into the Sale and Purchase Agreement.

The Company has established the Independent Board Committee to give recommendation to the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and voting in respect of the Acquisition. Veda Capital has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with further information of the Acquisition, the recommendation of the Independent Board Committee in relation to the Acquisition, the advice of Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and a notice to convene the SGM to consider and, if thought fit, pass the necessary resolution to approve the Sale and Purchase Agreement and transactions contemplated thereunder.

## THE SALE AND PURCHASE AGREEMENT

Set out below are the details of the Sale and Purchase Agreement:

**Date** : 9 June 2009

**Parties:**

(1) Vendor : Mr. Wong Chung Pong, Christopher

(2) Purchaser : Dragon Emperor, an indirect wholly-owned subsidiary of the Company

**Subject**

Sale Shares, being 4,720 shares in the issued share capital of HK Gaofeng, representing 47.2% of the issued share capital of HK Gaofeng.

**Consideration**

The consideration of HK$75,000,000 is to be satisfied on Completion by the issuance of the Convertible Note by the Company to the Vendor.

The consideration was determined after arm's length negotiation with reference to the Valuation Report in respect of the fair value of the Management Agreement as at 28 April 2009 by Greater China Appraisal Limited, an independent professional valuer, in the amount of RMB140,350,000 (equivalent to approximately HK$160,841,100). Having considered the inference drawn from the Valuation Report that 47.2% interest of the Management Agreement shall amount to approximately RMB66,245,200 (equivalent to approximately HK$75,916,999) and other factors set out in the paragraph headed "Reasons for and benefits of the Acquisition" below, the Directors (including the non-executive Directors) consider that the consideration is fair and is in the interests of the Shareholders as a whole.

**Conditions**

Completion of the Sale and Purchase Agreement is conditional upon:

(a) the passing at the SGM of a the Company of resolution to approve (i) the Sale and Purchase Agreement and the transactions contemplated thereunder in accordance with GEM Listing Rules; and (ii) the issuance and allotment of the Shares upon exercise of the conversion right under the Convertible Note;

(b) completion of the legal and financial due diligence review of the business, affairs, operation and financial position of the Target Group and the due incorporation of, the valid existence of and the power and capacity to carry on the current business by the Target Group to the satisfaction of Dragon Emperor; and

(c) the granting by the Listing Committee of the Stock Exchange of a listing of and permission to deal in the Shares to be issued upon exercise of the conversion right under the Convertible Note.

Dragon Emperor may waive condition (b) at its sole discretion. In the event that any of the conditions are not satisfied or, where permitted, waived on or before 15 October 2009, Dragon Emperor shall not be bound to proceed with the Acquisition.

**Completion**

Subject to the satisfaction or waiver (as the case may be) of the conditions set out below, Completion shall take place on or before 31 October 2009 or such other date as the parties may agree.

**Appointment of the Vendor as Chief Operating Officer**

Upon Completion, the Vendor shall be appointed Chief Operating Officer of the Company responsible for gold mining operation of the Group and a service contract shall be entered into between the Vendor and the Company at the request of the Company upon Completion. Biographical details of the Vendor are set out in Appendix VIII to this circular.

**Major terms of the Convertible Note**

| | | |
|---|---|---|
| Maturity | : | the second anniversary of the Issue Date |
| Interest | : | The Convertible Note shall bear no interest |
| Conversion price | : | HK$0.138 per Share, subject to adjustments in accordance with the terms and conditions of the Convertible Note in the event of share consolidation, share subdivisions, capitalization issues, capital distributions, rights issues of shares, options, warrants or other rights to subscribe for or purchase shares or issue of any other securities arising from a conversion or exchange of other securities |
| Conversion right | : | The holder shall be entitled to convert the principal amount of the Convertible Note into Shares at the Conversion Price |
| Conversion period | : | The conversion right may be exercised by the holder at any time during the period from the Issue Date up to (and excluding) the fifth Business Day immediately before the Maturity Date except:<br><br>(a) during the periods or times in which Directors are prohibited from dealing in Shares under the required standard of dealings of the GEM Listing Rules or any other code(s) on securities dealing restrictions adopted by the Company with similar effect, if the holder is an associate of a Director; and<br><br>(b) in respect of the Convertible Note for which a notice of redemption has been served by the Company to the holder. |
| Redemption | : | The Company shall be entitled to redeem the Convertible Note at the face value of the outstanding principal sum at any time during the conversion period. |
| Settlement on maturity | : | The holder may by giving a notice to the Company not less than six months before the Maturity Date requesting for settlement of the Convertible Note by issue of conversion shares to the holder at the Conversion Price. |

| | | |
|---|---|---|
| Transferability | : | The Convertible Note is freely transferable other than to connected persons of the Company and except in respect of the Convertible Note:<br><br>(a) a conversion notice has been served by the holder on the Company;<br><br>(b) a redemption notice has been served by the Company on the holder; or<br><br>(c) a settlement notice has been served by the holder on the Company. |
| Ranking of conversion shares | : | Shares issued upon conversion shall rank pari passu in all respects with all other shares of the Company in issue as at the date of conversion. |
| Voting rights | : | The holder shall not be entitled to vote at general meeting of the Company. However, the holder is entitled to receive all reports and circular issued by the Company from time to time. |
| Undertaking | : | The holder shall undertake to fully comply with all applicable laws, rules and regulations, including but not limited to the GEM Listing Rules and the Takeovers Code in respect of, among other things, the exercise of its conversion rights under the Convertible Note and acceptance of the Shares to be issued to it upon exercise of such conversion rights. |

**Special Mandate to issue Shares upon Conversion**

543,478,260 Shares shall be issued and allotted upon full exercise of the conversion rights attached to the Convertible Note. Shares to be issued upon conversion of the Convertible Note shall be allotted under a special mandate to be approved at the SGM.

**Conversion Price**

The Conversion Price represents a premium of about 26.6% to the closing price per Share quoted under the daily quotation sheet of the Stock Exchange on 9 June 2009, being the date of the Sale and Purchase Agreement; and a premium of about 41.98% over the average closing price per Share quoted under the daily quotation sheet of the Stock Exchange for the five trading days ending on 9 June 2009.

## INFORMATION ON THE TARGET GROUP

HK Gaofeng is a company incorporated in Hong Kong with limited liability on 25 March 2004.

On 6 May 2009, Inno Gold Mine entered into a sale and purchase agreement with the Vendor and Ms. Ou Yang Ying pursuant to which Inno Gold Mine agreed to acquire the entire issued share capital of Dragon Emperor which was interested in 13.6% of the issued share capital of HK Gaofeng. On the same day, Inno Gold Mine entered into a sale and purchase agreement with the Vendor pursuant to which Inno Gold Mine agreed to acquire 1.8% of the issued share capital of HK Gaofeng. Completion of the two sale and purchase agreements took place on 15 May 2009 and Inno Gold Mine became interested in an aggregate of 15.4% of HK Gaofeng.

As at the Latest Practicable Date, HK Gaofeng is owned as to 13.6% by Dragon Emperor, as to 1.8% by Inno Gold Mine and as to 84.6% by the Vendor.

Upon Completion, HK Gaofeng will be owned as to 60.8% by Dragon Emperor, as to 1.8% by Inno Gold Mine and as to 37.4% by the Vendor. As at the Latest Practicable Date, HK Gaofeng is interested in the entire equity interests in Jiu Jiang Gaofeng. Jiu Jiang Gaofeng is a limited liability company established in the PRC on 15 July 2004. The scope of business of Jiu Jiang Gaofeng is sale and purchase of dolomite, investment, consultation and mining engineering technical consultation.

In April 2009, Jiu Jiang Gaofeng agreed to acquire an aggregate of 81.5% equity interests in Zhang Jia Fan Gold Mine. Subject to the approval from Jiangxi Commerce Administrative Bureau being obtained, Jiu Jiang Gaofeng would be interested in 81.5% of the equity interests in Zhang Jia Fan Gold Mine. As at the Latest Practicable Date, the approval from Jiangxi Commerce Administrative Bureau has not been obtained. Completion of the acquisition of 81.5% equity interests in Zhang Jia Fan Gold Mine by Jiu Jiang Gaofeng is not a condition precedent to Completion.

Zhang Jia Fan Gold Mine is a shareholding cooperative company established under the laws of the PRC on 18 July 1996 and is engaged in the business of operating gold mines, mineral flotation and excavation in the PRC. It started its formal operation in February 2009. The major asset of Zhang Jia Fan Gold Mine is its mining right in respect of a gold mine located in De Xing Shi of Jiangxi Province, PRC covering a mining area of 0.4970 $km^2$. Zhang Jia Fan Gold Mine held a mining right approval (No. 3600000830028) with the effective period from January 2008 to January 2010 and was approved to carry on excavation of gold mine by underground mining method. According to the Valuation Report which constitutes profit forecast under the GEM Listing Rules, the overall estimated amount of resources of gold of Zhang Jia Fan Gold Mine is 1,014,895t and the value of expected EBITDA of Zhang Jia Fan Gold Mine as at 28 April 2009 was RMB172,208,459 (equivalent to approximately HK$197,350,894). The mining reserves of

Zhang Jia Fan Gold Mine were classified as 333 and 334 materials under the New Chinese Resources Classification Scheme. The Board confirmed that the Valuation Report was based on the following operational and macro-economic and macro-political assumptions made by them after due and careful enquiry:

a. Zhang Jia Fan Gold Mine will be able to retain its existing competent management, technical and operational staff and at the same time to recruit new experienced personnel to join its management, technical and operational teams so as to ensure the smooth and safe operation and continuing growth of its mining business;

b. There would not be any introduction of any new law or regulation in the PRC or any change in existing laws or regulations in the PRC or other occurrence of any nature whatsoever which may materially and adversely affect the business or the financial or trading position of Zhang Jia Fan Gold Mine;

c. No occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing) of a political, military, financial, economic, currency or other nature, or in the nature of any local, national, international outbreak or escalation of hostilities which may materially and adversely affect the business or the financial or trading position or prospects of Zhang Jia Fan Gold Mine; and

d. Zhang Jia Fan Gold Mine will not commit any breach of or omits to observe any of the obligations and other requirements pursuant to relevant laws and regulations of the PRC.

The Directors have taken the following steps so as to ensure the assumptions made by Greater China Appraisal Limited are reasonable and those made by them are made after due and careful enquiry:

a. Conducting site visit to the mining area of Zhang Jia Fan Gold Mine and attending meetings with existing management and operational staff of Zhang Jia Fan Gold Mine so as to have a general overview of the management and operation of Zhang Jia Fan Gold Mine and to formulate its business plan;

b. Attending meetings and telephone conferences with geologists, legal and accounting experts, mining operators and mining technical experts in the PRC so as to (i) understand and evaluate the reasonableness of the operational inputs required for the preparation of the Feasibility Report and the Valuation Report including the cost of sales, other operational expenses and mining capacity; and (ii) understand the legal and regulatory frameworks for operating mining business in the PRC; and

c. Obtaining a legal opinion from the Company's PRC legal advisers that the mining right of Zhang Jia Fan Gold Mine is valid and subsisting under the laws of PRC and free from any encumbrances and the operation of mining business by Zhang Jia Fan Gold Mine is within the scope of business as approved by the relevant PRC authority.

In order to enable Jiu Jiang Gaofeng to enjoy the economic benefits derived from Zhang Jai Fan Gold Mine in consideration for the consultation and management services provided to Zhang Jia Fan Gold Mine by Jiu Jiang Gaofeng, Jiu Jiang Gaofeng and Zhang Jia Fan Gold Mine entered into the Management Agreement on 26 March 2009 pursuant to which Jiu Jiang Gaofeng agreed to provide Zhang Jia Fan Gold Mine with certain consultation services in relation to the management of the gold mine operated by Zhang Jia Fan Gold Mine at a consideration of 81.5% of the annual sale profit of Zhang Jia Fan Gold Mine. The Management Agreement does not provide for sharing of any loss of Zhang Jia Fan Gold Mine. The parties agreed that Jiu Jiang Gaofeng will be responsible for designing the overall business plan of Zhang Jia Fan Gold Mine which will cover mineral exploitation, processing, marketing, management and supervision of the operation of Zhang Jia Fan Gold Mine. The Management Agreement came into effect from 26 March 2009 until being terminated automatically upon the approval of Jiangxi Commerce Administrative Bureau in relation to the acquisition of 81.5% equity interest in Zhang Jia Fan Gold Mine by Jiu Jiang Gaofeng has been obtained. In the event that the approval from Jiangxi Commerce Administrative Bureau could not be obtained, the Management Agreement will continue to subsist in accordance with its terms.

Other services provided by Jiu Jaing Gaofeng under the Management Agreement include:

(a) assisting Zhang Jia Fan Gold Mine in bringing the latest gold mining technologies;

(b) providing Zhang Jia Fan Gold Mine with information regarding the domestic and international mining industry;

(c) providing Zhang Jia Fan Gold Mine with hedging expertise and relevant management service;

(d) assigning qualified representatives to Zhang Jia Fan Gold Mine to assist its day-to-day operation, as well as its business development strategy; and

(e) providing training to the employees of Zhang Jia Fan Gold Mine in relation to the mining operation.

The Board believes that the management arrangement is in the interests of the Company and Shareholders as a whole and that management of the Zhang Jia Fan Gold Mine shall act in the best interests of the Company because the Target Group would have a right to direct and administer the operation, management and personnel of Zhang Jia Fan Gold Mine pursuant to the Management Agreement through the following means: (i) Zhang Jia Fan Gold Mine shall not dispose of, or enter into any agreement to dispose of, or otherwise create any encumbrances on its mining right and the land use right of the mining area without the consent of Jiu Jiang Gaofeng; (ii) Zhang Jia Fan Gold Mine shall strictly follow the business plan prepared by Jiu Jiang Gaofeng once the business plan has been confirmed; (iii) Zhang Jia Fan Gold Mine shall authorize Jiu Jiang Gaofeng or nominee of Jiu Jiang Gaofeng to execute agreements in relation to gold exploitation, supply, processing and sale on its behalf when it is necessary for the implementation of the management plan designed by Jiu Jiang Gaofeng; and (iv) Jiu Jiang Gaofeng shall assign representatives to involve in the operation of Zhang Jia Fan Gold Mine when necessary.

Pursuant to the Management Agreement, the Company obtains the right to direct and administer the management, operation and personnel of Zhang Jia Fan Gold Mine but not voting rights at its shareholders' meetings. On this basis, control over Zhang Jia Fan Gold Mine could not be established and Zhang Jia Fan Gold Mine would not be regarded as a subsidiary of the Company. It is against the accounting perspective to consolidate the accounts of Zhang Jia Fan Gold Mine into the accounts of the Group as at the Latest Practicable Date.

After completion of the acquisition of 81.5% equity interests in Zhang Jia Fan Gold Mine and after Completion of the Sale and Purchase Agreement, Zhang Jia Fan Gold Mine will be directly owned as to 81.5% by Jiu Jiang Gaofeng and indirectly owned as to approximately 51% by the Company. On this basis, the Company will then consolidate the assets, liabilities and results of Zhang Jia Fan Gold Mine into its accounts.

In the event that the acquisition of 81.5% equity interests in Zhang Jia Fan Gold Mine is not approved, HK Gaofeng will remain to be a holding company of Jiu Jiang Gaofeng. Jiu Jiang Gaofeng will continue to engage in its business of providing mining engineering technical consultation services and will continue to provide management and consultation services to Zhang Jia Fan Gold Mine pursuant to the Management Agreement.

As the sole founder of HK Gaofeng, the Vendor paid up the issued share capital of HK Gaofeng of HK$10,000 and provided a shareholder's loan in the amount of approximately HK$19,914,000. On this basis, the original cost of the Sale Shares, which represent 47.2% of the issued share capital of HK Gaofeng, to the Vendor would be HK$4,720.

The audited consolidated net loss of HK Gaofeng for the period from 1 January 2007 to 31 December 2007 and the period from 1 January 2008 to 31 March 2009 were approximately HK$840,000 and approximately HK$1,966,000 respectively. The audited consolidated net liabilities of HK Gaofeng as at 31 March 2009 was HK$2,546,000.

The audited net loss of Zhang Jia Fan Gold Mine for the period from 1 January 2007 to 31 December 2007 and the period from 1 January 2008 to 31 March 2009 were approximately HK$4,050,000 and approximately HK$5,730,000 respectively.

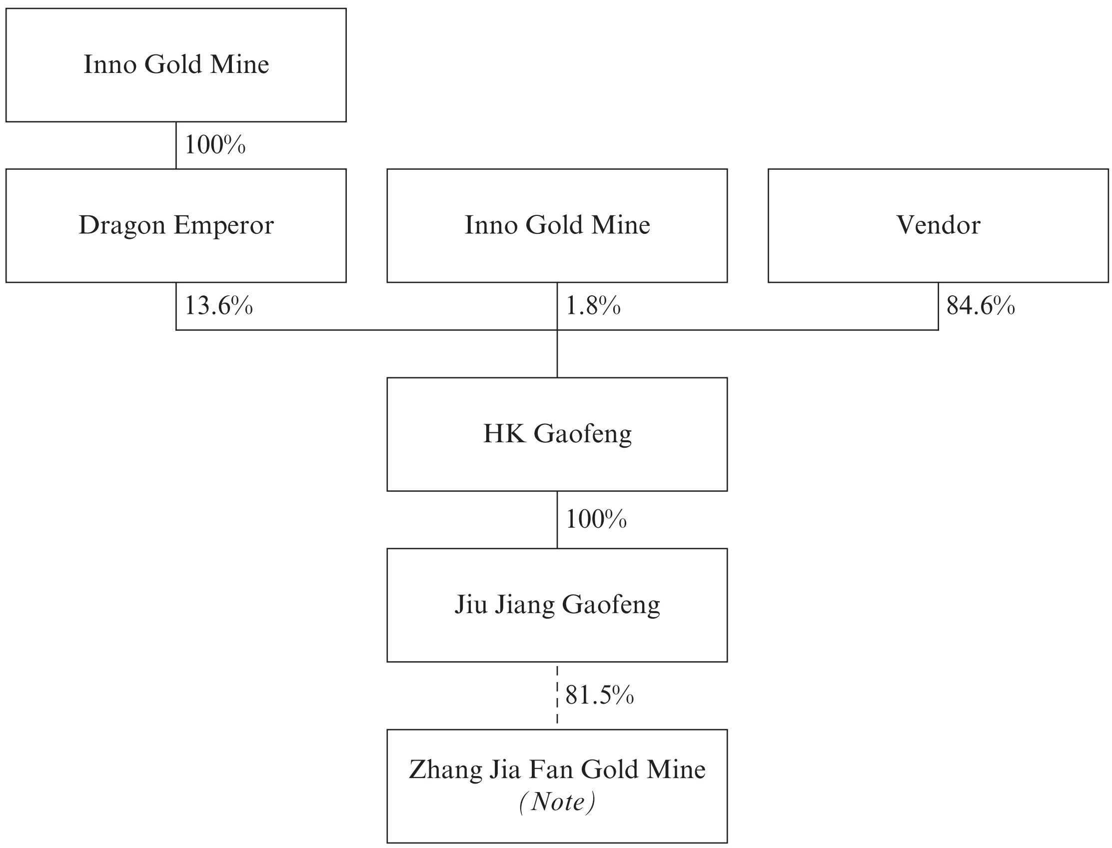
The Directors noted the opinion of Lo and Kwong C.P.A. Company Limited contained in Appendix IV to this circular that there is an existence of a material uncertainty which may cast significant doubt about Zhang Jia Fan Gold Mine's ability to continue as a going concern. The Directors are of the view that the unsatisfactory historical financial results of Zhang Jia Fan Gold Mine were caused by the significant amount of expenses and costs incurred by the exploration program and feasibility study of the mining area and that Zhang Jia Fan Gold Mine has just started trial mill production. The Directors also believe that when Zhang Jia Fan Gold Mine starts its full operation in around September 2009, the financial results of Zhang Jia Fan Gold Mine would be significantly improved. Besides, in view of the new policy recently issued by Jiangxi Bureau of Geological Exploration and Exploration of Mineral Resources which is in favour of the mining industry and encourages local mining companies to expand its mining perimeter and depth, the Directors believe that there is a good prospect in the mining industry in PRC and the future profitability of Zhang Jia Fan Gold Mine will be improved.

The Directors noted the opinion of Lo and Kwong C.P.A. Company Limited contained in Appendix III to this circular that there is an existence of a material uncertainty which may cast significant doubt about HK Gaofeng's ability to continue as a going concern. The Directors are of the view that as a result of improvement of profitability of Zhang Jia Fan Gold Mine, as mentioned above, HK Gaofeng and Jiu Jiang Gaofeng will generate profit by the provision of management and consultation services to Zhang Jia Fan Gold Mine pursuant to the Management Agreement after Zhang Jia Fan Gold Mine starts its full operation in around September 2009.

Upon Completion, HK Gaofeng will be owned as to 62.6% by the Group and will become a subsidiary of the Company.

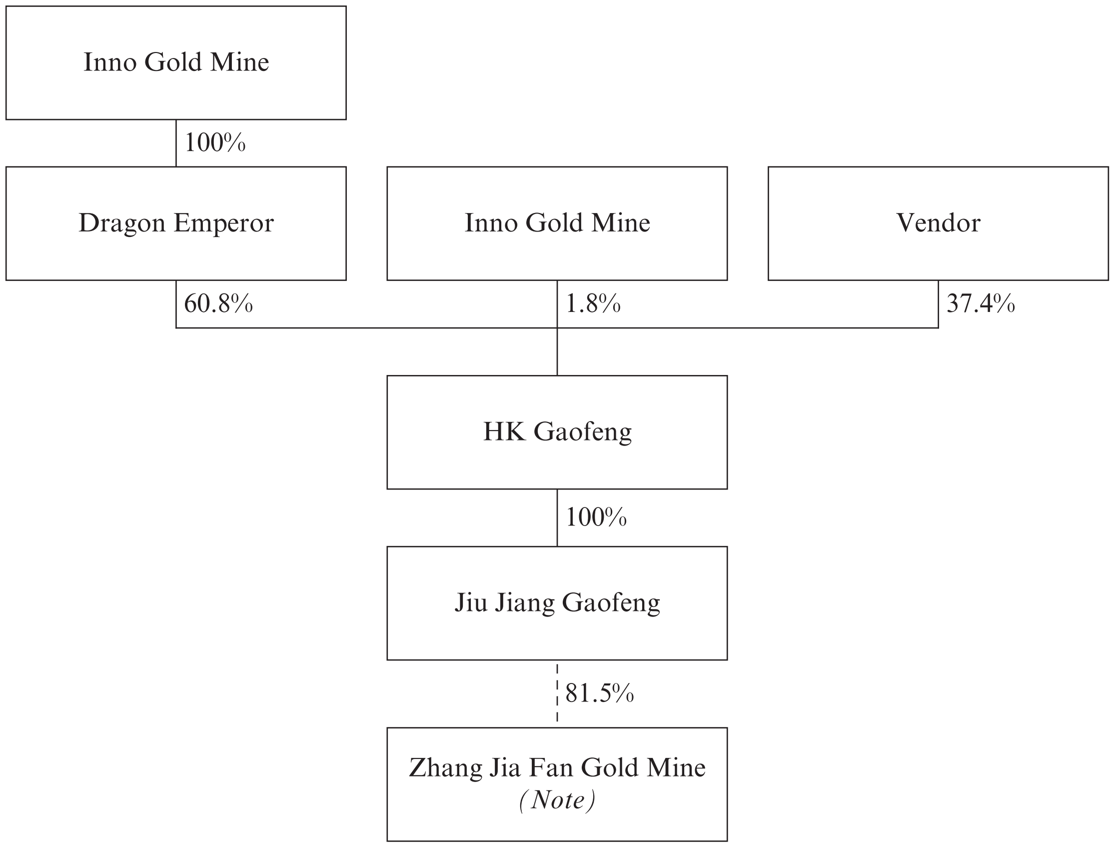
## GROUP STRUCTURE BEFORE AND AFTER COMPLETION OF THE SALE AND PURCHASE AGREEMENT

**Before Completion of the Sale and Purchase Agreement:**




*Note:* In April 2009, Jiu Jiang Gaofeng agreed to acquire an aggregate of 81.5% equity interests in Zhang Jia Fan Gold Mine. Subject to the approval from Jiangxi Commerce Administrative Bureau being obtained, Jiu Jiang Gaofeng would be interested in 81.5% of the equity interests in Zhang Jia Fan Gold Mine. As at the Latest Practicable Date, the approval from Jiangxi Commerce Administrative Bureau has not been obtained.

**After Completion of the Sale and Purchase Agreement:**




*Note:* In April 2009, Jiu Jiang Gaofeng agreed to acquire an aggregate of 81.5% equity interests in Zhang Jia Fan Gold Mine. Subject to the approval from Jiangxi Commerce Administrative Bureau being obtained, Jiu Jiang Gaofeng would be interested in 81.5% of the equity interests in Zhang Jia Fan Gold Mine. As at the Latest Practicable Date, the approval from Jiangxi Commerce Administrative Bureau has not been obtained.

## REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is a software application solutions provider engaged in the provision of internet design for residential communities and e-property management software application consulting services based on the application of i-Panel and its integrated hardware and software in the PRC. The Group has recently completed the acquisition of an interest in a company that manages gold mine in the PRC. The Company has on 10 June 2009 announced its intention to acquire a majority interest in that company. It was further announced by the Board on 18 June 2009 that Inno Gold Mine entered into a memorandum of understanding with Right Gold Limited in relation to the proposed acquisition of part or whole of the issued share capital of a gold mine holding company.

The Group, through Inno Gold Mine and Dragon Emperor, became interested in an aggregate of 15.4% shareholding interests in HK Gaofeng pursuant to two sale and purchase agreements dated 6 May 2009 which had been completed on 15 May 2009.

As stated in the 2008 annual report of the Company, it has been the corporate strategy of the Group to strengthen its existing business, and at the same time identifying and capitalising new opportunities to achieve the financial growth for the Company and to maximise Shareholders' value. The Directors are of the view that the proposed Acquisition will enable the Group to enjoy the synergy brought about by (1) applying and further developing the Group's existing i-Panel and its integrated hardware and software solutions in the management control, financial and cost control, exploitation and excavation of gold mines operated by the Target Group; (2) developing new software solutions to ensure efficient and safe exploitation and excavation tailor-made for gold mines in the PRC based on the Group's experience in software research and development; and (3) acquiring further shareholding stake in the promising mineral business sector which would help diversifying the Group's business streams and improving the financial results of the Group. The Group intends to look for further suitable opportunities in the mining industry to widen its business and revenue streams in the future.

In view of the above potential benefits and synergies, the Directors (including the non-executive Directors) consider that the terms and conditions of the Acquisition are fair and reasonable and on normal commercial terms, and are in the interests of the Shareholders as a whole.

## FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

After the Acquisition, HK Gaofeng will be accounted for as a subsidiary of the Company and its accounts will be consolidated into the Group's accounts. Save for the fact that 81.5% of the annual sale profit of Zhang Jia Fan Gold Mine will be consolidated into the accounts of the Group, the Acquisition is not expected to have material effect on earnings of the Group.

With reference to the unaudited net asset value of the Group of approximately HK$375.3 million as at 31 December 2008 and based on the unaudited pro forma consolidated asset and liabilities of the Enlarged Group as set out in Appendix IV to this circular, the Acquisition will increase the Group's unaudited consolidated non-current asset value by approximately HK$182.6 million to approximately HK$408.1 million and increase the unaudited consolidated non-current liabilities by approximately HK$105.8 million, to approximately HK$135.3 million. Taking into account the relevant costs and expenses incurred by the Group, the Acquisition will increase the unaudited consolidated net asset value of the Enlarged Group to approximately HK$447.0 million. The Acquisition will increase the administrative expenses of the Enlarged Group by approximately HK$1.97 million.

The Acquisition will not result in change in control of the Company.

## GEM LISTING RULES IMPLICATIONS

Since the Vendor, who will be interested in 37.4% of HK Gaofeng and will be appointed Chief Operating Officer responsible for the gold mining operation of the Company, will become a controller upon Completion, the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a connected transaction for the Company under Rule 20.13(1)(b)(i) of the GEM Listing Rules.

Before entering into the Sale and Purchase Agreement and within 12 months from the Latest Practicable Date, the Group has entered into two sale and purchase agreements in relation to acquisition of certain equity interests in the Target Group that would require aggregation with the Acquisition as if they were one transaction under Rule 20.25 of the GEM Listing Rules. Accordingly, the relevant percentage ratios (other than the profits ratio) in respect of the Acquisition, when aggregated with the previous acquisitions set out in the Announcements, are more than 25% but less than 100%. The Acquisition constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the reporting, announcement and independent shareholder's approval requirements under the GEM Listing Rules.

## EFFECT ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon full exercise of the conversion rights under the Convertible Note at the Conversion Price; and (iii) upon full exercise of the conversion rights under all convertible notes issued by the Company and the Convertible Note are set out below:

| | **Shareholding as at the Latest Practicable Date** | | **Upon full exercise of the conversion rights under the Convertible Note** | | **Upon full exercise of the conversion rights under all convertible notes issued by the Company** *(Notes 5 and 6)* | |
|---|---|---|---|---|---|---|
| | *Number of Shares* | *Approximate Percentage (%)* | *Number of Shares* | *Approximate Percentage (%)* | *Number of Shares* | *Approximate Percentage (%)* |
| ***Substantial Shareholders and parties acting in concert with them*** *(Note 4)* | | | | | | |
| Multiturn Trading Limited *(Note 1)* | 94,362,000 | 4.08 | 94,362,000 | 3.31 | 94,362,000 | 2.99 |
| Capital Base Holdings Limited *(Note 2)* | 25,564,263 | 1.11 | 25,564,263 | 0.90 | 324,435,736 | 10.29 |
| Ms. Wong Yuen Yee *(Note 3)* | 155,030,597 | 6.71 | 155,030,597 | 5.43 | 155,030,597 | 4.92 |
| Mr. Wong Yao Wing, Robert *(Note 3)* | 145,070,596 | 6.28 | 145,070,596 | 5.08 | 145,070,596 | 4.60 |
| Mr. Wong Kwok Sing *(Note 3)* | 7,678,500 | 0.33 | 7,678,500 | 0.27 | 7,678,500 | 0.24 |
| Mr. Lam Shiu San *(Note 3)* | 6,018,500 | 0.26 | 6,018,500 | 0.21 | 6,018,500 | 0.19 |
| Ms. Wong Yuen Man, Alice *(Note 1)* | 12,375 | 0.00 | 12,375 | 0.00 | 12,375 | 0.00 |
| **Subtotal:** | 433,736,831 | 18.77 | 433,736,831 | 15.20 | 732,608,304 | 23.23 |
| Vendor *(Note 7)* | 48,487,866 | 2.10 | 591,966,126 | 20.73 | 591,966,126 | 18.77 |
| Other Public Shareholders | 1,829,410,980 | 79.13 | 1,829,410,980 | 64.07 | 1,829,410,980 | 58.00 |
| **Total:** | 2,311,635,677 | 100 | 2,855,113,937 | 100 | 3,153,985,410 | 100 |

*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 Yao Wing, Robert, Mr. Wong Kwok Sing and Mr. Lam Shiu San respectively. Ms Wong Yuen Man, Alice is the sister of Ms. Wong Yuen Yee.

2. Capital Base Holdings Limited is beneficially owned as to 50% by Ms. Wong Yuen Yee and as to 50% by Mr. Wong Kwok Sing.

3. Ms. Wong Yuen Yee, Mr. Wong Yao Wing, Robert, Mr. Wong Kwok Sing and Mr. Lam Siu San are Directors.

4. As at the Latest Practicable Date, Substantial Shareholders and parties acting in concert with them together have been granted but not yet exercised options to subscribe for 43,991,873 Shares. Full exercise of their respective subscription rights under such options immediately after the exercise of

the conversion rights under the Convertible Note in full, will result in the Substantial Shareholders and parties acting in concert with them having acquired interest in approximately 16.48% of the issued share capital of the Company (assuming no other Shares are issued).

5. On 28 February 2009, the Company issued convertible notes with the principal amount of HK$43,384,000 as consideration for acquisition of assets. The convertible notes, with maturity date of 28 February 2011, are convertible into Shares at an initial conversion price of HK$0.0638 per Share during the conversion period. As at the Latest Practicable Date, the principal amount of HK$24,316,000 of the convertible notes has been converted into Shares and the balance of the principal amount of the convertible notes is HK$19,068,000.

6. It is a term in all the convertible notes issued by the Company that the noteholder could revoke the conversion notice and cash will be paid by the Company if (i) an obligation to make a mandatory general offer for all the Shares other than those already owned by it and parties acting in concert with it under the Takeovers Code will be triggered as a result of its exercise of the conversion rights pursuant to the relevant conversion notice; and (ii) application to the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (the "**Executive**") for waiver of an obligation to make the mandatory general offer under the Takeovers Code (the "**Whitewash Waiver**") has been made and the Whitewash Waiver is not granted by the Executive.

7. Upon full exercise of the conversion rights under the Convertible Note and upon full exercise of the conversion rights under all convertible notes issued by the Company, the Vendor will be interested in approximately 20.73% and approximately 18.77% of the then issued share capital of the Company and will become a substantial shareholder.

## GENERAL

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued upon the exercise of the conversion rights under the Convertible Note.

## SGM

A notice convening the SGM at which resolutions will be proposed to consider, and if thought fit, to approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement to be held at Room 903, Tung Wai Commercial Building, 109–111 Gloucester Road, Wanchai, Hong Kong on 30 September 2009 at 11:30 a.m., is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you are able to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying from of proxy will not preclude you from attending and voting at the meeting should you so wish.

As the Vendor has material interest in the Acquisition, he will be required to abstain from voting in respect of the resolution approving the Sale and Purchase Agreement at the SGM under the GEM Listing Rules. As at the Latest Practicable Date, the Vendor is interested in 48,487,866 Shares, representing approximately 2.10% of the issued share capital of the Company.

## PROCEDURES TO DEMAND A POLL

Pursuant to Bye-Law 66 of the Bye-Laws of the Company, a poll may be demanded in relation to any resolution put to the vote of the SGM before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll. A poll may be demanded:

(a) by the chairman of the SGM; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy for the use for the time being entitled to vote at the SGM; or

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the SGM; or

(d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and holding Shares conferring a right to vote at the SGM being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

In accordance with the requirements of the GEM Listing Rules, the resolution in relation to the Acquisition to be put forward at the SGM will be voted by the Independent Shareholders by poll.

## RECOMMENDATIONS

The Board believes that the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolution in relation to the Acquisition.

## ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
For and on behalf of
**INNO-TECH HOLDINGS LIMITED**
**Wong Yuen Yee**
*Chairman*

*The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition prepared for the purpose of inclusion in this circular.*

VEDA | CAPITAL
智略資本

**Veda Capital Limited**
Suite 1302, 13/F, Takshing House
20 Des Voeux Road Central
Hong Kong

11 September 2009

*To the Independent Board Committee and the Independent Shareholders of*
*Inno-Tech Holdings Limited*

Dear Sirs,

# MAJOR AND CONNECTED TRANSACTION

## INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and the reasonableness of the terms of the Sale and Purchase Agreement, details of which are set out in the circular to the Shareholders dated 11 September 2009 (the "**Circular**"), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

On 6 May 2009, Inno Gold Mine, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "**First Acquisition Agreement**") to acquire the entire issued share capital of Dragon Emperor at a total consideration of HK$21,636,364 (the "**First Acquisition**"). Pursuant to the First Acquisition Agreement, Dragon Emperor was granted the Option to request the Vendor to transfer certain shares in HK Gaofeng to Dragon Emperor so that Dragon Emperor's shareholding interests in HK Gaofeng shall increase to not more than 51%. On the same day, Inno Gold Mine has also entered into another sale and purchase agreement (the "**Second Acquisition Agreement**") to acquire 1.8% of the issued share capital of HK Gaofeng at a consideration of HK$2,863,636 (the "**Second Acquisition**"). The First Acquisition and Second Acquisition were both completed on 15 May 2009.

On 15 May 2009, the Vendor and Dragon Emperor entered into the Option Deed pursuant to which, inter alia, (i) the Vendor granted the Option to Dragon Emperor to request the Vendor to transfer up to 4,720 shares in the capital of HK Gaofeng to Dragon Emperor at a consideration with reference to the Valuation Report; and (ii) the parties agreed that the Vendor shall be appointed the Chief Operating Officer of the Company responsible for the gold mining operation of the Group and shall enter into a service contract at the request of the Company on completion of the Option Deed. On 10 June 2009, the Board announced that on 9 June 2009, Dragon Emperor exercised the Option by serving a written notice to the Vendor pursuant to the Option Deed. The parties agreed to transfer the Sale Shares in accordance with the terms and subject to the conditions set out in the Sale and Purchase Agreement and entered into the Sale and Purchase Agreement.

Since the Vendor, who will be interested in 37.4% of HK Gaofeng and will be appointed as Chief Operating Officer responsible for the gold mining operation of the Company, will become a controller upon Completion, the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a connected transaction for the Company under Rule 20.13(1)(b)(i) of the GEM Listing Rules. Before entering into the Sale and Purchase Agreement and within 12 months prior to the Latest Practicable Date, the Group has entered into two sale and purchase agreements in relation to the First Acquisition and the Second Acquisition that would require aggregation with the Acquisition as if they were one transaction under Rule 20.25 of the GEM Listing Rules. Accordingly, the relevant percentage ratios (other than the profits ratio) in respect of the Acquisition, when aggregated with the previous acquisitions set out in the Announcements, are more than 25% but less than 100%. The Acquisition constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the reporting, announcement and independent shareholder's approval requirements under the GEM Listing Rules.

The Independent Board Committee, comprising Mr. Wong Tak Leung, Charles, Mr. Lai Ying Sum and Mr. Cheng King Hung, has been established to advise the Independent Shareholders as to (i) whether the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the terms of the Sale and Purchase Agreement are in the interests of the Company and the Independent Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the Sale and Purchase Agreement at the SGM. The appointment of Veda Capital has been approved by the Independent Board Committee.

## BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in the Circular and information provided to us by the Company and its Director(s). We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company and the Director(s), for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the date of the SGM. We have also assumed that all statements of belief, opinion and intention made by the Director(s) in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Director(s) and have been confirmed by the Director(s) that no material facts and representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Director(s) and management of the Company. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendation regarding the Sale and Purchase Agreement.

**PRINCIPAL FACTORS AND REASONS CONSIDERED**

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Sale and Purchase Agreement, we have taken into consideration the following factors and reasons:

**1. Information on the Target Group**

As set out in the Letter from the Board in the Circular (the "**Board Letter**"), HK Gaofeng is a company incorporated in Hong Kong with limited liability on 25 March 2004. As at the Latest Practicable Date, HK Gaofeng is owned as to 13.6% by Dragon Emperor, as to 1.8% by Inno Gold Mine and as to 84.6% by the Vendor. Upon Completion, HK Gaofeng will be owned as to 60.8% by Dragon Emperor, as to 1.8% by Inno Gold Mine and as to 37.4% by the Vendor. As at the Latest Practicable Date, HK Gaofeng is interested in the entire equity interests in Jiu Jiang Gaofeng which is a limited liability company established in the PRC on 15 July 2004 and its scope of business is sale and purchase of dolomite, investment, consultation and mining engineering technical consultation. As advised by the Company, for the period from 1 January 2007 to 31 March 2009, HK Gaofeng and Jiu Jiang Gaofeng were dormant.

In April 2009, Jiu Jiang Gaofeng agreed to acquire an aggregate of 81.5% equity interests in Zhang Jia Fan Gold Mine. Subject to the approval from Jiangxi Commerce Administrative Bureau being obtained, Jiu Jiang Gaofeng would be interested in 81.5% of the equity interests in Zhang Jia Fan Gold Mine. As at the Latest Practicable Date, the approval from Jiangxi Commerce Administrative Bureau has not been obtained. Completion of the acquisition of 81.5% equity interest in Zhang Jia Fan Gold Mine by Jiu Jiang Gaofeng is not a condition precedent to Completion.

Zhang Jia Fan Gold Mine is a shareholding cooperative company established under the laws of the PRC on 18 July 1996 and is engaged in the business of operating gold mines, mineral flotation and excavation in the PRC. It started its formal operation in February 2009. The major asset of Zhang Jia Fan Gold Mine is its mining right in respect of a gold mine located in De Xing Shi of Jiangxi Province, PRC covering a mining area of 0.4970 $km^2$. Zhang Jia Fan Gold Mine held a mining right approval (No. 3600000830028) with the effective period from January 2008 to January 2010 and was approved to carry on excavation of gold mine by underground mining method. We note from the Valuation Report that Zhang Jia Fan Gold Mine has the right to renew it until all reserves in the Zhang Jia Fan Gold Mine is exhausted. As set out in the Board Letter, according to the Valuation Report, the overall estimated amount of resources of gold of Zhang Jia Fan Gold Mine is 1,014,895t and the value of the expected EBITDA of Zhang Jia Fan Gold Mine as at 28 April 2009 was

RMB172,208,459 (equivalent to approximately HK$197,350,894). The mining reserves of Zhang Jia Fan Gold Mine were classified as 333 and 334 materials under the New Chinese Resources Classification Scheme. As set out in the Board Letter, the Board confirmed that the Valuation Report was based on operational, macro-economic and macro-political assumptions as set out in the Board Letter made by them after due and careful enquiry.

As set out in the Board Letter, in order to enable Jiu Jiang Gaofeng to enjoy the economic benefits derived from Zhang Jai Fan Gold Mine in consideration for the consultation and management services provided to Zhang Jia Fan Gold Mine by Jiu Jiang Gaofeng, Jiu Jiang Gaofeng and Zhang Jia Fan Gold Mine entered into the Management Agreement on 26 March 2009 pursuant to which Jiu Jiang Gaofeng agreed to provide Zhang Jia Fan Gold Mine with certain consultation services in relation to the management of the gold mine operated by Zhang Jia Fan Gold Mine at a consideration of 81.5% of the annual sale profit of Zhang Jia Fan Gold Mine. The Management Agreement does not provide for sharing of any loss of Zhang Jia Fan Gold Mine. The parties agreed that Jiu Jiang Gaofeng will be responsible for designing the overall business plan of Zhang Jia Fan Gold Mine, which will cover mineral exploitation, processing, marketing, management and supervision of the operation of Zhang Jia Fan Gold Mine. The Management Agreement came into effect from 26 March 2009 until being terminated automatically upon the approval of Jiangxi Commerce Administrative Bureau in relation to the acquisition of 81.5% equity interest in Zhang Jia Fan Gold Mine by Jiu Jiang Gaofeng has been obtained. In the event that the approval from Jiangxi Commerce Administrative Bureau could not be obtained, the Management Agreement will continue to subsist in accordance with its terms.

Other services provided by Jiu Jaing Gaofeng under the Management Agreement include:

(a) assisting Zhang Jia Fan Gold Mine in bringing the latest gold mining technologies;

(b) providing Zhang Jia Fan Gold Mine with information regarding the domestic and international mining industry;

(c) providing Zhang Jia Fan Gold Mine with hedging expertise and relevant management service;

(d) assigning qualified representatives to Zhang Jia Fan Gold Mine to assist its day-to-day operation, as well as its business development strategy; and

(e) providing training to the employees of Zhang Jia Fan Gold Mine in relation to the mining operation.

The Board believes that the management arrangement is in the interests of the Company and Shareholders as a whole and that the management of the Zhang Jia Fan Gold Mine shall act in the best interests of the Company because Jiu Jiang Gaofeng would have a right to direct and administer the operation, management and personnel of Zhang Jia Fan Gold Mine pursuant to the Management Agreement through the following means: (i) Zhang Jia Fan Gold Mine shall not dispose of, or enter into any agreement to dispose of, or otherwise create any encumbrances on its mining right and the land use right of the mining area without the consent of Jiu Jiang Gaofeng; (ii) Zhang Jia Fan Gold Mine shall strictly follow the business plan prepared by Jiu Jiang Gaofeng once the business plan has been confirmed; (iii) Zhang Jia Fan Gold Mine shall authorize Jiu Jiang Gaofeng or nominee of Jiu Jiang Gaofeng to execute agreements in relation to gold exploitation, supply, processing and sale on its behalf when it is necessary for the implementation of the management plan designed by Jiu Jiang Gaofeng; and (iv) Jiu Jiang Gaofeng shall assign representatives to involve in the operation of Zhang Jia Fan Gold Mine when necessary. As set out in the Board Letter, no voting rights of Zhang Jia Fan Gold Mine could be obtained pursuant to the Management Agreement.

Although the Company cannot obtain voting rights in Zhang Jia Fan Gold Mine through the Management Agreement, in view that the Management Agreement allows Jiu Jiang Gaofeng to (i) have a right to direct and administer the operation, management and personnel of Zhang Jia Fan Gold Mine as mentioned above; and (ii) enjoy 81.5% of the annual sale profit from Zhang Jia Fan Gold Mine even if the approval from Jiangxi Commerce Administrative Bureau in relation to the acquisition of 81.5% equity interest in Zhang Jia Fan Gold Mine by Jiu Jiang Gaofeng has not been obtained, we concur with the Board that the management arrangement under the Management Agreement is in the interests of the Company and the Shareholders as a whole and that the management of the Zhang Jia Fan Gold Mine will act in the interests of the Company.

After completion of the acquisition of 81.5% equity interest in Zhang Jia Fan Gold Mine and after Completion, Zhang Jia Fan Gold Mine will be directly owned as to 81.5% by Jiu Jiang Gaofeng and indirectly owned as to approximately 51% by the Company. On this basis, the Company will then consolidate the assets, liabilities and results of Zhang Jia Fan Gold Mine into its accounts.

In the event that the acquisition of 81.5% equity interests in Zhang Jia Fan Gold Mine is not approved, HK Gaofeng will remain to be a holding company of Jiu Jiang Gaofeng. Jiu Jiang Gaofeng will continue to engage in its business of providing mining engineering technical consultation services and will continue to provide management and consultation services to Zhang Jia Fan Gold Mine pursuant to the Management Agreement.

As the sole founder of HK Gaofeng, the Vendor paid up the issued share capital of HK Gaofeng of HK$10,000 and provided a shareholder's loan in the amount of approximately HK$19.91 million. On this basis, the original cost of the Sale Shares, which represent 47.2% of the issued share capital of HK Gaofeng, to the Vendor would be HK$4,720.

Based on the financial information set out in Appendices III and IV in the Circular, the following tables set out the turnover and net loss of HK Gaofeng and Zhang Jia Fan Gold Mine for the year ended 31 December 2007 and for the period from 1 January 2008 to 31 March 2009 (prepared under the generally accepted accounting principles in Hong Kong):

*For HK Gaofeng:*

| | **For the year ended 31 December 2007** (Audited) *HK$'000* | **For period from 1 January 2008 to 31 March 2009** (Audited) *HK$'000* |
|---|---|---|
| Turnover | — | — |
| Loss for the period/year | 839.75 | 1,965.99 |

*For Zhang Jia Fan Gold Mine:*

| | **For the year ended 31 December 2007** (Audited) *HK$'000* | **For period from 1 January 2008 to 31 March 2009** (Audited) *HK$'000* |
|---|---|---|
| Turnover | — | 409.82 |
| Loss for the period/year | 4,050.38 | 5,730.08 |

As set out in Appendix III in the Circular, the consolidated net liabilities of HK Gaofeng amounted to approximately HK$2.55 million as at 31 March 2009 and as set out in Appendix IV in the Circular, the net liabilities of Zhang Jia Fan Gold Mine amounted to approximately HK$9.14 million as at 31 March 2009. Upon Completion, HK Gaofeng will be owed as to 62.6% by the Group and will become a subsidiary of the Company.

As set out in the Board Letter, the Directors noted the opinion of Lo and Kwong C.P.A. Company Limited contained in Appendix IV to the Circular that there is an existence of a material uncertainty which may cast significant doubt about Zhang Jia Fan Gold Mine's ability to continue as a going concern. The Directors are of the view that the unsatisfactory historical financial results of Zhang Jia Fan Gold Mine were caused by the significant amount of expenses and costs incurred by the exploration program and feasibility study of the mining area and that Zhang Jia Fan Gold Mine has just started trial mill production. The Directors also believe that when Zhang Jia Fan Gold Mine starts its full operation in around September 2009, the financial results of Zhang Jia Fan Gold Mine would be significantly improved. Besides, in view of the new policy (the "**New Policy**") recently issued by Jiangxi Bureau of Geological Exploration and Exploration of Mineral Resources which is in favour of the mining industry and encourages local mining companies to expand its mining perimeter and depth, the Directors believe that there is a good prospect in the mining industry in PRC and the future profitability of Zhang Jia Fan Gold Mine will be improved.

The Directors noted the opinion of Lo and Kwong C.P.A. Company Limited contained in Appendix III to the Circular that there is an existence of a material uncertainty which may cast significant doubt about HK Gaofeng's ability to continue as a going concern. The Directors are of the view that as a result of improvement of profitability of Zhang Jia Fan Gold Mine as mentioned above, HK Gaofeng and Jiu Jiang Gaofeng will generate profit by the provision of management and consultation services to Zhang Jia Fan Gold Mine pursuant to the Management Agreement after Zhang Jia Fan Gold Mine starts its full operation in around September 2009.

Having consider (i) the unsatisfactory historical financial information of Zhang Jia Fan Gold Mine were mainly due to the significant amount of expenses and costs incurred by the exploration program and feasibility study of the mining area; (ii) Zhang Jia Fan Gold Mine has started trial mill production and is expected to start its full operation around September 2009; and (iii) the New Policy, we concur with the Directors that the mining industry in PRC is expected to be optimistic and hence, the future profitability of Zhang Jia Fan Gold Mine will be able to improve notwithstanding the loss-making track record of Zhang Jia Fan Gold Mine and the opinion given by Lo and Kwong C.P.A. Company Limited contained in Appendix IV to the Circular as mentioned above.

**2. Background and Financial information of the Group**

The Group is a software application solutions provider engaged in the provision of internet design for residential communities and e-property management software application consulting services based on the application of i-Panel and its integrated hardware and software in the PRC. The Group has recently completed the acquisition of an interest in a company that manages gold mine in the PRC. The Company has on 10 June 2009 announced its intention to acquire a majority interest in that company. It was further announced by the Board on 18 June 2009 that Inno Gold Mine entered into a memorandum of understanding with Right Gold Limited in relation to the proposed acquisition of part or whole of the issued share capital of a gold mine holding company.

The table below tabulates the financial results of the Group as extracted from the Group's 2008 annual report (the "**AR 2008**") and 2008/09 interim report (the "**IR 2008**") for the (i) the year ended 31 March 2007; (ii) the period from 1 April 2007 to 30 June 2008; and (iii) the six months ended 31 December 2008. As set out in AR 2008, the Company has changed its year ended from 31 March to 30 June in the year 2008 in order to align it reporting cycle to its businesses activities in the PRC.

| | **For the six months ended 31 December 2008 (the "Six Month Period")** | **For the period from 1 April 2007 to 30 June 2008 (the "New Financial Period")** | **For the year ended 31 March 2007 ("FY 07")** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 36,284 | 143,971 | 43,236 |
| Gross Profit | 5,106 | 32,007 | 16,949 |
| (Loss) attributable to equity holders | (24,824) | (71,352) | (3,116) |

| | **As at 31 December 2008** | **As at 30 June 2008** | **As at 31 March 2007** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Net asset value | 375,292 | 335,721 | 64,151 |

*For the New Financial Period*

According to AR 2008, the turnover of the Group was approximately HK$143.97 million for the New Financial Period, which represented an increase of approximately 232.99% as compared to the turnover for FY 2007 of approximately HK$43.24 million. As advised by the Directors, the increase in turnover was mainly due to a 15 month sales were recorded in the New Financial Period as compared with that of 12 month sales in FY 07 and the robust growth in the residential market in the first half of the New Financial Period.

The gross profit of the Group was approximately HK$32.01 million for the New Financial Period, which represented an increase of approximately 88.84% as compared to the gross profit for FY 2007 of approximately HK$16.95 million. However, the gross profit margin has decreased from approximately 39.20% for FY 2007 to approximately 22.23% for the New Financial Period. As advised by the Directors, the increase in gross profit was mainly due to the increase in turnover and the decrease in gross profit margin was mainly due to the higher cost of sales of Apbus products in the New Financial Period as compared to that of FY 07 in which sales were mainly from design of residential intranet.

The loss attributable to equity holders was approximately HK$71.35 million for the New Financial Period, which represented an increase in net loss of approximately 2,189.86% as compared to the loss attributable to equity holders for FY 2007 of approximately HK$3.12 million. As advised by the Directors, the increased in net loss was mainly due to the increase in marketing and promotion expenses and administrative expenses for the commencement of the new hotel business in July 2007.

*For the Six Month Period*

According to IR 2008, the turnover of the Group was approximately HK$36.28 million for the Six Month Period, which represented a decrease of approximately 40.60% as compared to the corresponding figure of approximately HK$61.09 million for the six months ended 31 December 2007. As advised by the Directors, the decrease in turnover was mainly due to the drop in both Apbus products sales and engagements for residential intranet design. Such decrease in sales was mainly due to the worldwide economic downturn in October 2007 which in turn had slowdown the residential property market in PRC.

The gross profit and gross profit margin of the Group for the Six Month Period were approximately HK$5.11 million and approximately 14.07% respectively for the New Financial Period, which represented decreases of approximately 68.05% and approximately 46.22% as compared to the corresponding figures of approximately HK$15.98 million and approximately 26.16% for the six months ended 31 December 2007. As advised by the Directors, the decrease in gross profit and gross profit margin was mainly due to the persisted slowdown in the residential property market in the PRC which in turn has led to decrease in orders in Apbus products and income from residential intranet design.

The Group has recorded loss attributable to equity holders of approximately HK$24.82 million for the Six Month Period and profit attributable to equity holders of approximately HK$6.10 million for the six months ended 31 December 2007. As advised by the Directors, the turning from net profit to net loss was mainly due to the decrease in gross profit as explained above and increase in administrative expense as a result of the commencement of operation in hotel business since July 2007.

**3. Reasons for the Acquisition**

As at the Latest Practicable Date, the Group, through the First Acquisition and the Second Acquisition, interested in an aggregate of 15.4% shareholding interests in HK Gaofeng.

As stated in AR 2008, it has been the corporate strategy of the Group to strengthen its existing business, and at the same time identifying and capitalising new opportunities to achieve the financial growth for the Company and to maximise Shareholders' value. The Directors are of the view that the proposed Acquisition will enable the Group to enjoy the synergy brought about by (1) applying and further developing the Group's existing i-Panel and its integrated hardware and software solutions in the management control, financial and cost control, exploitation and excavation of gold mines operated by the Target Group; (2) developing new software solutions to ensure efficient and safe exploitation and excavation tailor-made for gold mines in the PRC based on the Group's experience in software research and development; and (3) acquiring further shareholding stake in the promising mineral business sector which would help diversifying the Group's business streams and improving the financial results of the Group. The Group intends to look for further suitable opportunities in the mining business to widen its business and revenue streams in the future. In view of the above potential benefits and synergies, the Directors consider that the terms and conditions of the Acquisition are fair and reasonable and on normal commercial terms, and are in the interests of the Shareholders as a whole.

We have reviewed the financial statements of the Group and note that the Group has been loss making for the two years ended 31 March 2007 and the period from 1 April 2007 to 30 June 2008. We also note from AR 2008 that the Group will look for possibilities of forming alliances or any investment opportunities within strategic partners. We have searched for information in relation to, among others, the industry of gold mining and note that the price and demand for gold was under a growing trend for the last five years. As observed from the statistics from the website of London Bullion Market Association, although the price of gold has experienced a drop since August 2008, it has showed a rebound recently back to the price level in the first half year of 2008. In addition, as a result of the global financial turmoil, the United States of America has continued with its monetary policy of increasing the supply of money by selling treasury bonds to resolve its current economic depression. This policy has result in inflation and future depreciation in the US currency. Consequently, gold, as a commodity which past record has clearly demonstrated its ability withstand inflation and maintain its value, is expected to be highly sought by investors to safeguard themselves from the depreciation effects in the future. Having considered the increasing trend of the value of gold for the last five years and that its price has rebounded back to the level in the first half year of 2008, we concur with the Directors that gold is an alternative investment for investors in particular when the stock market is still unstable after the global financial crisis and hence we also consider the prospect of companies engaged in gold mining will be optimistic.

Having considered (i) the Acquisition provides opportunities to the Company to enhance its revenue sources and therefore diversify its business risks given the loss making track records of the Company; (ii) the expected EBITDA of Zhang Jia Fan Gold Mine as shown in the Valuation Report; (iii) Zhang Jia Fan Gold Mine although held a mining right with effective period till January 2010, Zhang Jia Fan Gold Mine has the right to renew it until all reserves in the Zhang Jia Fan Gold Mine is exhausted; (iv) the Management Agreement allows Jiu Jiang Gaofeng to have a right to direct and administer the operation, management and personnel of Zhang Jia Fan Gold Mine as mentioned in above section headed "Information on the Target Group" and to enjoy 81.5% of the annual sale profit from Zhang Jia Fan Gold Mine even if the approval of Jiangxi Commerce Administrative Bureau in relation to the acquisition of 81.5%

equity interest in Zhang Jia Fan Gold Mine by Jiu Jiang Gaofeng has not been obtained; (v) the growing trend of the price and demand in gold and the optimistic prospect of gold mining industry as mentioned above; and (vi) the above-mentioned potential synergies as considered by the Directors, we agree with the view of the Directors that the Acquisition is in the ordinary course of business of the Company and in the interests of the Company and the Shareholders as a whole.

### 4. Consideration for the Acquisition

#### *(a) Consideration*

The consideration of HK$75,000,000 is to be satisfied on Completion by the issuance of the Convertible Note by the Company to the Vendor.

As set out in the Board Letter, the consideration was determined after arm's length negotiation with reference to the Valuation Report in respect of the fair value of the Management Agreement as at 28 April 2009 by Greater China Appraisal Limited (the "**Valuer**"), an independent professional valuer, in the amount of RMB140,350,000 (equivalent to approximately HK$160,841,100) (the "**Valuation**"). Having considered the inference drawn from the Valuation Report that 47.2% interest of the Management Agreement shall amount to approximately RMB66,245,200 (equivalent to approximately HK$75,916,999) (the "**Derivable Value I**") and other factors set out in the paragraph headed "Reasons for the Acquisition" in the Board Letter, the Directors consider that the consideration is fair and is in the interests of the Shareholders as a whole.

We have reviewed the Valuation Report and observed that the Valuer has valued the fair value of the Management Agreement on the standard of fair value under the valuation method — income approach technique known as the "discounted cash flow method". As set out in the Valuation Report, according to Hong Kong Financial Reporting Standard, fair value is the amount for which an asset could be exchanged, or a fair value liability settled, between knowledgeable, willing parties in an arm's length transaction and the income approach is an appropriate way of determining a value indication of a business/project, business ownership interest, security, intangible asset, or mineral asset. Also set out in the Valuation Report that the valuation has been prepared in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprise (First Edition 2004) published by The Hong Kong Institute of Surveyors and Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum which are generally accepted valuation standards followed by relevant professional practitioners in Hong Kong. As advised by the Valuer, the calculation of the expected EBITDA of Zhang Jia Fan Gold Mine is based on the market price of the gold, the reserve amount of gold in the gold mine of Zhang Jia Fan Gold Mine and the operation cost which are calculated based on a feasibility study report prepared by the Ha Er Bin Gold Design Institute dated February 2009. As set out in the Board Letter, the Board confirmed that the Valuation Report was based on operational, macro-economic and macro-political assumptions as set out in the Board Letter made by them after due and careful enquiry. After discussion with the Valuer regarding (i) the assumptions of the Valuation which have been set out under the section headed "VALUATION ASSUMPTIONS" in the Valuation Report in Appendix VII; (ii) the methodology of the Valuation; and (iii) the basis for the calculation of the expected EBITDA, and taking into account that the Valuation Report was based on assumptions made by the Board after due and careful enquiry, we are of the view that the Valuation Report is reasonably prepared and are normal in nature without any unusual assumption and the basis of the Valuation and the calculation of the expected EBITDA of Zhang Jia Fan Gold Mine are fair and reasonable. As such, we consider the Valuation is a good reference for Independent Shareholders to assess the fairness and reasonableness of the consideration of the Acquisition.

Through the First Acquisition and the Second Acquisition, the Company acquired 15.4% interest in HK Gaofeng at an aggregate consideration of HK$24.50 million. According to the above, consideration for the 47.2% of the issued share capital of HK Gaofeng is derived to be approximately HK$75.09 million (the "**Derivable Value II**"). In view that the consideration of the Acquisition represent a discount to both Derivable Value I and Derivable Value II, we consider the consideration under the Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

***(b) Convertible Notes***

Pursuant to the Sale and Purchase Agreement, the consideration of HK$75,000,000 is to be satisfied on Completion by the issuance of the Convertible Notes by the Company to the Vendor.

Principal terms of the Convertible Notes under the Sale and Purchase Agreement are set out below:

| | | |
|---|---|---|
| Maturity | : | the second anniversary of the Issue Date |
| Interest | : | The Convertible Note shall bear no interest |
| Conversion price | : | HK$0.138 per Share, subject to adjustments in accordance with the terms and conditions of the Convertible Note in the event of share consolidation, share subdivisions, capitalization issues, capital distributions, rights issues of shares, options, warrants or other rights to subscribe for or purchase shares or issue of any other securities arising from a conversion or exchange of other securities. |
| Redemption | : | The Company shall be entitled to redeem the Convertible Note at the face value of the outstanding principal sum at any time during the conversion period. |

Transferability : The Convertible Note is freely transferable other than to connected persons of the Company and except in respect of the Convertible Note:

(a) a conversion notice has been served by the holder on the Company;

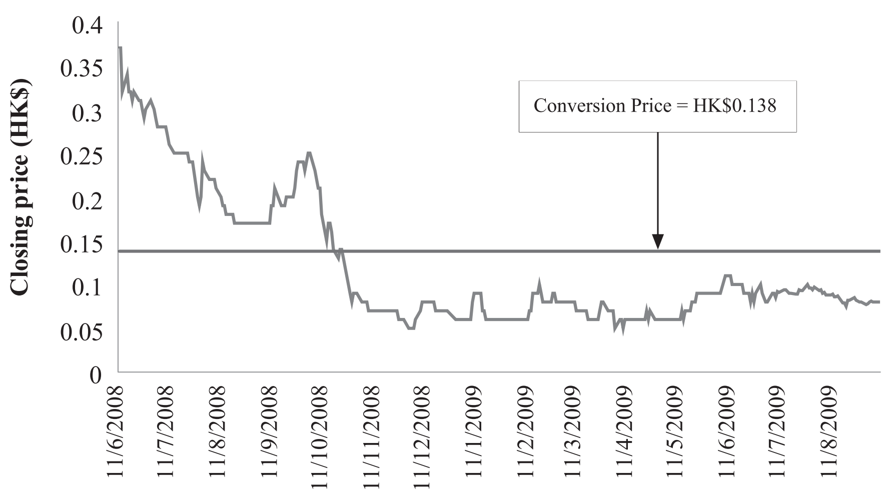
(b) a redemption notice has been served by the Company on the holder; or

(c) a settlement notice has been served by the holder on the Company.

The Conversion Price represents a premium of about 26.6% to the closing price per Share quoted under the daily quotation sheet of the Stock Exchange on 9 June 2009 (the "**Last Trading Day**"), being the date immediately prior to the date of suspension of trading in the Shares for the publication of the announcement in relation to the Sale and Purchase Agreement; and a premium of about 41.98% over the average closing price per Share quoted under the daily quotation sheet of the Stock Exchange for the five trading days ending on the Last Trading Day.

*(i) Historical Price Performance*

The graph below illustrates the closing price levels of the Shares during the period from 9 June 2008 (being the 12 calendar months period prior to the Last Trading Day) to the Latest Practicable Date (the "**Review Period**").




*Source: website of the Stock Exchange (www.hkex.com.hk)*

*Note: Trading in Shares was suspended on 12 June 2008, 16 July 2008, 11 December 2008, 12 December 2008 and 10 June 2009.*

During the Review Period, the closing price of the Shares recorded lowest closing price of HK$0.05 per Share (recorded from 1 December to 4 December 2008, on 3 April 2009 and 8 April 2009) and highest closing price of HK$0.37 (recorded on 11 June 2008). As can been seen from the graph above, the closing price of the Shares dropped significantly commencing from early October 2008, which is in line with the general decrease in the stock market as a result of the global financial crisis, and reached its lowest in December 2008 during the Review Period. Since then, the closing prices have been fluctuated between the range from HK$0.05 to HK$0.11.

*(ii) Comparable Analyses*

In order to assess the fairness and reasonableness of the terms of the Convertible Notes, to the best of our knowledge, we have looked into recent issues of convertible notes/bonds (the "**Comparables**") denominated in Hong Kong dollars by companies listed on the Main Board and Growth Enterprise Market of the Stock Exchange from 9 April 2009 up to and including 9 June 2009, being the date of the Sale and Purchase Agreement, for reference. As the terms of the Comparables are determined under similar market conditions and sentiments as the Convertible Notes, we believe that the Comparables may reflect the recent trend of the terms of convertible bonds/notes in the market and consider the Comparables are fair and representative samples.

| **Comparables** *(stock code)* | **Date of announcement** | **Principal amount** *(HK$ million)* | **Interest per annum** *(%)* | **Maturity** *(years)* | **Premium/ (Discount) over/to the last trading day prior to the date of the corresponding announcement** *(%)* | **Premium/ (Discount) over/to the average of the last 5 trading day prior to the date of the corresponding announcement** *(%)* |
|---|---|---|---|---|---|---|
| Mae Holdings Limited (851) | 22-Apr-09 | 44.4 | 2.00 | 3 | (12.38) | (11.96) |
| Beijing Enterprises Holdings Limited (392) | 26-Apr-09 | 1,780.00 | 2.25 | 5 | 22.54 | 28.70 |
| Qin Jia Yuan Media Qin Jia Yuan Media Services Company Limited (2366) | 28-Apr-09 | 100 | 1st year: 0, 2nd to 5th year: 5.00 *(note 1)* | 5 | 23.02 | 8.92 |
| National Investments Fund Limited (1227) | 30-Apr-09 | 350 | 2.00 | 3 | (13.79) | (20.63) |
| Genesis Energy Holdings Limited (702) | 30-Apr-09 | 25 | 2.00 | 4 | 64.29 | 56.46 |
| China Star Entertainment Limited (326) | 5-May-09 | 350.00 | 6.00 | 5 | 0.00 | 48.81 |
| iMerchants Limited (8009) | 5-May-09 | 200.00 | 0.00 | 5 | (13.04) | (6.98) |

| **Comparables** *(stock code)* | **Date of announcement** | **Principal amount** *(HK$ million)* | **Interest per annum** *(%)* | **Maturity** *(years)* | **Premium/ (Discount) over/to the last trading day prior to the date of the corresponding announcement** *(%)* | **Premium/ (Discount) over/to the average of the last 5 trading day prior to the date of the corresponding announcement** *(%)* |
|---|---|---|---|---|---|---|
| China Fortune Group Limited (290) | 6-May-09 | 32.00 | 0.00 | 3 | (44.83) | (43.86) |
| Inno-Tech Holdings Limited (8202) | 6-May-09 | 16.68 | 0.00 | 1 | (1.64) | 3.00 |
| Nubrands Group Holdings Limited (835) | 10-May-09 | 1,382.95 | 0.00 | 5 | (9.10) | (5.60) |
| Get Nice Holdings Limited (64) | 11-May-09 | 158.40 | 0.00 | 2 | (19.35) | (16.10) |
| China Water Industry Group Limited (1129) | 14-May-09 | 100.00 | 0.00 | 3 Aug 2012 *(note 3)* | (17.65) | (4.01) |
| Rising Development Holdings Limited (1004) | 19-May-09 | 744.93 | 0.00 | 3 | 9.09 | (1.64) |
| China Timber Resources Group Limited (269) | 21-May-09 | 470.00 | 2.15 | 3 | (33.33) | (29.11) |
| Global Green Tech Group Limited (274) | 22-May-09 | 160.00 | 8.00 | 3 | (20.88) | (20.35) |
| Long Far Pharmaceutical Holdings Limited (2898) | 25-May-09 | 90.00 | 3.00 | 3 | (36.20) | (34.20) |
| SOHO China Limited (410) | 27-May-09 | 2,800.00 | 3.75 | 5 | 20.00 | 20.49 |
| China Fortune Group Limited (290) | 27-May-09 | 128.00 | 0.00 | 31 Dec 2012 *(note 4)* | (64.84) | (63.13) |
| Imagi International Holdings Limited (585) | 27-May-09 | 132.00 | 0.00 | 2 | (11.76) | (18.92) |
| PME Group Limited (379) | 3-Jun-09 | 60.00 | 3.00 | 3 | (50.00) | (31.55) |
| Pearl Oriental Innovation Limited (632) | 4-Jun-09 | 100.00 | prime rate quoted by HSBC (currently = 5.00%) | 2 | (11.00) | (10.31) |
| Emcom International Limited (8220) | 4-Jun-09 | 78.00 (subject to consideration adjustment) | 1st year: 0.00, 2nd year: 5.00 *(note 2)* | 2 | (5.66) | (3.10) |
| China Agrotech Holdings Limited (1073) | 5-Jun-09 | 29.97 | 3.00 | 2 | 9.76 | 11.66 |

| **Comparables** *(stock code)* | **Date of announcement** | **Principal amount** *(HK$ million)* | **Interest per annum** *(%)* | **Maturity** *(years)* | **Premium/ (Discount) over/to the last trading day prior to the date of the corresponding announcement** *(%)* | **Premium/ (Discount) over/to the average of the last 5 trading day prior to the date of the corresponding announcement** *(%)* |
|---|---|---|---|---|---|---|
| Interchina Holdings Company Limited (202) | 9-Jun-09 | 35.00 | 5.00 | 2 | 72.4 | 103.30 |
| ***For all Comparables:*** | | | | | | |
| **Maximum** | | | **8.00** | **5** | **72.40** | **103.30** |
| **Minimum** | | | **0.00** | **1** | **(64.84)** | **(63.13)** |
| **Mean** | | | **2.24** | **3.21** | **(6.01)** | **(1.67)** |
| ***For those Comparables which have their conversion price represent or represent a premium over the closing price on the last trading day and the average closing price for the last 5 trading days prior the release of the relevant announcements (the "Subset Comparables"):*** | | | | | | |
| **Maximum Premium** | | | | | **72.40** | **103.30** |
| **Minimum Premium** | | | | | **0.00** | **8.92** |
| **Mean** | | | | | **33.71** | **44.45** |
| **Company** | | **75.00** | **0.00** | **2** | **26.6** | **41.98** |

*Source:* website of the Stock Exchange (www.hkex.com.hk)

*Notes:*

1. The average of 4.00% of the interest rate for the five years has been used for the calculation of the average interest rate of the Comparables.

2. The average of 2.50% of the interest rate for the two years has been used for the calculation of the average interest rate of the Comparables.

3. As the relevant transaction has not been completed as at the Latest Practicable Date and only the maturity date instead of the repayment period has been mentioned under the relevant announcement, 2.75 years of maturity has been used for the calculation of the average maturity of the Comparables.

4. As the relevant transaction has not been completed as at the Latest Practicable Date and only the maturity date instead of the repayment period has been mentioned under the relevant announcement, 3.25 years of maturity has been used for the calculation of the average maturity of the Comparables.

Based on the above illustration, the premium represented by the Conversion Price to the closing price on the Last Trading Day falls within the range of 0% to 72.40% and below the mean of the Subset Comparables. The premium represented by the Conversion Price to the average closing price on the last 5 trading days prior the release of the Announcement falls within the relevant range from 8.92% to 103.30% and below the mean of the Subset Comparables.

*(iii) Comparison with convertible notes issued under First Acquisition and Second Acquisition*

We have reviewed the Company's announcement dated 6 May 2009 in respect of the First Acquisition and the Second Acquisition. As set out in such announcement, partial consideration of approximately HK$13.82 million under the First Acquisition and the total consideration of approximately HK$2.86 million under the Second Acquisition were satisfied by the issue of convertible notes with conversion price of HK$0.06 per Share (the "**Previous Convertible Notes**") to the Vendor. We noted that, save for the conversion price and the maturity, the principal terms of the convertible notes issued under the First Acquisition and the Second Acquisition are generally the same with the Convertible Notes. Having considered (i) the Conversion Price of HK$0.138 represents a premium of 130% over to the conversion price of HK$0.06 of the Previous Convertible Notes; (ii) the Convertible Notes have a longer repayment term; and (iii) save for the conversion price and the maturity, the principal terms of the convertible notes issued under the First Acquisition and the Second Acquisition are generally the same with the Convertible Notes, we consider that the terms of the Convertible Notes are no less favorable to the Company than those of the Previous Convertible Notes.

We have also reviewed the Company's announcement dated 10 July 2009, the Company and a placing agent entered into a placing agreement pursuant to which the Company has conditionally agreed to place through the placing agent, on a best effort basis, a maximum of 1,000,000,000 new Shares in four tranches of not less than 250,000,000 new Shares each at the price (the "**Placing Price**") which is the higher of HK$0.138 per Share or the average closing price of the Shares as quoted on the Stock Exchange for the five trading days up to and including the date of notification of closing of each tranche by the placing agent pursuant to the placing agreement. We are of the view that the Conversion Price to the Vendor is not more favorable than the Placing Price to the independent third parties.

In light of (i) the Conversion Price represents a premium to the recent prevailing closing prices of the Shares; (ii) the premium represented by the Conversion Price over the closing price on the Last Trading Day and average closing price for the last five consecutive trading days up to and including the Last Trading Day falls within the relevant ranges of the Subset Comparables; (iii) the Convertible Notes are non-interest bearing; and (iv) the terms of the Convertible Notes are no less favorable to the Company than those of the

Previous Convertible Notes, we are of the view that the terms of the Convertible Notes are on normal commercial terms, fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

## FINANCIAL EFFECT OF THE ACQUISITION

*(i) Net asset value*

As reported in the IR 2008, the unaudited net asset value of the Group as at 31 December 2008 was approximately HK$375.29 million. As shown in the unaudited pro forma financial information of the Enlarged Group set out in Appendix V, the net asset value of the Enlarged Group will be increased by approximately HK$71.70 million to approximately HK$447.00 million upon completion of the Acquisition.

*(ii) Earnings*

As advised by the Company, upon completion of the Acquisition, the Target Group will be consolidated into the Group. In view of the synergistic effects to the Group, we consider that it is a fair expectation that the Acquisition will have a positive impact on the future earning growth potential of the Group.

*(iii) Gearing ratio*

According to the AR 2008, the Group recorded nil for net debt (defined as total bank borrowings less cash and cash equivalent and pledged assets) and gearing ratio (defined as net debt/net asset) as at 30 June 2008. As advised by the Company, the total bank borrowings of the Group would remain the same while no significant impact is expected to be imposed onto the net asset value of the Group as a result of the Acquisition. In view of such position, we consider that the Acquisition would not have significant impact to the gearing level of the Group.

## POTENTIAL DILUTION EFFECT TO THE PUBLIC SHAREHOLDERS

The table showing the effect of the Acquisition on the shareholding structure of the Company has been set out under the section headed "**EFFECT ON SHAREHOLDING STRUCTURE**" in the Board Letter.

As shown in the shareholding table, the shareholding of the other public Shareholders will decreased from approximately 79.13% to approximately 64.07% following the allotment and issue of the Conversion Shares upon exercised the Convertible Notes in full.

Having considered that (i) the Acquisition corresponds with the overall objective of the Group; (ii) given the loss making track records of the Company, the Acquisition provides opportunities to the Company to enhance its revenue sources and diversify its business risks and therefore optimizing Shareholders' interests in the Company; and (iii) by satisfying the consideration by issue of the Convertible Notes to the Vendor can preserve the cash position of the Company and at the same time strengthen its equity base, we consider the dilution effect is acceptable so far as the Independent Shareholders are concerned.

**RECOMMENDATION**

Taking into account the foregoing, we consider the terms of the Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We would therefore recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Acquisition to be proposed at the SGM.

Yours faithfully,
For and on behalf of
**Veda Capital Limited**

| **Hans Wong** | **Julisa Fong** |
|---|---|
| *Managing Director* | *Executive Director* |

**INNO-TECH HOLDINGS LIMITED**
**匯創控股有限公司***
*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 8202)**

11 September 2009

*To the Independent Shareholders*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ISSUED SHARE CAPITAL OF GAOFENG HOLDING CO. LIMITED

We refer to the document dated 11 September 2009 issued by the Company (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed to constitute the Independent Board Committee to consider the Sale and the Purchase Agreement and voting in respect of the Acquisition. Veda Capital has been appointed as the independent financial adviser to advise us in this respect.

Your attention is drawn to the letter from the Board and the letter from Veda Capital containing its advice to us as set out in the Circular respectively.

Taking into account the advice from Veda Capital, we consider that the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned; the Acquisition is in the interests of the Company and its shareholders as a whole; and the Sale and Purchase Agreement is on normal commercial terms, and so recommend the Independent Shareholders to vote for the resolution in relation to the Acquisition to be proposed at the SGM.

Yours faithfully,
**Wong Tak Leung Charles** **Lai Ying Sum** **Cheng King Hung**
*Independent Board Committee*

* *for identification purposes only*

## I. SUMMARY OF FINANCIAL INFORMATION FOR EACH OF THE TWO YEARS ENDED 31 MARCH 2007 AND THE PERIOD FROM 1 APRIL 2007 TO 30 JUNE 2008

The Company changed its financial year end from 31 March to 30 June in March 2008. The following is a summary of (i) the audited consolidated income statement of the Group for each of the two years ended 31 March 2007 and the audited consolidated balance sheet of the Group as at 31 March 2006 and 31 March 2007; and (ii) the audited consolidated income statement of the Group for the period from 1 April 2007 to 30 June 2008 and the audited consolidated balance sheet of the Group as at 30 June 2008. The information is extracted from the annual reports of the Company.

| | Period from 1 April 2007 to 30 June | Year ended 31 March | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| | **Audited** | **Audited** | **Audited** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Turnover** | 143,971 | 43,236 | 90,955 |
| Cost of sales | (111,964) | (26,287) | (69,669) |
| Gross profit | 32,007 | 16,949 | 21,286 |
| Other revenue | 3,742 | 1,012 | 1,108 |
| Other net income | 2,671 | — | — |
| Marketing and promotion expenses | (19,199) | (2,295) | (1,406) |
| Administrative expenses | (85,400) | (12,271) | (19,615) |
| Finance costs | (1,874) | (4,810) | (5,759) |
| Share of losses of associates | (690) | (830) | (586) |
| **(Loss) before income tax** | (68,743) | (2,245) | (4,972) |
| Income tax | (2,609) | (871) | (736) |
| **(Loss) attributable to equity holders** | (71,352) | (3,116) | (5,708) |
| (Loss) per share | | | |
| — Basic *(HK cents)* | (6.28) | (0.84) | (1.94) |
| — Diluted *(HK cents)* | (6.27) | N/A | N/A |

| | As at 30 June 2008 Audited *HK$'000* | As at 31 March 2007 Audited *HK$'000* | As at 31 March 2006 Audited *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 24,285 | 9,528 | 9,374 |
| Prepaid lease payments | 34,319 | 5,761 | 5,768 |
| Intangible assets | 79,355 | 27,620 | 25,760 |
| Goodwill | 60,643 | — | — |
| Interests in associates | 2,353 | 4,407 | 5,237 |
| Interest in a jointly controlled entity | — | — | — |
| Loans to an associate | 6,273 | — | — |
| | 207,228 | 47,316 | 46,139 |
| **Current assets** | | | |
| Trading securities — pledged | 1,024 | — | — |
| Derivative financial instruments — pledged | 170 | — | — |
| Inventories | 1,175 | 1,187 | 8,918 |
| Accounts receivables | 65,487 | 40,163 | 39,894 |
| Prepayments, deposits and other receivables | 82,989 | 5,361 | 4,475 |
| Amounts due from customers | 19,675 | 15,820 | 8,520 |
| Loans to an associate | 6,440 | — | — |
| Tax recoverable | 317 | — | — |
| Pledged deposits | 13,000 | 13,000 | 25,000 |
| Cash and cash equivalents | 37,305 | 2,121 | 845 |
| | 227,582 | 77,652 | 87,652 |
| **Current liabilities** | | | |
| Bank loans and overdrafts | 14,837 | 16,146 | 30,862 |
| Trade payables, accrued expenses and other payables | 20,904 | 14,274 | 17,464 |
| Other loans | — | 5,150 | — |
| Amounts due to directors | 55,559 | 9,296 | 7,349 |
| Obligations under finance leases | — | — | 814 |
| Current taxation | — | 1,053 | 1,242 |
| Convertible notes | — | 55 | 8,996 |
| | 91,300 | 45,974 | 66,727 |

| | As at 30 June 2008 Audited *HK$'000* | As at 31 March 2007 Audited *HK$'000* | 2006 Audited *HK$'000* |
|---|---|---|---|
| **Net current assets** | 136,282 | 31,678 | 20,925 |
| **Total assets less current liabilities** | 343,510 | 78,994 | 67,064 |
| **Non-current liabilities** | | | |
| Bank loans and overdrafts | — | 3,812 | 3,932 |
| Deferred taxation | 7,789 | 4,976 | 4,499 |
| Convertible notes | — | 6,055 | 6,060 |
| | 7,789 | 14,843 | 14,491 |
| **Net assets** | 335,721 | 64,151 | 52,573 |
| **CAPITAL AND RESERVES** | | | |
| **Share capital** | 24,544 | 8,602 | 6,702 |
| **Reserves** | 311,177 | 55,549 | 45,871 |
| | 335,721 | 64,151 | 52,573 |

## II. FINANCIAL INFORMATION OF THE GROUP FOR THE PERIOD FROM 1 APRIL 2007 TO 30 JUNE 2008

Set out below are the audited consolidated financial statements of the Group for the period from 1 April 2007 to 30 June 2008 which are extracted from the annual report of the Company for the 15 months ended 30 June 2008.

**Consolidated Income Statement**
*For the period from 1 April 2007 to 30 June 2008*

| | Note | Period from 1 April 2007 to 30 June 2008 | Year ended 31 March 2007 |
|---|---|---|---|
| | | *HK$'000* | *HK$'000* |
| **Turnover** | 6 | 143,971 | 43,236 |
| Cost of sales | | (111,964) | (26,287) |
| Gross profit | | 32,007 | 16,949 |
| Other revenue | 7 | 3,742 | 1,012 |
| Other net income | | 2,671 | — |
| Marketing and promotion expenses | | (19,199) | (2,295) |
| Administrative expenses | | (85,400) | (12,271) |
| Finance costs | 8(a) | (1,874) | (4,810) |
| Share of losses of associates | | (690) | (830) |
| **(Loss) before income tax** | 8 | (68,743) | (2,245) |
| Income tax | 9 | (2,609) | (871) |
| **(Loss) attributable to equity holders** | | (71,352) | (3,116) |
| (Loss) per share | | | |
| — Basic *(HK cents)* | 12(a) | (6.28) | (0.84) |
| — Diluted *(HK cents)* | 12(b) | (6.27) | N/A |

**Consolidated Balance Sheet**
*At 30 June 2008*

| | Note | 30 June 2008 HK$'000 | 31 March 2007 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 24,285 | 9,528 |
| Prepaid lease payments | 15 | 34,319 | 5,761 |
| Intangible assets | 16 | 79,355 | 27,620 |
| Goodwill | 17 | 60,643 | — |
| Interests in associates | 19 | 2,353 | 4,407 |
| Interest in a jointly controlled entity | 20 | — | — |
| Loans to an associate | 21(a) | 6,273 | — |
| | | 207,228 | 47,316 |
| **Current assets** | | | |
| Trading securities — pledged | 22 | 1,024 | — |
| Derivative financial instruments — pledged | | 170 | — |
| Inventories | 23 | 1,175 | 1,187 |
| Accounts receivables | 24 | 85,162 | 55,983 |
| Prepayments, deposits and other receivables | | 82,989 | 5,361 |
| Loans to an associate | 21(a) | 6,440 | — |
| Tax recoverable | 33(a) | 317 | — |
| Pledged deposits | 25 | 13,000 | 13,000 |
| Cash and cash equivalents | 26 | 37,305 | 2,121 |
| | | 227,582 | 77,652 |
| **Current liabilities** | | | |
| Bank loans and overdrafts | 28 | 14,837 | 16,146 |
| Trade payables, accrued expenses and other payables | 29 | 20,904 | 14,274 |
| Other loans | 30 | — | 5,150 |
| Amounts due to directors | 21(d) | 55,559 | 9,296 |
| Current taxation | 33(a) | — | 1,053 |
| Convertible notes | 34 | — | 55 |
| | | 91,300 | 45,974 |

| | Note | 30 June 2008 HK$'000 | 31 March 2007 HK$'000 |
|---|---|---|---|
| **Net current assets** | | 136,282 | 31,678 |
| **Total assets less current liabilities** | | 343,510 | 78,994 |
| **Non-current liabilities** | | | |
| Bank loans and overdrafts | 28 | — | 3,812 |
| Deferred taxation | 33(b) | 7,789 | 4,976 |
| Convertible notes | 34 | — | 6,055 |
| | | 7,789 | 14,843 |
| **Net assets** | | 335,721 | 64,151 |
| **CAPITAL AND RESERVES** | | | |
| **Share capital** | 35 | 24,544 | 8,602 |
| **Reserves** | 37(a) | 311,177 | 55,549 |
| | | 335,721 | 64,151 |

**Balance Sheet**
*At 30 June 2008*

| | Note | 30 June 2008 HK$'000 | 31 March 2007 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | 18 | 66,122 | 5,925 |
| Interests in associates | 19 | — | 978 |
| Loans to an associate | 21(a) | 6,273 | — |
| | | 72,395 | 6,903 |
| **Current assets** | | | |
| Derivative financial instruments — pledged | | 170 | — |
| Trading securities — pledged | 22 | 1,024 | — |
| Amount due from an associate | 24 | — | 4 |
| Prepayments and other receivables | | 7,483 | 853 |
| Loans to an associate | 21(a) | 6,440 | — |
| Amounts due from subsidiaries | 21(b) | 249,098 | 45,257 |
| Pledged deposits | 25 | 10,000 | — |
| Cash and cash equivalents | 26 | 158 | — |
| | | 274,373 | 46,114 |
| **Current liabilities** | | | |
| Amount due to a subsidiary | 21(c) | 10,890 | — |
| Amounts due to directors | 21(d) | 45 | 125 |
| Accrued expenses and other payables | 29 | 2,188 | 2,898 |
| Other loan | 30 | — | 5,150 |
| Convertible notes | 34 | — | 55 |
| | | 13,123 | 8,228 |

| | Note | 30 June 2008 HK$'000 | 31 March 2007 HK$'000 |
|---|---|---|---|
| **Net current assets** | | 261,250 | 37,886 |
| **Total assets less current liabilities** | | 333,645 | 44,789 |
| **Non-current liabilities** | | | |
| Convertible notes | 34 | — | 6,055 |
| | | — | 6,055 |
| **NET ASSETS** | | 333,645 | 38,734 |
| **CAPITAL AND RESERVES** | | | |
| **Share capital** | 35 | 24,544 | 8,602 |
| **Reserves** | 37(b) | 309,101 | 30,132 |
| | | 333,645 | 38,734 |

## Consolidated Statement of Changes in Equity

*For the period from 1 April 2007 to 30 June 2008*

| | Attributable to equity holders of the company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Employee compensation reserve | Convertible notes reserve | Contributed surplus | Capital redemption reserve | Exchange reserve | Retained profits (Accumulated losses) | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2006 | 6,702 | 24,445 | 1,462 | 442 | 5,625 | 43 | — | 13,854 | 52,573 |
| Loss for the year | — | — | — | — | — | — | — | (3,116) | (3,116) |
| Total recognised income and expenses for the year | — | — | — | — | — | — | — | (3,116) | (3,116) |
| Issuance of shares | 1,900 | 13,300 | — | — | — | — | — | — | 15,200 |
| Shares issuance costs | — | (472) | — | — | — | — | — | — | (472) |
| De-recognition of equity component of convertible notes, net of transaction costs | — | — | — | (282) | — | — | — | 282 | — |
| Exchange difference on consolidation | — | — | — | — | — | — | (34) | — | (34) |
| | 1,900 | 12,828 | — | (282) | — | — | (34) | 282 | 14,694 |
| At 31 March 2007 | 8,602 | 37,273 | 1,462 | 160 | 5,625 | 43 | (34) | 11,020 | 64,151 |
| At 1 April 2007 | 8,602 | 37,273 | 1,462 | 160 | 5,625 | 43 | (34) | 11,020 | 64,151 |
| Loss for the period | — | — | — | — | — | — | — | (71,352) | (71,352) |
| Total recognised income and expenses for the period | — | — | — | — | — | — | — | (71,352) | (71,352) |
| Issuance of shares and exercising options | 14,682 | 316,181 | (12,493) | — | — | — | — | — | 318,370 |
| Shares issuance costs | — | (15,614) | — | — | — | — | — | — | (15,614) |
| Fair value of options granted | — | — | 34,251 | — | — | — | — | — | 34,251 |
| Exercise of convertible notes, net of transaction costs | 1,260 | 5,026 | — | (160) | — | — | — | — | 6,126 |
| Exchange difference on consolidation | — | — | — | — | — | — | (211) | — | (211) |
| | 15,942 | 305,593 | 21,758 | (160) | — | — | (211) | — | 342,922 |
| At 30 June 2008 | 24,544 | 342,866 | 23,220 | — | 5,625 | 43 | (245) | (60,332) | 335,721 |

**Consolidated Cash Flow Statement**
*For the period from 1 April 2007 to 30 June 2008*

| | Period from 1 April 2007 to 30 June 2008 *HK$'000* | Year ended 31 March 2007 *HK$'000* |
|---|---|---|
| **Operating activities** | | |
| (Loss) before income tax | (68,743) | (2,245) |
| Adjustments for: | | |
| — Depreciation and amortisation | 20,907 | 10,150 |
| — Release of prepaid lease payment | 232 | 7 |
| — Inventories written off | — | 60 |
| — Allowances of bad debts | 10,947 | 985 |
| — Loss on disposal of subsidiaries | — | 10 |
| — Share of losses of associates | 690 | 830 |
| — Interest income | (3,465) | (878) |
| — Share-based payments | 34,250 | — |
| — Property, plant and equipment written off | — | 747 |
| — Net gain on disposal of items of property, plant and equipment | (556) | — |
| — Net gain on disposal of an associate | (2,115) | — |
| — Dividend income | (2) | — |
| — Interest expense | 1,874 | 4,810 |
| **Operating (loss)/profit before changes in working capital** | (5,981) | 14,476 |
| Decrease in inventories | 12 | 7,734 |
| (Increase) in accounts receivables | (29,292) | (7,825) |
| (Increase) in prepayments, deposits and other receivables | (88,462) | (1,544) |
| Increase in amounts due to directors | 46,204 | 2,020 |
| Increase/(decrease) in trade payables, accrued expenses and other payables | 6,530 | (3,775) |
| **Cash (used in)/generated from operations** | (70,989) | 11,086 |
| Hong Kong profits tax paid | (1,167) | (708) |
| **Net cash (used in)/generated from operating activities** | (72,156) | 10,378 |

| | Note | Period from 1 April 2007 to 30 June 2008 HK$'000 | Year ended 31 March 2007 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Loans to an associate | | (12,713) | — |
| (Increase) in trading securities — pledged | | (1,024) | — |
| (Increase) in derivative financial instruments — pledged | | (170) | — |
| Interest received | | 3,465 | 878 |
| Decrease in pledged deposits | | — | 12,000 |
| Payment for purchase of items of property, plant and equipment | | (22,027) | (4,002) |
| Payment for purchase of intangible assets | | (65,760) | (8,902) |
| Payment for prepaid lease payments | | (34,545) | — |
| Proceeds from disposals of land and buildings | | 6,713 | — |
| Proceeds from disposal of an associate, net of cash | 27 | 3,478 | — |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | 38 | (1,516) | — |
| **Net cash (used in) investing activities** | | (124,099) | (26) |
| **Financing activities** | | | |
| Capital element of finance lease rentals paid | | — | (814) |
| Net proceeds from issuance of new shares | | 243,788 | 14,727 |
| Interest paid | | (1,858) | (4,808) |
| Proceeds from new bank loans | | — | 1,000 |
| Repayment of other loans | | (5,150) | (3,345) |
| Repayment of bank loans | | (4,960) | (2,096) |
| Interest element of finance lease rentals paid | | — | (10) |
| **Net cash generated from financing activities** | | 231,820 | 4,654 |
| **Net increase in cash and cash equivalents** | | 35,565 | 15,006 |
| **Effect of foreign exchange** | | (220) | 10 |
| **Cash and cash equivalents at beginning of the period/year** | | (2,877) | (17,893) |
| **Cash and cash equivalents at end of period/year** | 26 | 32,468 | (2,877) |

## Notes to the Financial Statements

*For the period from 1 April 2007 to 30 June 2008*

### 1. GENERAL INFORMATION

Inno-Tech Holdings Limited (the "Company") was incorporated in Bermuda on 19 November 2001 as an exempted company with limited liability under the Companies Act of Bermuda. The shares of the Company are listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited, (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Room 903 Tung Wai Commercial Building, 109–111 Gloucester Road, Wanchai, Hong Kong, respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in note 18.

### 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 40.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 39.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

**Accounting Standards, Amendments and Interpretations that are not yet effective**

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of financial statements |
| HKAS 23 (Amendment) | Borrowing costs |
| HKAS 27 (Revised) | Consolidated and separate financial statements |
| HKFRS 2 (Amendment) | Share-based payment — vesting conditions and cancellations |
| HKFRS 3 (Revised) | Business combinations |
| HKFRS 8 | Operating segments |
| HK (IFRIC) Interpretation 12 | Service concession arrangements |
| HK (IFRIC) Interpretation 13 | Customer loyalty programmes |
| HK (IFRIC) Interpretation 14 | HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction |
| HK (IFRIC) Interpretation 15 | Agreements for the construction of real estate |
| HK (IFRIC) Interpretation 16 | Hedges of a net investment in a foreign operation |

## 3. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, 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 applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out in note 4.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation of the financial statements

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect that application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only the period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a higher degree of judgment or complexity, or area where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The Group's financial year end date has been changed from 31 March to 30 June. The financial statements in current period covered a period from 1 April 2007 to 30 June 2008 and are not entirely comparable to the comparative amounts (which covered a period of twelve months from 1 April 2006 to 31 March 2007) for the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement and the notes to financial statements thereon.

The Group has engaged in the provision of hotel management services and own and management of hotel assets in the People's Republic of China (the "PRC"). The PRC subsidiaries of the Group have financial year end of 31 December annually, the directors considered that it would be administratively more efficient and convenient for these PRC subsidiaries to prepare the Group's audit for the year end 30 June instead of 31 March when personnel of such subsidiaries are busily engaged in the annual business license verification. In addition, the directors also considered that costs could be saved as a result of the change in financial year end.

**(b) Basis of consolidation of the financial statements**

The consolidated financial statements for the period from 1 April 2007 to 30 June 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

**(c) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated to all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, investments in subsidiaries and amounts due from subsidiaries are stated at cost less impairment losses (see note 4(k)). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**(d) Associates and jointly controlled entities**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For the purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 4(k)). The results of the associates and jointly controlled entities are accounted by the Company on the basis of dividends received and receivable.

**(e) Goodwill**

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 4(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

**(f) Other investments in debt and equity securities**

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments.

**(g) Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

**(h) Property, plant and equipment**

*(i) Valuation*

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 4(k)).

Subsequent expenditure relating to a property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

*(ii) Depreciation*

Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 50 years.

Depreciation is calculated to write off the cost of other property, plant and equipment over their estimated useful lives on a straight-line basis as follows:

| | |
|---|---|
| Leasehold improvements | 5 years |
| Furniture and fixtures | 5 years |
| Equipment | 5 years |
| Motor vehicle | 4 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

*(iii) Disposals*

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

**(i) Intangible assets (other than goodwill)**

*(i) Valuation*

Intangible assets that are acquired by the Group and with finite useful lives are stated in the balance sheets at cost less accumulated amortisation and impairment losses (see note 4(k)).

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

*(ii) Amortisation*

Amortisation of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over the assets' estimated useful lives as follows:

| | |
|---|---|
| Patents and trademarks | 15 years |
| Computer software | 5 years |

*(iii) Disposals*

Gains or losses arising from de-recognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of an asset and are recognised in the income statement when the asset is de-recognised.

**(j) Leased assets**

*Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

**(k) Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following items may be impaired or an impairment loss previously recognised no longer exists or may have been decreased:

— interest in subsidiaries, associates and jointly controlled entities;

— property, plant and equipment;

— prepaid lease payments;

— intangible assets; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

*(i) Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

*(ii) Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or Group of units) and then, to reduce the carrying amount of the other assets in the unit (or Group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

*(iii) Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

**(l) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(m) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debt except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

**(n) Service contracts**

The accounting policy for contract revenue is set out in note 4(w).

Service contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Amounts due from customers" (as an asset) or "Amounts due to customers" (as a liability), as applicable. Progress billings not yet paid by the customers are included in the balance sheet under "Trade debtors".

**(o) Cash and cash equivalents**

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

**(p) Employee benefits**

*(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

Contributions to Mandatory Provident Fund Scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.

*(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

*(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**(q) Income tax**

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(r) Trade and other payables**

Trade and other payables are initially measured at fair value and thereafter stated at amortized cost, except for short term payable with no stated interest rate and the effect of discounting being immaterial that are measured at their original invoice amount.

**(s) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(t) Financial guarantees issued**

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or losses on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 4(s) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

**(u) Convertible notes**

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability components of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

**(v) Interest-bearing borrowings**

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized costs with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(w) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

*(i) Residential intranet and software application design services*

Revenue arising from the provision of residential intranet and software application design services is recognised when the underlying services are rendered, which is estimated by apportionment over the expected duration of each engagement, and the outcome of the contract can be estimated with reasonable certainty.

*(ii) Sale of goods*

Revenue is recognised when goods are delivered at the customer which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

*(iii) Hotel service*

Revenue is recognised when the relevant services are rendered.

*(iv) Interest income*

Interest income is recognised on a time proportion basis using effective interest method.

*(v) Dividends*

Dividend income is recognised when the shareholder's right to receive payment is established.

*(vi) Rental income*

Rental income is recognised on a straight-line basis over the lease term.

**(x) Research and development costs**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future economic activity. The resultant asset is amortized on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred. Development expenditure previously recognised as an expense is not recognised as an asset in a subsequent period.

**(y) Borrowing costs**

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

**(z) Related parties**

For the purposes of these financial statements, party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venture;

(iv) the party is a member of the key management personnel of the Group or the Group's parent, or a close family member of such individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals;

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**(aa) Translation of foreign currencies**

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated at the foreign exchange rates ruling at the date when the fair value was determined. Profits and losses arising on exchange are dealt with in profit or loss.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into the presentation currency of the Group at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange difference arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized as income or as expense in the period in which the operation is disposed of.

**(bb) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are readily apparent from other sources. The estimates, judgements and associated assumptions are continually evaluated and are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Group makes estimates and underlying assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (i) Allowances of bad debts

Significant judgement is exercised in the assessment of the collectibility of accounts receivable from each customer. In making its judgement, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customers' payment trend including subsequent payments and customers' financial position.

### (ii) Valuation of share options

Note 36 contains information about the assumptions relating to the fair value of share options granted.

## 6. 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"). The amount of each significant category of revenue recognized in turnover during the period/year is as follows:

| | **Period from 1 April 2007 to 30 June 2008** | **Year ended 31 March 2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Income from design of residential intranet, provision of home-automation services and trading of related products | 142,686 | 43,236 |
| Income from hotel services | 1,285 | — |
| | 143,971 | 43,236 |

## 7. OTHER REVENUE AND OTHER NET INCOME

| | Period from 1 April 2007 to 30 June 2008 *HK$'000* | Year ended 31 March 2007 *HK$'000* |
|---|---|---|
| **Other revenue** | | |
| Bank interest income | 3,025 | 878 |
| Dividend income from listed securities | 2 | — |
| Other interest income | 440 | — |
| Rental income | 257 | — |
| Sundry income | 18 | 134 |
| | 3,742 | 1,012 |
| **Other net income** | | |
| Net gain on disposal of an associate | 2,115 | — |
| Net gain on disposal of items of property, plant and equipment | 556 | — |
| | 2,671 | — |

## 8. (LOSS) BEFORE INCOME TAX

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

| | Period from 1 April 2007 to 30 June 2008 *HK$'000* | Year ended 31 March 2007 *HK$'000* |
|---|---|---|
| **(a) Finance costs:** | | |
| Interest on bank loans and overdrafts wholly repayable within five years | 1,681 | 3,224 |
| Interest on other loans | 24 | 440 |
| Interest on convertible notes *(note 34)* | 169 | 1,136 |
| Finance charges on obligations under finance leases | — | 10 |
| | 1,874 | 4,810 |
| **(b) Staff costs:** | | |
| Contributions to defined contribution plan | 319 | 285 |
| Long service payment | 83 | — |
| Share-based payments | 34,251 | — |
| Salaries, wages and other benefits | 20,422 | 6,730 |
| | 55,075 | 7,015 |
| Average number of employees | 52 | 14 |

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

| | Period from 1 April 2007 to 30 June 2008 | Year ended 31 March 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **(c) Other items:** | | |
| Cost of inventories | 94,752 | 17,325 |
| Amortisation of intangible assets | 14,025 | 7,042 |
| Release of prepaid lease payments | 232 | 7 |
| Auditor's remuneration | 920 | 460 |
| Depreciation on owned assets | 6,882 | 3,108 |
| Operating lease charges in respect of office premises | 1,885 | 580 |
| Inventories written off | — | 60 |
| Allowances of doubtful debts | 10,947 | 985 |
| Research and development costs | 151 | 826 |
| Property, plant and equipment written off | — | 747 |
| Fair value change on derivative financial instruments | 316 | — |
| Fair value change on trading securities | 266 | — |
| Loss on derivative financial instruments | 24 | — |
| Loss on trading securities | 198 | — |
| Exchange loss | 2,926 | — |
| Loss on disposal of subsidiaries | — | 10 |

The cost of sales includes written off of inventories of HK$Nil (31 March 2007: HK$60,000) and aggregate employee benefits expense, depreciation, amortisation of intangible assets and operating lease charges in respect of office premises of approximately HK$16,183,000 (31 March 2007: HK$8,962,000), which are also included in the respective total amounts disclosed above for each of these types of expenses.

## 9. INCOME TAX

| | Period from 1 April 2007 to 30 June 2008 | Year ended 31 March 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **(a) Taxation in the consolidated income statement represents:** | | |
| **Current tax** | | |
| Tax for the year — Hong Kong profits tax | — | 317 |
| (Over)/Under-provision in respect of prior years | (204) | 77 |
| | (204) | 394 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences *(Note 33(b))* | 2,813 | 477 |
| | 2,609 | 871 |

Hong Kong profits tax has been provided at the rate of 16.5% (31 March 2007: 17.5%) on the estimated assessable profits for the period/year.

**(b) Reconciliation between tax expense and accounting (loss) at applicable tax rates:**

| | Period from 1 April 2007 to 30 June 2008 | Year ended 31 March 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| (Loss) before income tax | (68,743) | (2,245) |
| Notional tax on (loss) before income tax, calculated at applicable tax rates in the respective countries | (1,619) | (392) |
| Tax effect of non-deductible expenses | 2,248 | 457 |
| Tax effect of non-taxable revenue | (413) | — |
| Tax effect of unused tax losses not recognised | 3,027 | 531 |
| Previous years' unprovided deferred tax | — | 198 |
| (Over)/under-provision of profits tax in prior years | (204) | 77 |
| Others | (146) | — |
| Change in tax rate | (284) | — |
| Actual tax expense | 2,609 | 871 |

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

**Directors' remuneration**

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | Period from 1 April 2007 to 30 June 2008 | Year ended 31 March 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Fees | 473 | 180 |
| Basic salaries, allowances and other benefits | 11,340 | 3,714 |
| Share-based payments | 14,692 | — |
| Long service payment | 61 | — |
| Retirement scheme contribution | 60 | 48 |
| | 26,626 | 3,942 |
| Number of directors | 7 | 6 |

The remuneration of directors for the period from 1 April 2007 to 30 June 2008 is set out below:

| Name of director | Fees | Salary | Discretionary bonuses | Share-based payments | Long service payment | Retirement scheme contribution | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive directors* | | | | | | | |
| Ms. Wong Yuen Yee | — | 3,240 | — | 3,493 | 14 | 15 | 6,762 |
| Mr. Wong Kwok Sing | — | 3,240 | — | 3,493 | 14 | 15 | 6,762 |
| Mr. Wong Yao Wing, Robert | — | 3,240 | — | 3,493 | 19 | 15 | 6,767 |
| Mr. Lam Shiu San | — | 1,620 | — | 3,493 | 14 | 15 | 5,142 |
| *Independent non-executive directors* | | | | | | | |
| Mr. Wong Tak Leung, Charles | 210 | — | — | 240 | — | — | 450 |
| Ms. Ho Chui Yin, Liwina *(a)* | — | — | — | — | — | — | — |
| Mr. Lai Ying Sum | 135 | — | — | 240 | — | — | 375 |
| Mr. Cheng King Hung *(b)* | 128 | — | — | 240 | — | — | 368 |
| | 473 | 11,340 | — | 14,692 | 61 | 60 | 26,626 |

The remuneration of directors for the year ended 31 March 2007 is set out below:

| Name of director | Fees | Salary | Discretionary bonuses | Share-based payments | Long service payment | Retirement scheme contribution | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive directors* | | | | | | | |
| Ms. Wong Yuen Yee | — | 960 | — | — | — | 12 | 972 |
| Mr. Wong Kwok Sing | — | 1,019 | — | — | — | 12 | 1,031 |
| Mr. Wong Yao Wing, Robert | — | 960 | — | — | — | 12 | 972 |
| Mr. Lam Shiu San | — | 775 | — | — | — | 12 | 787 |
| *Independent non-executive directors* | | | | | | | |
| Mr. Wong Tak Leung, Charles | 120 | — | — | — | — | — | 120 |
| Ms. Ho Chui Yin, Liwina *(a)* | — | — | — | — | — | — | — |
| Mr. Lai Ying Sum | 60 | — | — | — | — | — | 60 |
| Mr. Cheng King Hung *(b)* | — | — | — | — | — | — | — |
| | 180 | 3,714 | — | — | — | 48 | 3,942 |

*Note:*

(a) Resigned on 16 May 2007

(b) Appointed on 16 May 2007

**Individuals with highest emoluments**

The aggregate of the emoluments in respect of the five individuals of highest emoluments (including directors) are as follows:

| | Period from 1 April 2007 to 30 June 2008 | Year ended 31 March 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Basic salaries, allowances and other benefits | 12,732 | 4,026 |
| Discretionary bonuses | — | — |
| Long service payment | 61 | — |
| Share-based payments | 14,091 | — |
| Retirement scheme contribution | 71 | 59 |
| | 26,955 | 4,085 |

During the period, no emoluments were paid by the Group to the five individuals with highest emoluments as an inducement to join or upon joining the Group or as compensation for loss of office.

The five individuals whose emoluments were the highest in the Group for the period include four (31 March 2007: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (31 March 2007: one) individual during the period is as follows:

| | Period from 1 April 2007 to 30 June 2008 | Year ended 31 March 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Basic salaries, allowances and other benefits | 1,392 | 312 |
| Retirement scheme contribution | 11 | 11 |
| Long service payment | — | — |
| Share-based payments | 119 | — |
| | 1,522 | 323 |

The emolument of the one (31 March 2007: one) individual with the highest emolument is fall within the following band:

| | Number of individual | |
|---|---|---|
| | Period from 1 April 2007 to 30 June 2008 | Year ended 31 March 2007 |
| Emolument band | | |
| HK$Nil–HK$1,500,000 | — | 1 |
| HK$1,500,001–HK$2,000,000 | 1 | — |

## 11. (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated (loss) attributable to equity holders of the Company includes a loss of HK$48,222,000 (31 March 2007: loss of HK$3,384,000) which has been dealt with in the financial statements of the Company.

## 12. (LOSS) PER SHARE

### (a) Basic (loss) per share

The calculation of basic (loss) per share for the period ended 30 June 2008 is based on the loss attributable to equity holders of the Company of HK$71,352,000 (31 March 2007: loss of HK$3,116,000) and on the weighted average of 1,135,329,000 (31 March 2007: 369,108,000) ordinary shares in issue during the period.

### (b) Diluted (loss) per share

No diluted (loss) per share had been presented in 31 March 2007 as the Company's share options and the convertible notes are anti-dilutive.

The calculation of diluted (loss) per share for the period ended 30 June 2008 is based on the loss attributable to ordinary equity shareholders of the Company of HK$71,352,000 and the weighted average number of ordinary shares of 1,138,378,000 shares, calculated as follows:

*(i) Weighted average number of ordinary shares (diluted)*

| | **30 June 2008** |
|---|---|
| | *'000* |
| Weighted average number of ordinary shares at 30 June 2008 | 1,135,329 |
| Effect of deemed issue of shares under the company's share option scheme *(note 36)* | 3,049 |
| | 1,138,378 |

## 13. 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 | |
|---|---|---|---|---|---|---|
| | **1/4/2007– 30/6/2008** | **1/4/2006– 31/3/2007** | **1/4/2007– 30/6/2008** | **1/4/2006– 31/3/2007** | **1/4/2007– 30/6/2008** | **1/4/2006– 31/3/2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenue: | | | | | | |
| Revenue from external customers | 142,686 | 43,236 | 1,285 | — | 143,971 | 43,236 |
| Segment results | (286) | (1,415) | (67,491) | — | (67,777) | (1,415) |
| Unallocated expenses | | | | | (276) | — |
| Share of loss of associates | | | | | (690) | (830) |
| Loss before tax | | | | | 68,743 | (2,245) |
| Tax | | | | | (2,609) | (871) |
| Loss for the period/year attributable to equity holders of the parent | | | | | (71,352) | (3,116) |

| | Intelligent system | | Hotel management | | Consolidated | |
|---|---|---|---|---|---|---|
| | **30/6/2008** | **31/3/2007** | **30/6/2008** | **31/3/2007** | **30/6/2008** | **31/3/2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment assets** | 304,039 | 120,561 | 128,071 | — | 432,110 | 120,561 |
| Interest in associates | 2,353 | 4,407 | — | — | 2,353 | 4,407 |
| Unallocated assets | | | | | 347 | — |
| Total assets | | | | | 434,810 | 124,968 |
| Segment liabilities | (87,163) | (60,817) | (11,582) | — | (98,745) | (60,817) |
| Unallocated liabilities | | | | | (344) | — |
| Total liabilities | | | | | (99,089) | (60,817) |
| Capital expenditure incurred during the period/year | 42,777 | 12,904 | 79,555 | — | 122,332 | 12,904 |

**(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 | | Consolidated | |
|---|---|---|---|---|---|---|
| | 1/4/2007– 30/6/2008 | 1/4/2006– 31/3/2007 | 1/4/2007– 30/6/2008 | 1/4/2006– 31/3/2007 | 1/4/2007– 30/6/2008 | 1/4/2006– 31/3/2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment revenue:** | | | | | | |
| Revenue from external customers | 142,686 | 43,236 | 1,285 | — | 143,971 | 43,236 |
| Other segment information: | | | | | | |
| Total assets | 248,856 | 90,627 | 185,954 | 34,341 | 434,810 | 124,968 |
| Capital expenditure | 1,367 | 31 | 120,965 | 12,873 | 122,332 | 12,904 |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Buildings | Leasehold improvements | Furniture and fixtures | Equipment | Motor vehicle | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost:** | | | | | | |
| At 1 April 2006 | 420 | 1,777 | 689 | 9,839 | 20 | 12,745 |
| Additions | — | — | 31 | 3,971 | — | 4,002 |
| Write-offs | — | (353) | (172) | (2,397) | (20) | (2,942) |
| Exchange realignment | — | — | — | 9 | — | 9 |
| At 31 March 2007 | 420 | 1,424 | 548 | 11,422 | — | 13,814 |
| Additions | 5,373 | 358 | 63 | 15,196 | 1,037 | 22,027 |
| Disposal | (420) | — | — | — | — | (420) |
| Exchange realignment | — | — | 2 | 22 | — | 24 |
| At 30 June 2008 | 5,373 | 1,782 | 613 | 26,640 | 1,037 | 35,445 |
| **Accumulated depreciation and impairments:** | | | | | | |
| At 1 April 2006 | 2 | 519 | 364 | 2,481 | 5 | 3,371 |
| Charge for the year | 8 | 285 | 75 | 2,736 | 4 | 3,108 |
| Written back on write-offs | — | (353) | (154) | (1,679) | (9) | (2,195) |
| Exchange realignment | — | — | — | 2 | — | 2 |
| At 31 March 2007 | 10 | 451 | 285 | 3,540 | — | 4,286 |
| Charge for the period | 20 | 360 | 124 | 6,140 | 238 | 6,882 |
| Written back on disposals | (18) | — | — | — | — | (18) |
| Exchange realignment | — | — | — | 10 | — | 10 |
| At 30 June 2008 | 12 | 811 | 409 | 9,690 | 238 | 11,160 |
| **Net book value:** | | | | | | |
| At 30 June 2008 | 5,361 | 971 | 204 | 16,950 | 799 | 24,285 |
| At 31 March 2007 | 410 | 973 | 263 | 7,882 | — | 9,528 |

The analysis of net book value of buildings is as follows:

| | The Group | |
|---|---|---|
| | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* |
| In Hong Kong | | |
| — Long leases | — | 410 |
| In the People's Republic of China | | |
| — Medium-term leases | 5,361 | — |
| | 5,361 | 410 |

Buildings with net book value of approximately HK$4,387,000 (31 March 2007: HK$Nil) were pledged to a bank for a third party.

## 15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent prepaid lease payments on leasehold land and their net carrying value are analysed as follows:

| | The Group | |
|---|---|---|
| | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* |
| **Cost:** | | |
| At beginning of period/year | 5,770 | 5,770 |
| Additions | 34,545 | — |
| Disposals | (5,770) | — |
| At end of period/year | 34,545 | 5,770 |
| **Release:** | | |
| At beginning of period/year | 9 | 2 |
| Release for the period/year | 232 | 7 |
| Written back on disposals | (15) | — |
| At end of period/year | 226 | 9 |
| **Net book value:** | | |
| At end of period/year | 34,319 | 5,761 |

The analysis of net book value of prepaid lease payments is as follows:

| | The Group | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| In Hong Kong | | |
| — Long leases | — | 5,761 |
| In the People's Republic of China | | |
| — Medium-term leases | 34,319 | — |
| | 34,319 | 5,761 |

Prepaid lease payments with net book value of approximately HK$12,008,000 (31 March 2007: HK$Nil) were pledged to a bank for a third party.

**16. INTANGIBLE ASSETS**

| | | The Group | |
|---|---|---|---|
| | **Patents and trademarks** | **Computer software** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost:** | | | |
| At 1 April 2006 | 4,300 | 31,133 | 35,433 |
| Additions | — | 8,902 | 8,902 |
| At 31 March 2007 | 4,300 | 40,035 | 44,335 |
| Additions | — | 65,760 | 65,760 |
| **At 30 June 2008** | 4,300 | 105,795 | 110,095 |
| **Accumulated amortisation:** | | | |
| At 1 April 2006 | 406 | 9,267 | 9,673 |
| Charge for the year | 287 | 6,755 | 7,042 |
| At 31 March 2007 | 693 | 16,022 | 16,715 |
| Charge for the period | 860 | 13,165 | 14,025 |
| **At 30 June 2008** | 1,553 | 29,187 | 30,740 |
| **Net book value:** | | | |
| **At 30 June 2008** | 2,747 | 76,608 | 79,355 |
| At 31 March 2007 | 3,607 | 24,013 | 27,620 |

## 17. GOODWILL

| | The Group | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| **Cost:** | | |
| At beginning of period/year | — | — |
| Acquisition of subsidiary *(note 38)* | 60,643 | — |
| At end of period/year | 60,643 | — |

**Impairment tests for cash-generating units containing goodwill**

Goodwill is allocated to the cash-generating unit ("CGU") as follows:

| | **30 June 2008** | **31 March 2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Autoscale Resources Limited | 60,643 | — |
| | 60,643 | — |

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 12% per annum. Cash flows beyond the five-year period have been extrapolated using a steady 8% per annum growth rate.

## 18. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 66,410 | 5,925 |
| Less: Impairment loss | (288) | — |
| | 66,122 | 5,925 |

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

| Name of Company | Place of incorporation/ establishment | Percentage of equity Group's effective interest | Held by the Company | Held by subsidiary | Particulars of issued/ registered capital | Principal activity and place of operation |
|---|---|---|---|---|---|---|
| Autoscale Resources Limited | BVI | 56% | 56% | — | 56 shares of US$1 each | Investment holding in Hong Kong and BVI |
| Shimmer Scene Holdings Limited | BVI | 100% | 100% | — | 1 share of US$1 each | Trademark and patent holding in Hong Kong |
| Cyberliving (Hong Kong) Co Limited | Hong Kong | 100% | — | 100% | 4 shares of HK$1 each | Leasing of office premises in Hong Kong |
| Cyberworks Technology Limited | Hong Kong | 100% | — | 100% | 4 shares of HK$1 each | Provision of systems design and integration services in Hong Kong |
| 匯創智能系統（深圳）有限公司 | People's Republic of China (the "PRC") | 100% | — | 100% | Registered capital of HK$1,000,000 | Development, production and sales of intelligent automation and control systems in the PRC |
| Inno Hotel Management Limited | BVI | 100% | — | 100% | 100 shares of USD1 each | Provision of hotel management service in the PRC |
| Grand Sino Group Holdings Limited | Hong Kong | 100% | — | 100% | 1 share of HK$1 each | Investment holding in Hong Kong |
| 北京匯漢酒店管理有限公司 | The PRC | 100% | — | 100% | Registered capital of RMB1,500,000 | Provision of hotel management services in the PRC |
| Inno Hotel Investment & Management Holdings Limited | BVI | 100% | — | 100% | 100 shares of USD500 each | Investment holding in Hong Kong and BVI |
| Uni-World Hong Kong Group Limited | Hong Kong | 100% | — | 100% | 100 shares of USD500 each | Provision of hotel management services in the PRC |
| Sunny Team Corporation Limited | Hong Kong | 100% | — | 100% | 1 share of HK$1 each | Investment holding in the PRC |
| 廣州尚匯酒店管理有限公司 | The PRC | 100% | — | 100% | Registered capital of RMB13,000,000 | Provision of hotel management services in the PRC |
| Homesmart Properties Limited | Hong Kong | 100% | — | 100% | 1 share of HK$1 each | Investment holding in the PRC |
| 廣州康澤酒店管理有限公司 | The PRC | 100% | — | 100% | Registered capital of RMB18,000,000 | Provision of hotel management services in the PRC |

## 19. INTERESTS IN ASSOCIATES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 30 June 2008 | 31 March 2007 | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | — | — | — | 978 |
| Share of net assets of associates: | | | | |
| — Balance at beginning of period/year | 4,407 | 5,237 | — | — |
| — Disposal of associate | (1,363) | — | — | — |
| Share of losses of associates | | | | |
| — Share of losses before tax | (829) | (661) | — | — |
| — Share of tax expenses | 138 | (169) | — | — |
| Balance at end of period/year | 2,353 | 4,407 | — | 978 |

Details of the Group's interests in associates are as follows:

| Name of Company | Form of business structure | Place of incorporation | Percentage of equity: Group's effective interest | Held by the Company | Held by subsidiary | Particulars of issued capital | Principal activity and place of operation |
|---|---|---|---|---|---|---|---|
| Grace Pond Limited* | Incorporated | Hong Kong | 49% | — | 49% | 1,000 shares of HK$1 each | Provision of software application consultancy services in Hong Kong |
| General Win Limited* | Incorporated | Hong Kong | 49% | — | 49% | 1,000 shares of HK$1 each | Provision of software application consultancy services in Hong Kong |
| United Premier Medical Group Limited* | Incorporated | Cayman Island | 15.87% | — | 28.34% | 21,169 shares of HK$0.01 each | Investment holding |

* Companies not audited by PCP CPA Limited

Summary financial information on associates:

| | The Group | |
|---|---|---|
| | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* |
| Assets | 16,586 | 10,034 |
| Liabilities | 33,652 | 1,041 |
| Revenues | 2,929 | — |
| (Loss) after tax | (19,855) | (1,694) |

## 20. INTEREST IN JOINTLY CONTROLLED ENTITY

| | The Group | |
|---|---|---|
| | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* |
| Share of net assets of jointly controlled entity | — | — |

*Note:* The Group's share of losses exceeds the carrying amounts of the jointly controlled entity, the carrying amount is reduced to nil.

Details of the Group's interest in jointly controlled entity are as follows:

| Name of Company | Form of business structure | Place of incorporation | Percentage of equity: Group's effective interest | Percentage of equity: Held by the Company | Percentage of equity: Held by subsidiary | Particulars of issued capital | Principal activity and place of operation |
|---|---|---|---|---|---|---|---|
| Parentech China Limited | Incorporated | Hong Kong | 50% | — | 50% | 2 shares of HK$1 each | Distribution of the Nature's Cradle Products in the PRC |

Summary financial information on the jointly controlled entity related to the Group's interests:

| | 30 June 2008 | 31 March 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current liabilities | 93 | 92 |
| Income | — | 2 |
| Expenses | (1) | (3) |
| Loss for the period/year | (1) | (1) |

## 21. LOANS TO AN ASSOCIATE/AMOUNTS DUE FROM/TO SUBSIDIARIES/AMOUNTS DUE TO DIRECTORS

**(a)** Loans to an associate are unsecured and interest bearing at rate of 5% per annum. The loans are repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 30 June 2008 | 31 March 2007 | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within one year | 6,440 | — | 6,440 | — |
| After one year | 6,273 | — | 6,273 | — |
| | 12,713 | — | 12,713 | — |

**(b) Amounts due from subsidiaries**

| | The Company | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| Amounts due from subsidiaries | 292,668 | 45,257 |
| Less: Impairment loss | (43,570) | — |
| | 249,098 | 45,257 |

Amounts due from subsidiaries are unsecured, interest free and repayable on demand.

**(c)** Amount due to a subsidiary is unsecured, interest free and repayable on demand.

**(d)** Amounts due to directors are unsecured, interest free and repayable on demand.

## 22. TRADING SECURITIES

| | The Group and the Company | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| Pledged trading securities (at market value) | | |
| Listed equity securities | | |
| — in Hong Kong | 1,024 | — |

## 23. INVENTORIES

| | The Group | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| Finished goods | 200 | 999 |
| Work in progress | 412 | 95 |
| Raw materials | 276 | 93 |
| Spare parts and consumables | 287 | — |
| | 1,175 | 1,187 |

The analysis of the amount of inventories recognised as an expense is as follows:

| | The Group | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| Carrying amount of inventories sold | 94,752 | 17,325 |
| Write down of inventories | — | 60 |
| | 94,752 | 17,385 |

## 24. ACCOUNT RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 30 June 2008 | 31 March 2007 | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade debtors | 65,386 | 40,322 | — | — |
| Less: allowance for doubtful debts | (113) | (320) | — | — |
| | 65,273 | 40,002 | — | — |
| Amounts due from customers | 19,675 | 15,820 | — | — |
| Receivable from a jointly controlled entity | 95 | 92 | — | — |
| Receivable from an associate | 119 | 69 | — | 4 |
| | 85,162 | 55,983 | — | 4 |

### (a) Ageing analysis

Included in accounts receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 30 June 2008 | 31 March 2007 | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Current | 45,896 | 6,991 | — | — |
| Less than 1 month past due | 7,522 | 1,295 | — | — |
| 1 to 3 months past due | 8,112 | 5,226 | — | — |
| Over 3 months past due | 3,743 | 26,490 | — | — |
| | 19,377 | 33,011 | — | — |
| | 65,273 | 40,002 | — | — |

Trade debtors are due within 120 days from the date by billing. Further details on the Group's credit policy are set out in Note 40(d).

### (b) Impairment of trade debtors

At 30 June 2008, the Group's trade debtors of HK$113,000 (31 March 2007: HK$320,000) was individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not expected to be recovered. The Group does not hold any collateral over these balances.

### (c) Trade debtors that are not impaired

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 25. PLEDGED DEPOSITS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2008** | **31 March 2007** | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank deposits pledged against banking facilities | 13,000 | 13,000 | 10,000 | — |

## 26. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2008** | **31 March 2007** | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cash at bank and in hand | 37,305 | 2,121 | 158 | — |
| Cash and cash equivalents in the balance sheet | 37,305 | 2,121 | 158 | — |
| Bank overdrafts *(note 28)* | (4,837) | (4,998) | — | — |
| Cash and cash equivalents in the consolidated cash flow statement | 32,468 | (2,877) | 158 | — |

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2008** | **31 March 2007** | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Renminbi | 567 | 46 | — | — |

## 27. DISPOSAL OF AN ASSOCIATE

The Group had disposed its associate, Pro-innovative Holdings Limited during the period. The share of aggregated net assets of Pro-innovative Holdings Limited at the date of disposal were approximately HK$1,363,000, the disposal was satisfied by cash of approximately HK$3,478,000 with a gain on disposal of approximately HK$2,115,000.

**28. BANK LOANS AND OVERDRAFTS**

Bank loans and overdrafts were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 30 June 2008 | 31 March 2007 | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current** | | | | |
| Bank loans | — | 3,812 | — | — |
| **Current** | | | | |
| Bank overdrafts *(note 26)* | 4,837 | 4,998 | — | — |
| Bank loans | 10,000 | 11,148 | — | — |
| | 14,837 | 16,146 | — | — |
| Total | 14,837 | 19,958 | — | — |

| | The Group | | The Company | |
|---|---|---|---|---|
| | 30 June 2008 | 31 March 2007 | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Secured** | | | | |
| Bank overdrafts | 4,837 | 4,998 | — | — |
| Bank loans | 10,000 | 14,960 | — | — |
| | 14,837 | 19,958 | — | — |

The bank overdrafts facilities and the bank loans are secured by the Group's time deposits of HK$13,000,000 (31 March 2007: HK$13,000,000) as at 30 June 2008.

The directors, Ms. Wong Yuen Yee, Mr. Wong Yao Wing, Robert and Mr. Wong Kwok Sing have provided personal guarantee for bank loan and overdraft facilities to the extent of HK$15,000,000 (31 March 2007: HK$24,040,000) granted to the Group and the Company.

Such banking facilities amounted to HK$Nil (31 March 2007: HK$6,040,000), HK$3,000,000 (31 March 2007: HK$4,000,000) and HK$12,000,000 (31 March 2007: HK$14,000,000) respectively. The facilities were utilised to the extent of HK$Nil (31 March 2007: HK$4,041,000), HK$2,912,000 (31 March 2007: HK$3,918,000) and HK$11,926,000 (31 March 2007: HK$13,790,000) respectively.

The maturity of borrowings is as follows:

| | Bank loans and overdrafts | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | 30 June 2008 | 31 March 2007 | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 1 year | 14,926 | 16,146 | — | — |
| Between 1 and 2 years | — | 121 | — | — |
| Between 2 and 5 years | — | 411 | — | — |
| Wholly repayable within 5 years | 14,926 | 16,678 | — | — |
| Over 5 years | — | 3,280 | — | — |

The effective interest rates were as follows:

| | 30 June 2008 | 31 March 2007 |
|---|---|---|
| Bank overdrafts | 7.8% | 9.3% |
| Bank loans | 7.1% | 8.8% |

The directors consider that the carrying amounts of borrowings approximate their fair values.

The carrying amounts of the borrowings are denominated in Hong Kong dollars.

## 29. TRADE PAYABLES, ACCRUED EXPENSES AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 30 June 2008 | 31 March 2007 | 30 June 2008 | 31 March 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | 5,842 | 175 | — | — |
| Bills payable | — | 1,970 | — | — |
| Amount due to a related company | 286 | 1,493 | — | — |
| Accrued expenses and other payables | 14,776 | 10,636 | 2,188 | 2,898 |
| | 20,904 | 14,274 | 2,188 | 2,898 |

The carrying amount of trade and other payables are all denominated in Hong Kong dollars.

## 30. OTHER LOANS

Other loan were unsecured, bearing interest at rate of 13% per annum and repayable within 12 months from the balance sheet date.

## 31. 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 Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees with their assets held separately from those of the Group. The Group participates in a Mandatory Provident

Fund ("MPF"), managed by independently 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.

**32. LONG SERVICE PAYMENTS**

| | The Group | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| Balance as at the beginning of period/year | 150 | 150 |
| Addition during the period/year | 83 | — |
| Balance as at the end of period/year | 233 | 150 |

Under the Hong Kong Employment Ordinance, an entity is required to make long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain conditions and the termination meets the required circumstances. However, where an employment is simultaneously entitled to a long service payment and to a retirement scheme payment, the amount of the long service payment may be reduced by certain benefits arising from the retirement scheme.

**33. CURRENT AND DEFERRED TAXATION**

| | The Group | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| (a) Current taxation in the consolidated balance sheet represents: | | |
| Provision for Hong Kong profits tax | — | (394) |
| Provisional profits tax paid | 317 | — |
| Balance of profits tax provision relating to prior years | — | (659) |
| | 317 | (1,053) |

(b) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the period are as follows:

| | **Accelerated depreciation allowances** |
|---|---|
| | *HK$'000* |
| Deferred tax liabilities arising from: | |
| At 1 April 2006 | 4,499 |
| Charged to consolidated income statement *(note 9)* | 477 |
| At 31 March 2007 | 4,976 |
| Charged to consolidated income statement *(note 9)* | 2,813 |
| At 30 June 2008 | 7,789 |

The Group has not recognised net deferred tax assets in respect of tax losses of HK$3,760,000 (31 March 2007: HK$1,133,000) due to the unpredictability of future profit stream. The tax losses do not expire under current tax legislation.

## 34. CONVERTIBLE NOTES

### HK$6.3 million Convertible Notes due 2008 (the "2005 Notes")

On 12 August 2005, the Company issued 3-year HK$6.3 million unsecured convertible notes bearing interest at 7.5% per annum payable quarterly in arrears of each year. Subsequent to a share consolidation on 7 February 2006, holders of the 2005 Notes have the option to convert the notes into ordinary shares of the Company of HK$0.02 each at a conversion price of HK$0.1, subject to adjustments in accordance with the instrument constituting the convertible notes, at any time nine months after 12 August 2005 up to the third business day before the maturity date, 7 August 2008. Unless previously redeemed and cancelled, the notes will be redeemed at par on the maturity date. During the period, the convertible notes holders have exercised their rights to convert the Company's ordinary shares.

The interest charged for the period/year is calculated using the effective interest method by applying the effective interest rate of 8.5% to the liability component.

The 2005 Notes were fully converted during the period/year.

The net proceeds received from the issue of the convertible notes have been splitted between the liability component and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group as follows:

| | The Group and the Company | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| Liability component at the beginning of the period/year | 6,110 | 15,056 |
| Redemption of convertible bonds | — | (9,320) |
| Conversion of convertible bonds to ordinary shares | (6,126) | — |
| Interest charged | 169 | 1,136 |
| Interest paid | (153) | (762) |
| Liability component at the end of the period/year | — | 6,110 |
| Less: Amount due within one year shown under current liabilities | — | (55) |
| Amount due after one year | — | 6,055 |

### 35. SHARE CAPITAL

| | 30 June 2008 | | 31 March 2007 | |
|---|---|---|---|---|
| | Number of shares | Nominal value | Number of shares | Nominal value |
| | *'000* | *HK$'000* | *'000* | *HK$'000* |
| Authorised: | | | | |
| Ordinary shares of HK$0.02 each | | | | |
| Beginning and end of the period/year | 5,000,000 | 100,000 | 5,000,000 | 100,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK$0.02 each | | | | |
| Beginning of the period/year | 430,075 | 8,602 | 335,075 | 6,702 |
| Shares issued under share option scheme *(note a)* | 98,227 | 1,964 | — | — |
| Placements of shares *(note b)* | 635,885 | 12,718 | — | — |
| Conversion of convertible notes *(Note c)* | 63,000 | 1,260 | — | — |
| Issuance of shares | — | — | 95,000 | 1,900 |
| End of period/year | 1,227,187 | 24,544 | 430,075 | 8,602 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All the ordinary shares rank equally with regard to Company's residual assets.

*Note:*

(a) During the period, options were exercised to subscribe for 98,227,000 ordinary shares in the Company at a consideration of HK$39,229,000 of which HK$1,964,000 was credited to share capital and the balance of HK$37,265,000 was credited to the share premium account. HK$12,493,000 has been transferred from the share option reserve to the share premium account.

(b) On 19 April 2007, the Company issued 351,000,000 ordinary shares of HK$0.168 each totalling HK$58,968,000 as a consideration for exchange of 56% in the issued capital of a subsidiary namely Autoscale Resources Limited. The excess of the consideration over the nominal value of shares of HK$7,020,000 was credited to the share premium account of the Company.

On the same date, the Company placed and issued 100,000,000 ordinary shares of HK$0.168 each at cash consideration of HK$16,800,000 in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$2,000,000 was credited to the share premium account of the Company.

On 25 May 2007, the Company placed and issued 184,884,900 ordinary shares of HK$1.100 each at cash consideration of HK$203,373,000 in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$3,698,000 was credited to the share premium account of the Company.

(c) On 27 July 2007, the convertible note holders have exercised conversion right to convert the whole part of the principal amount into the 63,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$1,260,000 was credited to the share premium account of the Company.

(d) All new ordinary shares issued during the year rank pari passu in all respects with the existing shares.

(e) Terms of unexpired and unexercised share options at balance sheet date.

| Exercise period | Exercise price after share consolidation | 30 June 2008 Number | 31 March 2007 Number |
|---|---|---|---|
| 5 July 2002 to 4 July 2012 | HK$0.28 | 4,800,000 | 22,320,000 |
| 6 January 2004 to 5 January 2014 | HK$0.22 | 10,500 | 16,660,000 |
| 20 September 2005 to 19 September 2015 | HK$0.114 | 1,000,000 | 17,000,000 |
| 23 August 2007 to 22 August 2017 | HK$0.63 | 69,780,000 | — |
| | | 75,590,500 | 55,980,000 |

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 36 to the financial statements.

**36. SHARE OPTION SCHEMES**

The Company adopted a share option scheme on 5 July 2002 whereby any employees (whether or not full-time or part-time) and any consultant or adviser who, at the sole discretion of the board, subject to the terms of the share option scheme, contributed to the Group, may be granted options to subscribe for shares in the Company.

The maximum number of shares in respect of which options may be granted under the schemes must not exceed 10% of the shares in issue.

**(i) Pre-IPO Share Option Scheme**

Pursuant to the Pre-IPO option scheme adopted by the Company on 5 July 2002 (the "Pre-IPO Share Option Scheme"), the principal terms of which were set out in the Prospectus, options were granted to the grantees to subscribe for shares in the Company.

The following share options with an exercise period from 5 July 2002 to 4 July 2012 were outstanding under the Pre-IPO Share Option Scheme during the period:

| | Number of share options granted on 5 July 2002 | | | | | |
|---|---|---|---|---|---|---|
| Name or category of participant | At 1 April 2007 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | At 30 June 2008 |
| Exercise price per share after share consolidation | HK$0.28 | | | | | HK$0.28 |
| Executive directors: | | | | | | |
| Ms. Wong Yuen Yee | 2,400,000 | — | (2,400,000) | — | — | — |
| Mr. Wong Kwok Sing | 2,400,000 | — | (2,400,000) | — | — | — |
| Mr. Wong Yao Wing, Robert | 2,400,000 | — | (2,400,000) | — | — | — |
| Mr. Lam Siu San | 2,400,000 | — | (2,400,000) | — | — | — |
| | 9,600,000 | — | (9,600,000) | — | — | — |
| Senior management | 4,800,000 | — | (2,400,000) | — | — | 2,400,000 |
| Other employees | 7,920,000 | — | (5,520,000) | — | — | 2,400,000 |
| | 22,320,000 | — | (17,520,000) | — | — | 4,800,000 |

**(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 adopted the Post-IPO share option scheme, the principal terms of which are set out in the section headed "Share Option Schemes" in Appendix IV of the Prospectus. Options were granted by the Company under the Post-IPO Share Option Scheme on 6 January 2004.

The following share options with an exercise period from 6 January 2004 to 5 January 2014 were outstanding under the Post-IPO Share Option Scheme during the period:

| | Number of share options granted on 6 January 2004 | | | | | |
|---|---|---|---|---|---|---|
| Name or category | At 1 April 2007 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | At 30 June 2008 |
| Exercise price per share after share consolidation | HK$0.22 | | | | | HK$0.22 |
| Executive directors: | | | | | | |
| Ms. Wong Yuen Yee | 2,378,500 | — | (2,378,500) | — | — | — |
| Mr. Wong Kwok Sing | 2,378,500 | — | (2,378,500) | — | — | — |
| Mr. Wong Yao Wing, Robert | 2,378,500 | — | (2,378,500) | — | — | — |
| Mr. Lam Siu San | 2,378,500 | — | (2,378,500) | — | — | — |
| | 9,514,000 | — | (9,514,000) | — | — | — |
| Senior management | 2,378,500 | — | (2,378,500) | — | — | — |
| Other employees | 4,767,500 | — | (4,757,000) | — | — | 10,500 |
| | 16,660,000 | — | (16,649,500) | — | — | 10,500 |

**(iii) Post-IPO Share Option Scheme**

Pursuant to a written resolution passed by the sole shareholder of the Company on 5 July 2002, the Company adopted the Post-IPO share option scheme, the principal terms of which are set out in the section headed "Share Option Schemes" in Appendix IV of the Prospectus. Options were granted by the Company under the Post-IPO Share Option Scheme on 20 September 2005.

The following share options with an exercise period from 20 September 2005 to 19 September 2015 were outstanding under the Post-IPO Share Option Scheme during the period:

| | Number of share options granted on 20 September 2005 | | | | | |
|---|---|---|---|---|---|---|
| **Name or category of participant** | **At 1 April 2007** | **Granted during the period** | **Exercised during the period** | **Cancelled during the period** | **Lapsed during the period** | **At 30 June 2008** |
| Exercise price per share | HK$0.114 | | | | | HK$0.114 |
| Executive directors: | | | | | | |
| Ms. Wong Yuen Yee | 2,900,000 | — | (2,900,000) | — | — | — |
| Mr. Wong Kwok Sing | 2,900,000 | — | (2,900,000) | — | — | — |
| Mr. Wong Yao Wing, Robert | 2,900,000 | — | (2,900,000) | — | — | — |
| Mr. Lam Siu San | 2,900,000 | — | (2,900,000) | — | — | — |
| | 11,600,000 | — | (11,600,000) | — | — | — |
| Senior management | 750,000 | — | (750,000) | — | — | — |
| Other employees | 4,650,000 | — | (3,650,000) | — | — | 1,000,000 |
| | 17,000,000 | — | (16,000,000) | — | — | 1,000,000 |

**(iv) Post-IPO Share Option Scheme**

Pursuant to a written resolution passed by the sole shareholder of the Company on 5 July 2002, the Company adopted the Post-IPO share option scheme, the principal terms of which are set out in the section headed "Share Option Schemes" in Appendix IV of the Prospectus. Options were granted by the Company under the Post-IPO Share Option Scheme on 23 August 2007.

The following share options with an exercise period from 23 August 2007 to 22 August 2017 were outstanding under the Post-IPO Share Option Scheme during the period:

| | | Number of share options granted on 23 August 2007 | | | | |
|---|---|---|---|---|---|---|
| Name or category of participant | At 1 April 2007 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | At 30 June 2008 |
| Exercise price per share | HK$0.630 | | | | | HK$0.630 |
| Executive directors: | | | | | | |
| Ms. Wong Yuen Yee | — | 7,930,000 | — | — | — | 7,930,000 |
| Mr. Wong Kwok Sing | — | 7,930,000 | — | — | — | 7,930,000 |
| Mr. Wong Yao Wing, Robert | — | 7,930,000 | — | — | — | 7,930,000 |
| Mr. Lam Siu San | — | 7,930,000 | — | — | — | 7,930,000 |
| | — | 31,720,000 | — | — | — | 31,720,000 |
| Non-executive directors: | | | | | | |
| Wong Tak Leung, Charles | — | 1,000,000 | — | — | — | 1,000,000 |
| Lai Ying Sum | — | 1,000,000 | — | — | — | 1,000,000 |
| Cheung King Hung | — | 1,000,000 | — | — | — | 1,000,000 |
| | — | 3,000,000 | — | — | — | 3,000,000 |
| Senior management | — | 61,470,000 | (39,280,000) | — | — | 22,190,000 |
| Other employees | — | 12,870,000 | — | — | — | 12,870,000 |
| | — | 109,060,000 | (39,280,000) | — | — | 69,780,000 |

Pursuant to a written resolution passed by the sole shareholder of the Company on 5 July 2002, the Company adopted the Post-IPO share option scheme, the principal terms of which are set out in the section headed "Share Option Schemes" in Appendix IV of the Prospectus. Options were granted by the Company under the Post-IPO Share Option Scheme on 26 October 2007.

The following share options with an exercise period from 26 October 2007 to 25 October 2017 were outstanding under the Post-IPO Share Option Scheme during the period:

| | Number of share options granted on 26 October 2007 | | | | | |
|---|---|---|---|---|---|---|
| **Name or category of participant** | **At 1 April 2007** | **Granted during the period** | **Exercised during the period** | **Cancelled during the period** | **Lapsed during the period** | **At 30 June 2008** |
| Exercise price per share | HK$0.466 | | | | | HK$0.466 |
| Other employees | — | 8,777,940 | (8,777,940) | — | — | — |

The fair values of the options granted on 20 September 2005, 23 August 2007 and 26 October 2007 determined using the Binomial Option Pricing Model were HK$2,459,600, HK$32,590,077 and HK$1,660,147 respectively. The significant inputs and assumptions to the model were as follows:

| **Grant date** | **20 September 2005** | **23 August 2007** | **26 October 2007** |
|---|---|---|---|
| Stock assets price | HK$0.055 | HK$0.63 | HK$0.466 |
| Exercise price | HK$0.057 | HK$0.63 | HK$0.455 |
| Expected volatility | 107% | 77.37% | 77.67% |
| Expected life | 5 years | 10 years | 10 years |
| Risk free interest rate | 4.012% | 4.480% | 3.910% |
| Expected dividend yield | 0% | 0% | 0% |

Expected volatility was based on weekly historical volatility since the establishment of the Company.

The Binomial Option Pricing Model requires the input of highly subjective assumptions, including the volatility of share price. Any changes in subjective input assumptions could materially affect the fair value estimate.

## 37. RESERVES

### (a) The Group

| | Share premium HK$'000 | Share option reserve HK$'000 | Convertible notes reserve HK$'000 | Contributed surplus HK$'000 | Capital redemption reserve HK$'000 | Exchange reserve HK$'000 | Retained profits/ (Accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 April 2006 | 24,445 | 1,462 | 442 | 5,625 | 43 | — | 13,854 | 45,871 |
| Loss for the year | — | — | — | — | — | — | (3,116) | (3,116) |
| Issuance of shares | 13,300 | — | — | — | — | — | — | 13,300 |
| Shares issuance costs | (472) | — | — | — | — | — | — | (472) |
| De-recognition of equity component of convertible notes, net of transaction cost | — | — | (282) | — | — | — | 282 | — |
| Exchange difference on consolidation | — | — | — | — | — | (34) | — | (34) |
| At 31 March 2007 | 37,273 | 1,462 | 160 | 5,625 | 43 | (34) | 11,020 | 55,549 |
| Loss for the period | — | — | — | — | — | — | (71,352) | (71,352) |
| Issuance of shares | 266,423 | — | — | — | — | — | — | 266,423 |
| Fair value of options granted | — | 34,251 | — | — | — | — | — | 34,251 |
| Exercise of share options | 49,758 | (12,493) | — | — | — | — | — | 37,265 |
| Shares issuance costs | (15,614) | — | — | — | — | — | — | (15,614) |
| Exercise of convertible bonus notes, net of transaction cost | 5,026 | — | (160) | — | — | — | — | 4,866 |
| Exchange difference on consolidation | — | — | — | — | — | (211) | — | (211) |
| At 30 June 2008 | 342,866 | 23,220 | — | 5,625 | 43 | (245) | (60,332) | 311,177 |

The share issuance costs were written off against the share premium account.

Included in Group accumulated losses is an accumulated losses of HK$2,270,000 (31 March 2007: HK$1,580,000), attributable to associates and jointly controlled entity.

The application of the share premium account and capital redemption reserve is governed by Bye-Law 140(A) of the Company's Bye-Law and the Companies Act 1981 of Bermuda ("Companies Act").

Pursuant to the Re-organisation as set out in the prospectus, the Company became the holding company of the Group on 5 July 2002. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Re-organisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provision of section 54 of the Companies Act.

**(b) The Company**

| | Share premium | Share option reserve | Convertible notes reserve | Contributed surplus | Capital redemption reserve | (Accumulated losses) | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Balance at 1 April 2006 | 24,445 | 1,462 | 442 | 5,625 | 43 | (11,329) | 20,688 |
| Loss for the year | — | — | — | — | — | (3,384) | (3,384) |
| Issuance of shares | 13,300 | — | — | — | — | — | 13,300 |
| Shares issuance costs | (472) | — | — | — | — | — | (472) |
| De-recognition of equity component of convertible notes, net of transaction costs | — | — | (282) | — | — | 282 | — |
| Balance at 31 March 2007 | 37,273 | 1,462 | 160 | 5,625 | 43 | (14,431) | 30,132 |
| Loss for the period | — | — | — | — | — | (48,222) | (48,222) |
| Issuance of shares | 266,423 | — | — | — | — | — | 266,423 |
| Fair value of options granted | — | 34,251 | — | — | — | — | 34,251 |
| Exercise of share options | 49,758 | (12,493) | — | — | — | — | 37,265 |
| Share issuance costs | (15,614) | — | — | — | — | — | (15,614) |
| Exercise of convertible bonus notes, net of transaction costs | 5,026 | — | (160) | — | — | — | 4,866 |
| Balance at 30 June 2008 | 342,866 | 23,220 | — | 5,625 | 43 | (62,653) | 309,101 |

At 30 June 2008, no aggregate amount of reserves available for distribution to shareholders of the Company (31 March 2007: HK$Nil).

Pursuant to the Re-organisation as set out in the prospectus, the Company became the holding company of the Group on 5 July 2002. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Re-organisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provision of section 54 of the Companies Act.

## 38. ACQUISITION OF SUBSIDIARY

The Group acquired 56% of the issued share capital of Autoscale Resources Limited for a total consideration of HK$60,484,000 (including professional fee of HK$1,516,000). The amount of goodwill arising as a result of the acquisition was HK$60,643,000.

The net liabilities acquired in the transaction and the goodwill arising are as follows:

| | *HK$'000* |
|---|---|
| Net (liabilities) acquired: | |
| Amount due to director | (59) |
| Accruals | (100) |
| | (159) |
| Goodwill *(Note 17)* | 60,643 |
| | 60,484 |
| Total consideration satisfied by: | |
| Cash paid for professional fee | 1,516 |
| Shares allotted | 58,968 |
| | 60,484 |
| Net cash outflow arising on acquisition: | |
| Cash consideration | 1,516 |

**39. CAPITAL RISK MANAGEMENT**

The Group manage its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, raise new debt financing, or sell assets to reduce debt. No changes were made in the objective and processes during the period/year of 2008 and 2007.

The Group monitors capital using a gearing ratio. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio at 30 June 2008 and 31 March 2007 was as follows:

| | **The Group and the Company** | |
|---|---|---|
| | **30 June 2008** | **31 March 2007** |
| | *HK$'000* | *HK$'000* |
| Debt *(Note i)* | 14,837 | 26,068 |
| Cash and cash equivalents and pledged deposits | (50,305) | (15,121) |
| Net debt | (35,468) | 10,947 |
| Equity *(Note ii)* | 335,721 | 64,151 |
| Net debt to equity ratio | 0% | 17.1% |

(i) Debt comprises total bank borrowings and convertible notes.

(ii) Equity include all capital and reserves of the Group.

**40. FINANCIAL INSTRUMENTS**

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, equity price risk, foreign currency risk and cash flow interest rates risk. The Group's overall risk management programme seek to minimise potential adverse effects on the Group's financial performance and are set out below.

**(a) Interest rate risk**

The Group is exposed to cash flow interest rate risk on variable-rate bank borrowings. Management monitors the related cash flow interest rate risk exposure closely and will consider hedging significant cash flow interest rate risk exposure should the need arise.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate.

At 2008, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss after tax would increase/decrease by approximately HK$14,000 (31 March 2007: HK$68,000). This is mainly attributable to the Company's exposure to interest rates on its bank balances and bank loans.

**(b) Liquidity risk**

The Group incurred a loss in the current period and was financed by bank and other borrowings. The Group's operations are exposed to liquidity risk. Management monitors closely the liquidity position of the Group so as to meet all the financial obligations as and when they fall due. Management will consider to raise fund by ways of issuing debt and equity instruments of the Group or to obtain adequate committed lines of funding from financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

**The Group**

| | 30 June 2008 | | | | | | 31 March 2007 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying Amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Carrying Amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank loans and overdrafts | 14,837 | (14,848) | (14,848) | — | — | — | 19,958 | (22,594) | (16,609) | (344) | (1,031) | (4,610) |
| Trade payables, accrued expenses and other payables | 20,904 | (20,904) | (20,904) | — | — | — | 14,274 | (14,311) | (14,311) | — | — | — |
| Other loan | — | — | — | — | — | — | 5,150 | (5,164) | (5,164) | — | — | — |
| Amounts due to directors | 55,559 | (55,559) | (55,559) | — | — | — | 9,296 | (9,296) | (9,296) | — | — | — |
| Convertible notes | — | — | — | — | — | — | 6,110 | (6,890) | (356) | (6,534) | — | — |
| | 91,300 | (91,311) | (91,311) | — | — | — | 54,788 | (58,255) | (45,736) | (6,878) | (1,031) | (4,610) |

**The Company**

| | 30 June 2008 | | | | | | 31 March 2007 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying Amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Carrying Amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Amount due to a subsidiary | 10,890 | (10,890) | (10,890) | — | — | — | — | — | — | — | — | — |
| Amounts due to directors | 45 | (45) | (45) | — | — | — | 125 | (125) | (125) | — | — | — |
| Accrued expenses and other payables | 2,188 | (2,188) | (2,188) | — | — | — | 2,898 | (2,898) | (2,898) | — | — | — |
| Other loan | — | — | — | — | — | — | 5,150 | (5,164) | (5,164) | — | — | — |
| Convertible notes | — | — | — | — | — | — | 6,110 | (6,890) | (356) | (6,534) | — | — |
| | 13,123 | (13,123) | (13,123) | — | — | — | 14,283 | (15,077) | (8,543) | (6,534) | — | — |

**(c) Equity price risk**

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 22). All of the investments are listed investment on the Stock Exchange of Hong Kong.

*Sensitivity analysis*

At 2008, if equity prices at that date had been 5% higher/lower with all other variables held constant, net loss for the period would decrease by HK$51,000 (31 March 2007: HK$Nil).

**(d) Credit risk**

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made and services are provided to customers with an appropriate credit history. Bank deposits are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivables are set out in note 24.

**(e) Foreign currency risk**

The Group does not have a significant foreign currency risk exposure arising from its sales and purchases transactions as these transactions are mainly carried out in Hong Kong dollars. Accordingly, no sensitivity analysis has been prepared.

**41. COMMITMENTS**

**(a) Operating leases commitment**

At 30 June 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **30 June 2008** | **31 March 2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within 1 year | 3,392 | 682 |
| After 1 year but within 5 years | 7,787 | 88 |
| After 5 years | 8,711 | — |
| | 19,890 | 770 |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

**(b) Capital commitments**

Capital commitments outstanding at 30 June 2008 not provided for in the financial statements of the Group were as follows:

| | 30 June 2008 | 31 March 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Contracted but not provided for: | | |
| Acquisition of equipment | — | 5,120 |
| Acquisition of a property | 30,217 | — |
| Acquisition of software | 1,211 | — |
| Decoration of hotel properties | 39,416 | — |
| Design of moulds | — | 480 |
| Capital contribution of subsidiaries | 51,111 | 58,968 |
| Investment in joint venture | 18,333 | — |
| | 140,288 | 64,568 |

**42. 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$550,000 to the plaintiff as at 30 June 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.

**43. RELATED PARTY TRANSACTIONS**

The following represents a summary of material transactions during the period/year between the Group and related parties identified by the directors:

| | *Note* | Period from 1 April 2007 to 30 June 2008 *HK$'000* | Year ended 31 March 2007 *HK$'000* |
|---|---|---|---|
| Operating expenses paid | (i) | 1,361 | 180 |
| Consultancy fee paid | (ii) | 181 | 72 |
| Debts assigned to directors | (iii) | — | 448 |
| Loan interest income | (iv) | 440 | — |

Directors of the Company have provided personal guarantee for banking facilities to the extent of HK$15,000,000 granted to the Group and the Company.

*Note:*

(i) The directors, Ms. Wong Yuen Yee, Mr. Wong Yao Wing, Robert, Mr. Lam Shiu San and Mr. Wong Kwok Sing, paid certain operating expenses on behalf of the Group.

(ii) Consultancy fee paid to Digital Bank Technology Limited, where Mr. Lam Shiu San is the common director, for the provision of technical support.

(iii) The net balances of amount due by the related companies have been assigned to the directors, Ms. Wong Yuen Yee and Mr. Wong Kwok Sing.

(iv) Loan interest income from United Premier Medical Group Limited, an associate of the Group.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary course of business.

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the period/year was as follows:

| | Period from 1 April 2007 to 30 June 2008 | Year ended 31 March 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Basic salary, allowance and other benefits | 13,412 | 4,157 |
| Recognised retirement pension | 162 | 59 |
| Share-based payments | 16,820 | — |
| | 30,394 | 4,216 |

**44. EVENTS AFTER BALANCE SHEET DATE**

(a) On 29 August 2008, the Company had completed its placing of 107,704,193 shares from existing shareholders at a price of HK$0.37 per share.

(b) In July 2008, the Group had completed its exchange of shares of its associated company namely, United Premier Medical Group Limited, with shares of a company traded on the Over-The-Counter Bulletin Board of the United States namely, China Health Care Corporation (Formerly known as The Cavalier Group).

## III. FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

Set out below are the unaudited consolidated financial statements of 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 which are extracted from the interim report of the Group for the six months ended 31 December 2008.

**Condensed Consolidated Income Statement**

*For the six months ended 31 December 2008*

| | | Unaudited Three months ended 31 December | | Unaudited Six months ended 31 December | |
|---|---|---|---|---|---|
| | | **2008** | **2007** | **2008** | **2007** |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'00* |
| **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*

| | Notes | Unaudited 31 December 2008 HK$'000 | Audited 30 June 2008 HK$'000 |
|---|---|---|---|
| **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 |
| | | 225,544 | 207,228 |
| **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 |
| | | 208,574 | 227,582 |
| **Current liabilities** | | | |
| Bank loans and overdrafts | 16 | 11,944 | 14,837 |
| Trade payables, accrued expenses and other payables | 17 | 14,339 | 20,904 |
| A mounts due to directors | | 3,088 | 55,559 |
| | | 29,371 | 91,300 |
| **Net current assets** | | 179,203 | 136,282 |
| **Total assets less current liabilities** | | 404,747 | 343,510 |

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

## Condensed Consolidated Statement of Changes in Equity

*For the six months ended 31 December 2008*

| | 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 | Unaudited Total 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 | 23,787 | 310,111 | 86 | — | 5,625 | 43 | (34) | 15,959 | 355,577 |
| 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** | 31,350 | 400,378 | 23,220 | — | 5,625 | 43 | (168) | (85,156) | 375,292 |

**Condensed Consolidated Cash Flow Statement**
*For the six months ended 31 December 2008*

| | Unaudited Six months ended 31 December 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Net cash from operating activities | (82,027) | (61,526) |
| Net cash used in investing activities | (35,786) | (9,072) |
| Net cash generated from financing activities | 85,287 | 31,220 |
| Decrease in cash and cash equivalents | (32,526) | (39,378) |
| Cash and cash equivalents at the beginning of the period | 32,379 | 121,519 |
| Cash and cash equivalent at the end of the period | (147) | 82,141 |
| **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) |
| Cash and cash equivalents | (147) | 82,141 |

*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 HK$'000 | 2007 HK$'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 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Hong Kong profits tax | — | 37 |

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

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

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

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

**(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 | | Consolidated | |
|---|---|---|---|---|---|---|
| | | | Unaudited Six months ended | | | |
| | 31 December 2008 | 31 December 2007 | 31 December 2008 | 31 December 2007 | 31 December 2008 | 31 December 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenue: | | | | | | |
| Revenue from external customers | 33,105 | 60,714 | 3,179 | 371 | 36,284 | 61,085 |
| Other segment information: | | | | | | |
| Total assets | 282,897 | 386,472 | 151,221 | 17,072 | 434,118 | 403,544 |
| Capital expenditure | 24,090 | 8,956 | 15,279 | 116 | 39,369 | 9,072 |

**8. GOODWILL**

| | Unaudited 31 December 2008 | Audited 30 June 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Carrying amount | 60,643 | 60,643 |

## 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** | 51,560 |

## 10. CONSTRUCTION IN PROGRESS

| | Unaudited 2008 HK$'000 |
|---|---|
| As at 1 July | — |
| Additions | 337 |
| **As at 31 December** | 337 |

## 11. INTANGIBLE ASSETS

| | Unaudited 2008 HK$'000 |
|---|---|
| Net book value as at 1 July | 79,355 |
| Additions | 7,600 |
| Amortisation | (10,183) |
| **Net book value as at 31 December** | 76,772 |

## 12. INTEREST IN ASSOCIATES

| | Unaudited 31 December 2008 HK$'000 | Audited 30 June 2008 HK$'000 |
|---|---|---|
| Share of net assets | 2,353 | 2,353 |

## 13. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | Unaudited 31 December 2008 HK$'000 | Audited 30 June 2008 HK$'000 |
|---|---|---|
| Share of net assets | — | — |

## 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 |
| | 14,267 | 1,175 |

## 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 | — | (113) |
| | 73,596 | 65,273 |
| Amounts due from customers | 21,660 | 19,675 |
| Receivable from a jointly controlled entity | — | 95 |
| Receivable from associates | — | 119 |
| | 95,256 | 85,162 |

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 | 22,349 | 3,743 |
| | 73,596 | 65,273 |

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 | 21,666 | — |
| Secured bank overdrafts | 1,944 | 4,837 |
| Secured bank loans | 10,000 | 10,000 |
| | 11,944 | 14,837 |
| Total | 33,610 | 14,837 |
| 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 | — | — |
| | 33,610 | 14,837 |

## 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 | 5,483 | 14,776 |
| | 14,339 | 20,904 |

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 | 14,339 | 20,904 |

## 18. SHARE CAPITAL

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

## 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 | 13,422 | 8,711 |
| | 31,491 | 19,890 |

### (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 | 18,333 | 18,333 |
| | 69,444 | 140,288 |

## 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.

## IV. FINANCIAL INFORMATION OF THE GROUP FOR THE NINE MONTHS ENDED 31 MARCH 2009

Set out below are the unaudited consolidated financial statements of the Group for the three months and nine months ended 31 March 2009, together with comparative figures for the three months and nine months ended 31 March 2008 which are extracted from the third quarterly report of the Group for the nine months ended 31 March 2009.

| | | **Unaudited Three months ended 31 March** | | **Unaudited Nine months ended 31 March** | |
|---|---|---|---|---|---|
| | | **2009** | **2008** | **2009** | **2008** |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Turnover** | 2 | 1,021 | 39,665 | 37,305 | 100,750 |
| Cost of sales | | (901) | (28,560) | (32,079) | (73,666) |
| Gross profit | | 120 | 11,105 | 5,226 | 27,084 |
| Other revenue | | 4,792 | 8,772 | 5,151 | 13,364 |
| Marketing and promotion expenses | | (765) | (1,902) | (4,293) | (4,785) |
| Administrative expenses | | (18,562) | (15,705) | (44,181) | (26,598) |
| Finance costs | | (435) | (449) | (1,572) | (1,103) |
| Loss on disposal of subsidiary | | (57,134) | — | (57,134) | — |
| Share of losses of associates | | (93) | (7,632) | (93) | (7,632) |
| **(Loss)/profit before income tax** | | (72,077) | (5,811) | (96,896) | 330 |
| Income tax | 3 | (10) | — | (15) | (37) |
| **(Loss)/profit attributable to equity holders of the Company** | | (72,087) | (5,811) | (96,911) | 293 |
| (Loss)/earnings per share | | | | | |
| — Basic | 4(a) | (4.44) cents | (0.48) cent | (6.70) cents | 0.02 cent |
| — Diluted | 4(b) | N/A | N/A | N/A | N/A |

*Notes:*

**1. 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 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.

**2. 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 Peoples' Republic of China ("PRC").

**3. INCOME TAX**

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 17.5%) on the estimated assessable profits for the period.

**4. (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 nine months ended 31 March 2009 of approximately HK$(72,087,000) and HK$(96,911,000) respectively (2008: HK$(5,811,000) and profit of HK$293,000 respectively) and on the weighted average of 1,621,788,920 and 1,447,400,724 respectively (2008: 1,206,336,704 and 1,183,820,362 respectively) 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.

## 5. 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 | 22,225 | 298,193 | 464 | 160 | 5,625 | 43 | (34) | 9,855 | 336,531 |
| Profit for the period | — | — | — | — | — | — | — | 293 | 293 |
| Total recognised income and expenses for the period | — | — | — | — | — | — | — | 293 | 293 |
| Issuance of shares | 2,083 | 26,638 | (378) | (160) | — | — | — | — | 28,183 |
| Share issuance cost | — | (256) | — | — | — | — | — | — | (256) |
| Exchange difference on consolidation | — | — | — | — | — | — | (63) | — | (63) |
| At 31 March 2008 | 24,308 | 324,575 | 86 | — | 5,625 | 43 | (97) | 10,148 | 364,688 |
| At 1 July 2008 | 24,544 | 342,866 | 23,220 | — | 5,625 | 43 | (245) | (60,332) | 335,721 |
| Loss for the period | — | — | — | — | — | — | — | (96,911) | (96,911) |
| Total recognised income and expenses for the period | — | — | — | — | — | — | — | (96,911) | (96,911) |
| Issuance of share | 8,465 | 64,318 | — | — | — | — | — | — | 72,783 |
| Share issuance cost | — | (1,862) | — | — | — | — | — | — | (1,862) |
| Issuance of convertible notes | — | — | — | 13,128 | — | — | — | — | 13,128 |
| Exercise of convertible notes, net of transaction cost | 1,223 | 2,677 | — | (1,180) | — | — | — | — | 2,720 |
| Exchange difference on consolidation | — | — | — | — | — | — | 77 | — | 77 |
| At 31 March 2009 | 34,232 | 407,999 | 23,220 | 11,948 | 5,625 | 43 | (168) | (157,243) | 325,656 |

## BACKGROUND

On 10 December 2008, Shiny Step Investments Limited ("**Shiny Step**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the Capital Base Holdings Limited ("**Capital Base**") pursuant to which Capital Base agreed to sell and Shiny Step agreed to acquire approximately 23% of the issued share capital of Great China Media Holdings Limited ("**Great China Media**") at a consideration of HK$43,384,000 to be satisfied by the issue of convertible note by the Company to Capital Base. The sole operating subsidiary of Great China Media is China Outdoor Media Holdings Limited, which is wholly-owned by Great China Media and is principally engaged in the business of the provision of advertising related consultation services and event management services. The aforesaid acquisition was completed on 28 February 2009. There were no variation to the aggregate remuneration payable to and benefits in kind receivable by the directors of Shiny Step as a result of such acquisition.

## FINANCIAL INFORMATION

Pursuant to paragraph 31(3)(b) of Appendix 1B to the GEM Listing Rules, the circular shall contain, inter alia, financial information for any company acquired since the date of the last published audited accounts of the group together with a pro forma statement combining the profits or losses for the latest financial year.

The Company applied for a waiver from strict compliance with paragraph 31(3)(b) of Appendix 1B to the GEM Listing Rules on the following grounds:

(i) the Directors are of the opinion that the pro forma statement of the assets and liabilities of the Group and Great China Media set out in Appendix III to the Company's circular dated 23 January 2009 contains sufficient information to Shareholders on the impact of the acquisition of approximately 23% of the issued share capital in Great China Media;

(ii) as the Group only has a 23% interest in Great China Media, the profit and loss of Great China Media will not be consolidated into the accounts of the Group and there will not be any impact on the income statement of the Group; and

(iii) additional time and costs would be incurred leading to seriously undue burden to the Company by engaging auditors to revise the pro forma statement which would lead to further delay in despatch of circular; and further extension of the long stop date and completion date of the Sale and Purchase Agreement.

On 3 September 2009, a waiver from strict compliance with paragraph 31(3)(b) of Appendix IB to the GEM Listing Rules was granted by the Stock Exchange to the Company.

Set out below are (i) the financial information of Great China Media comprises the consolidated profit and loss accounts for the period from 16 February 2007 (date of incorporation) to 30 September 2008, consolidated balance sheet as at 30 September 2008, consolidated statement of changes in equity for the period ended 30 September 2008, consolidated cash flow statement for the period from 16 February 2007 (date of incorporation) to 30 September 2008 and its notes, notes to the financial information and the management discussion and analysis as extracted from Appendix II to the Company's circular dated 23 January 2009; and (ii) the unaudited pro forma financial information on the Enlarged Group as extracted from Appendix III to the Company's circular dated 23 January 2009.

**(i) The financial information of Great China Media as extracted from Appendix II to the Company's circular dated 23 January 2009**

**I. Accountants' Report of Great China Media**

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from Pentagon CPA Limited.

PENTAGON CPA LIMITED · CERTIFIED PUBLIC ACCOUNTANTS

百達會計師事務所有限公司

23 January 2009

The Directors
Inno-Tech Holdings Limited
Room 903, 9th Floor,
Tung Wai Commercial Building,
109–111 Gloucester Road,
Wan Chai, Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Great China Media Holdings Limited 大中華媒體控股有限公司 ("Great China Media") (Formerly known as CHINA OUTDOOR MEDIA HOLDINGS LIMITED 中國戶外媒體控股有限公司) for the period from 16 February 2007 (date of incorporation) to 30 September 2008 (the "Relevant Period") for inclusion in the circular of Inno-Tech Holdings Limited (the "Company") dated 23 January 2009 (the "Circular") in connection with the proposed acquisition of approximately 23% interest in the issued share capital of Great China Media by a wholly owned subsidiary of the Company (the "Acquisition").

Great China Media was incorporated on 16 February 2007 in the British Virgin Islands with limited liability and acts as an investment holding company. Having complied with all the requirements of the BVI Business Act, 2004, in respect of a change of name on 4 December 2008, the name of the Company was changed from CHINA OUTDOOR MEDIA HOLDINGS LIMITED (中國戶外媒體控股有限公司) to Great China Media Holdings Limited (大中華媒體控股有限公司). As at 30 September 2008, Great China Media held 100% equity interest in China Outdoor Media Holdings Limited ("COM") and Full Pace Holdings Limited ("FP"). The principal activity of COM, FP and its subsidiary is the provision of advertising related consulting services in the People's Republic of China.

No audited financial statements of Great China Media have been prepared as Great China Media is not subject to any statutory audit requirements.

For the purpose of this report, the directors of Great China Media have prepared financial statements of Great China Media for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements"). The directors of Great China Media are responsible for preparing the Underlying Financial Statements which give a true and fair view. In preparing these Underlying Financial Statements it is fundamental that appropriate accounting policies are selected and applied consistently. We have performed independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The financial information set out in sections A to B below (the "Financial Information") has been prepared based on the Underlying Financial Statements. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Great China Media are responsible for the Financial Information. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the results and cash flows of Great China Media for the Relevant Period and of its balance sheets as at 30 September 2008.

*A. Financial Information*

**CONSOLIDATED PROFIT AND LOSS ACCOUNTS**
*FOR THE PERIOD FROM 16 FEBRUARY 2007 (DATE OF INCORPORATION) TO 30 SEPTEMBER 2008*
*(Expressed in Hong Kong Dollars)*

| | | **16/2/2007 to 30/9/2008** |
|---|---|---|
| | *Note* | *HK$* |
| TURNOVER | 3 | 15,127,889 |
| Direct costs of services | | (6,756,396) |
| GROSS PROFIT | | 8,371,493 |
| Other revenue | 3 | 85,685 |
| Staff costs | | (1,735,916) |
| Depreciation | | (2,202,946) |
| Other operating expenses | | (3,438,512) |
| PROFIT FROM OPERATIONS | | 1,079,804 |
| Finance costs | 5 | (5,464) |
| PROFIT BEFORE TAXATION | 5 | 1,074,340 |
| TAXATION | 7 | (461,166) |
| PROFIT AFTER TAXATION | | 613,174 |

**CONSOLIDATED BALANCE SHEET**
*AS AT 30 SEPTEMBER 2008*
*(Expressed in Hong Kong Dollars)*

| | Note | 2008 HK$ |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Equipment | 8 | 12,523,074 |
| Goodwill | 10 | 2,696,076 |
| | | 15,219,150 |
| CURRENT ASSETS | | |
| Accounts receivables | 11 | 1,131,639 |
| Amounts due from other | 12 | 1,216,909 |
| Deposits and prepayments | | 324,386 |
| Amount due from a director | 13 | 2,340 |
| Cash at bank and in hand | | 80,828 |
| | | 2,756,102 |
| CURRENT LIABILITIES | | |
| Accounts payables | 14 | 1,613,600 |
| Accrued expenses | | 171,278 |
| Amounts due to a director | 15 | 8,358,234 |
| | | 10,143,112 |
| NET CURRENT LIABILITIES | | 7,387,010 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 7,832,140 |
| CAPITAL AND RESERVES | | |
| Share capital | 16 | 8,065 |
| Share premium | 16 | 6,749,735 |
| Profit for the period | | 613,174 |
| | | 7,370,974 |
| NON-CURRENT LIABILITIES | | |
| Deferred tax liabilities | 7 | 461,166 |
| | | 7,832,140 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
*FOR THE PERIOD ENDED 30 SEPTEMBER 2008*
*(Expressed in Hong Kong Dollars)*

| | Share Capital *HK$* | Share Premium *HK$* | Retained Profits *HK$* | Total *HK$* |
|---|---|---|---|---|
| Issue of ordinary shares | 8,065 | 6,749,735 | — | 6,757,800 |
| Profit for the period from 16/2/2007 (date of incorporation) to 30/9/2008 | — | — | 613,174 | 613,174 |
| At 30 September 2008 | 8,065 | 6,749,735 | 613,174 | 7,370,974 |

**CONSOLIDATED CASH FLOW STATEMENT**
*FOR THE PERIOD FROM 16 FEBRUARY 2007*
*(DATE OF INCORPORATION) TO 30 SEPTEMBER 2008*
*(Expressed in Hong Kong Dollars)*

| | *Note* | **16/2/2007 to 30/9/2008** *HK$* |
|---|---|---|
| Cash flows from operating activities | | |
| Cash generated from operations | (a) | 10,729,443 |
| Interest received | | 15,685 |
| Interest paid | | (4) |
| Net cash from operating activities | | 10,745,124 |
| Cash flows (used in) investing activities | | |
| Payment to acquire fixed assets | | (14,726,020) |
| Payment to acquire a subsidiary | | (2,696,076) |
| Net cash (used in) investing activities | | (17,422,096) |
| Cash flows from financing activities | | |
| Issue of share capital | | 8,065 |
| Share Premium | | 6,749,735 |
| Net cash from financing activities | | 6,757,800 |
| Net increase in cash and cash equivalents | | 80,828 |
| Cash and cash equivalents at the beginning of the period | | — |
| Cash and cash equivalents at the end of the period | (b) | 80,828 |

## NOTES TO THE CASH FLOW STATEMENT

**(a) Reconciliation of operating profit to cash generated from operations**

| | **16/2/2007 to 30/9/2008** |
|---|---|
| | *HK$* |
| Operating profit | 1,074,340 |
| Interest income | (15,685) |
| Interest paid | 4 |
| Depreciation | 2,202,946 |
| (Increase) in accounts receivable | (1,131,639) |
| (Increase) in amounts due from other | (1,216,909) |
| (Increase) in deposits and prepayments | (324,386) |
| (Increase) in amount due from a director | (2,340) |
| Increase in accounts payable | 1,613,600 |
| Increase in accrued expenses | 171,278 |
| Increase in amounts due to a director | 8,358,234 |
| Net cash generated from operations | 10,729,443 |

**(b) Analysis of the balances of cash and cash equivalents**

| | **2008** |
|---|---|
| | *HK$* |
| Cash at bank and in hand | 80,828 |

*B. Notes to the Financial Information (Expressed in Hong Kong Dollars)*

**1. GENERAL**

Great China Media was incorporated on 16 February 2007 in the British Virgin Islands with limited liability under the International Business Companies Act (Cap. 291) of the BVI. Having complied with all the requirements of the BVI Business Act, 2004, in respect of a change of name on 4 December 2008, the name of the Company was changed from CHINA OUTDOOR MEDIA HOLDINGS LIMITED (中國戶外媒體控股有限公司) to Great China Media Holdings Limited (大中華媒體控股有限公司). Great China Media is domiciled in British Virgin Islands with its registered office situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

The consolidated financial statements are presented in Hong Kong Dollars, which is the same as the functional currency of the Great China Media.

The principal activities of the Great China Media and its subsidiaries (the "Group") are provision of advertising related consulting services in the People's Republic of China.

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES**

**(a)** The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The financial statements are prepared under the historical cost convention. A summary of the significant policies is set out below.

New HKFRSs issued but not yet effective are not early adopted. The directors of Great China Media anticipate that the application of these new HKFRSs will have no material impact on the Financial information.

**(b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Great China Media and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**(c) Subsidiaries**

A subsidiary is a company, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Goodwill represents the excess of the cost of investments over the fair value of identifiable net assets of subsidiaries when acquired, less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to cash-generating units and is tested annually. Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

**(d) Fixed assets**

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

Depreciation is calculated to write off the cost of the fixed assets over their estimated useful lives on a straight line basis at 20% per annum.

**(e) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Great China Media Group and when the revenue can be measured reliably, on the following bases:

(i) Service income is recognised in the period when services are rendered.

(ii) Interest income, on accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of financial assets.

**(f) Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the estimated assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided using the liability method on all material temporary differences, other than those which are not expected to crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

**(g) Impairment of assets**

At each balance sheet date, tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount from sale in an arm's length transaction; value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets, if that is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment no longer exists or has decreased. The reversal is recorded in the profit and loss account.

**(h) Related parties**

A party is considered to be related to Great China Media if:

(i) directly, or indirectly through one or more intermediaries, the party (1) controls, is controlled by, or is under common control with Great China Media; (2) has an interest in Great China Media that gives it significant influence over Great China Media; or (3) has joint control over Great China Media;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of Great China Media or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of Great China Media, or of any entity that is a related party of Great China Media.

**(i) Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leaser are accounted for as operating leases. The rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

**(j) Cash and cash equivalents**

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Great China Media Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**(k) Pension scheme**

The Great China Media Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Great China Media Group in an independently administered fund. The Great China Media Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

**(l) Translation of foreign currencies**

Foreign currency transactions during the period are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

## 3. TURNOVER

Turnover represents the service income from the provision of advertising related consulting services rendered during the Relevant Period.

An analysis of the Great China Media Group's turnover and other revenues for the Relevant Period is as follows:

| | **16/2/2007 to 30/9/2008** *HK$* |
|---|---|
| Turnover | |
| Provision of advertising related consulting services | 15,127,889 |
| Other revenues | |
| Interest income | 15,685 |
| Rental income | 70,000 |
| | 85,685 |
| | 15,213,574 |

## 4. SEGMENTAL INFORMATION

No business or geographical segment analysis is presented as all operations, assets and liabilities of the Great China Media Group during the Relevant Period are related to the provision of advertising related consulting services and over 90% of the assets and customers are located in the PRC.

## 5. PROFIT BEFORE TAXATION

| | 16/2/2007 to 30/9/2008 *HK$* |
|---|---|
| Profit before taxation is arrived at after charging: | |
| Auditors' remuneration | 62,000 |
| Depreciation | 2,202,946 |
| Exchange losses | 863 |
| Operating lease charge on property | 406,649 |
| Finance cost | |
| Bank charge | 5,460 |
| Overdraft bank interest | 4 |
| | 5,464 |
| Staff costs *(excluding directors' remuneration — note 6)* | |
| Salaries and allowances | 1,099,446 |
| Pension Scheme contributions | 6,470 |
| | 1,105,916 |

## 6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration paid or payable to the directors were as follows:

| | 16/2/2007 to 30/9/2008 *HK$* |
|---|---|
| Fees | — |
| Other emoluments | 630,000 |

Of the five individuals with highest emoluments, three of them are directors whose emolument is disclosed as above. Details of the remuneration of the two non-directors, highest paid employees are as follows:

| | 16/2/2007 to 30/9/2008 *HK$* |
|---|---|
| Salaries and benefits in kind | 610,839 |
| Retirement scheme contributions | — |

During the Relevant Period, no emoluments were paid by Great China Media to the directors or any of the five highest paid individuals as an inducement to join or upon joining Great China Media or as compensation for loss of office. No directors waived any emoluments during the Relevant Period.

## 7. TAXATION

**(a)** The amount of taxation in the income statement represents:

| | 16/2/2007 to 30/9/2008 |
|---|---|
| | *HK$* |
| Hong Kong profits tax | |
| — current | — |
| — deferred | 461,166 |
| | 461,166 |

No provision for Hong Kong profits tax has been made as Great China Media sustained a loss for taxation purpose in Hong Kong for the period ended 30 September 2008.

**(b)** The amount of deferred taxation represents:

| | 2008 | |
|---|---|---|
| | Full potential liability | Provision made |
| | *HK$* | *HK$* |
| Accelerated depreciation allowances | 1,288,773 | 461,166 |

## 8. FIXED ASSETS

| | Production Equipment | Furniture & Fixture | Total |
|---|---|---|---|
| | *HK$* | *HK$* | *HK$* |
| Cost: | | | |
| Additions | 14,650,414 | 75,606 | 14,726,020 |
| As at 30 September 2008 | 14,650,414 | 75,606 | 14,726,020 |
| Aggregate Depreciation: | | | |
| Charge for the period | 2,185,661 | 17,285 | 2,202,946 |
| As at 30 September 2008 | 2,185,661 | 17,285 | 2,202,946 |
| Net book value: | | | |
| As at 30 September 2008 | 12,464,753 | 58,321 | 12,523,074 |

## 9. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries at 30 September 2008 are as follows:

| Name of company | Place of Incorporation | Percentage of Ordinary share held | Particulars of issued capital | Principal activity |
|---|---|---|---|---|
| China Outdoor Media Holdings Limited | Hong Kong | 100% | 100 shares of HK$1 each | Advertising & Media |
| Full Pace Holdings Limited | British Virgin Islands | 100% | 1 share of US$1 each | Investment holding |
| TDI Transportation Displays International Limited | Hong Kong | 100%* | 2,500 shares of HK$100 each | Dormant |

* *Indirectly held by the Company*

## 10. GOODWILL

| | **2008** |
|---|---|
| | *HK$* |
| Cost: | |
| Acquisition of subsidiary *(note 18)* | 2,696,076 |
| At end of period | 2,696,076 |

**Impairment tests for cash generating units containing goodwill**

Goodwill is allocated to the cash-generating unit ("CGU") as follows:

| | **2008** |
|---|---|
| | *HK$* |
| TDI Transportation Displays International Limited | 2,696,076 |
| | 2,696,076 |

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 12% per annum. Cash flows beyond the five-year period have been extrapolated using a steady 8% per annum growth rate.

## 11. ACCOUNTS RECEIVABLES

| | **2008** |
|---|---|
| | *HK$* |
| Trade debtors | 977,778 |
| Sundry debtors | 153,861 |
| | 1,131,639 |

The following is an aged analysis of trade receivables net of impairment losses at the balance sheet date:

| | **2008** |
|---|---|
| | *HK$* |
| < 1 month | — |
| 1 month–3 months | — |
| > 3 months | 977,778 |
| | 977,778 |

Great China Media allows an average credit period of 3 months to its customers.

## 12. AMOUNT DUE FROM OTHER

| | **2008** |
|---|---|
| | *HK$* |
| Loan to a trade partner | 916,909 |
| Other | 300,000 |
| | 1,216,909 |

The amount is unsecured, interest free and has no fixed terms of repayment.

## 13. AMOUNT DUE FROM A DIRECTOR

Amount due from a director is as follow:

| **Name of borrower** | **Stephen Duncan Harvey** |
|---|---|
| Position | Director |
| Term of the loan | |
| — Repayment terms | Nil |
| — Interest rate | Nil |
| — Security | Nil |
| Balance of the loan | |
| — at 30 September 2008 | HK$2,340 |
| Maximum balance outstanding during the period | HK$2,340 |

## 14. ACCOUNTS PAYABLE

| | 2008 |
|---|---|
| | *HK$* |
| Trade payables | 1,067,047 |
| Other payables | 546,553 |
| | 1,613,600 |

The following is an aged analysis of trade payables at the balance sheet date:

| | 2008 |
|---|---|
| | *HK$* |
| < 1 month | — |
| 1 month–3 months | 125,973 |
| > 3 months | 941,074 |
| | 1,067,047 |

The average credit period on purchases of is 3 months.

## 15. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest free and has no fixed terms of repayment.

## 16. SHARE CAPITAL

| | 2008 |
|---|---|
| | *HK$* |
| Authorised: | |
| 50,000 ordinary shares of US$1 each | 390,000 |
| Issued and fully paid: | |
| 1,034 ordinary shares of US$1 each | 8,065 |

On 16 February 2007 the Great China Media issued 1,000 ordinary shares of US$1 each at par for cash fully paid totalling US$1,000 to provide additional working capital.

On 11 April 2007 the Great China Media issued 4 ordinary shares of US$1 each at a premium of HK$49,992 per share for cash fully paid totalling HK$200,000 to provide additional working capital.

On 19 April 2007 the Great China Media issued 20 ordinary shares of US$1 each at a premium of HK$149,992 per share for cash fully paid totalling HK$3,000,000 to provide additional working capital.

On 28 May 2007 the Great China Media issued 10 ordinary shares of US$1 each at a premium of HK$354,992 per share for cash fully paid totalling HK$3,550,000 to provide additional working capital.

### 17. RELATED PARTIES TRANSACTIONS

During the Relevant Period, the Great China Media Group received rental in an aggregate amount of HK$70,000 from related companies. The rental was mutually agreed between the Great China Media Group and the related companies.

### 18. ACQUISITION OF A SUBSIDIARY

On 16 June 2008, the FP (a subsidiary of the Great China Media) acquired 100% of the issued share capital of TDI Transportation Displays International Limited for consideration of HK$2,697,010 (including professional fee of HK$197,010). The amount of goodwill arising as a result of the acquisition was HK$2,696,076.

The net assets acquired in the transaction and the goodwill arising are as follows:

| | *HK$* |
|---|---|
| Net assets acquired: | |
| Bank balances and cash | 934 |
| Goodwill *(note 10)* | 2,696,076 |
| | 2,697,010 |
| Total consideration satisfied by: | |
| Cash paid as consideration | 2,500,000 |
| Cash paid for professional fee | 197,010 |
| | 2,697,010 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | (2,697,010) |
| Bank balances and cash acquired | 934 |
| | (2,696,076) |

Goodwill arose in the business combination because the cost of combination included amounts in relation to the benefit of customer lists and customer relationships acquired, reputation in the industry and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

**19. OPERATING LEASE COMMITMENT**

At 30 September 2008, the Great China Media Group had total outstanding commitment under non-cancellable operating lease, which are payable as follows:

| | 2008 |
|---|---|
| | *HK$* |
| Within 1 year | 258,480 |
| After 1 year but within 5 years | — |
| | 258,480 |

**20. CONTINGENT LIABILITIES AND COMMITMENTS**

Great China Media had no material contingent liabilities and commitments as at 30 September 2008.

**21. FINANCIAL RISKS AND MANAGEMENT**

Great China Media's overall risk management programme seeks to minimise potential adverse effects on the financial performance.

**(i) Interest rate risk**

Great China Media has no significant interest-bearing assets or liabilities. Great China Media's income and cash flows are substantially independent of changes in market interest rates.

**(ii) Foreign currency risk**

A subsidiary of Great China Media have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group actively monitor the currency exposures of material transactions and will use foreign exchange forward contracts to eliminate the currency exposures on those transactions if applicable.

**(iii) Credit risk**

Great China Media has no concentration of credit risk.

**(iv) Liquidity risk**

Great China Media manages the availability of funding so as to ensure that its funding needs are met. Source of funding is mainly from shareholders' capital contribution and loan from a director.

**22. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared for Great China Media in respect of any period subsequent to 30 September 2008.

Yours faithfully,

**Pentagon C P A Limited**
*Certified Public Accountants*
**Petrus, Poon Wai Yip**
Practising Certificate Number: P04180

## II. Management's Discussion and Analysis

To assist the Independent Shareholders in their analysis of the financial aspects of the Acquisition, the Company provides the following discussion and analysis of the financial condition and results of operations based on the financial information included in the preceding section of this Appendix and, as such, the following should be read in conjunction therewith. This section was prepared by the management of Great China Media. Although due care and attention has been used by the Company to ensure that the information contained in this section is accurate, the Company has not independently verified such information and cannot guarantee the accuracy and completeness of such information.

### ***Results for the period from 16 February 2007 to 30 September 2008***

*Turnover*

The Target Group principally engages in the provision of event management and advertising related consultation services. For the period from 16 February 2007 to 30 September 2008 (the "**Reported Period**"), the Target Group recorded revenue of HK$15,127,889; with profit before and after taxation of HK$1,074,340 and HK$613,174 respectively. Revenue of the Target Group during the Reported Period was mainly derived from China Outdoor Media Holdings Limited, its sole operating subsidiary.

*Cost of operations*

Direct cost of services for the Reported Period was about HK$6,756,396. Operating expenses (inclusive of staff costs and depreciation) of about HK$7,377,374 was recorded for the Reported Period.

*Property, plant and equipment*

Property, plant and equipment amounted to about HK$12,523,074 essentially represented production equipment of approximately HK$12,464,753, furniture and fixtures of approximately HK$58,321.

*Liquidity and capital resources*

As at 30 September 2008, the Target Group's current ratio is 27.17%, with current assets of about HK$2,756,102 against current liabilities of about HK$10,143,112 (which essentially represented cash at bank and in hand in aggregate of about HK$80,828). The Target Group did not have any bank borrowing, but had current liabilities of about HK$8,358,234, being outstanding loan in Hong Kong dollars (which is unsecured, interest free and with no fixed term of repayment) due to Mr. Wong Kwok Sing, a director of Great China Media. The gearing ratio (computed as total liabilities/total assets) of the Target Group as at 30 September 2008 was about

58.99% with total liabilities of about HK$10,604,278 and total assets of HK$17,975,252. It is expected that the Target Group will continue to rely on its internal resources to fund its operations in the near future.

*Contingent liabilities*

The Target Group did not have any contingent liabilities as at 30 September 2008.

*Material acquisitions and disposal of subsidiaries*

On 16 June 2008, a subsidiary of the Great China Media acquired 100% of the issued share capital of TDI Transportation Displays International Limited ("TDI") for consideration of HK$2,697,010 (including professional fee of HK$197,010). The amount of goodwill arising as a result of the acquisition was HK$2,696,076. TDI's core business is the marketing of advertising space in Hong Kong and PRC. The acquisition of TDI provides the Target Group with an additional source of income stream.

Subsequent to the Reported Period, TDI agreed to acquire the entire equity interests in Tai Di Ya, which is engaged in provision of outdoor media advertising services, mainly in the Guangdong Province of the PRC, in November 2008. Completion of the acquisition is still pending the approval of the relevant authorities in the PRC.

*Employees and remuneration policies*

Staff cost during the Reported Period amounted to HK$1,735,916. As at 30 September 2008, the Target group employed full time work force of 8. Employees were remunerated according to their education background, qualification, job nature and market condition.

*Exposure to fluctuation in exchange rate*

A subsidiary of Great China Media has foreign currency sales and purchases, which expose the Target Group to foreign currency risk. The Target Group actively monitors the currency exposures of material transactions and will use foreign exchange forward contracts to eliminate the currency exposures on those transactions, if applicable.

***Future plans***

The business focus of the Target Group are in two main areas, including (i) outdoor and transportation advertising and (ii) event management. For the outdoor and transportation advertising of the Target Group, a network of billboards and stratosphere displays will be developed, strategic alliance with selected corporates/state owned enterprises will be formed. Advertisements will be displayed in railway stations and trains. For the event management business of the Target Group, large scale sporting, cultural, musical events exhibitions and tradeshows will be hosted to attract customers by leveraging on the innovative and premium products of the stratosphere.

Following completion of TDI's acquisition of Tai Di Ya, TDI and Tai Di Ya will be developed as the operating arm engaging in the provision of the outdoor media advertising service with the primary focus in the PRC market of the Target Group; while China Outdoor Media Holdings Limited will focus on event management and advertising consultation services.

**(ii) the unaudited pro forma financial information on the Enlarged Group as extracted from Appendix III to the Company's circular dated 23 January 2009**

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from PCP CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group.*

**PCP CPA Limited**
**華德匡成會計師事務所**
**有限公司**

Suites 2205-6, Island Place Tower,
510 King's Road, North Point, Hong Kong.
Telephone: (852) 2882 8378
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香港北角英皇道510號港運大廈22樓5至6室
電話：(852) 2882 8378
傳真：(852) 3009 8534

23 January 2009

The Directors
Inno-Tech Holdings Limited
Room 903
Tung Wai Commercial Building
109–111 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

**Accountants' Report on the Unaudited Pro Forma Statement of Assets and Liabilities to the Directors of Inno-Tech Holdings Limited**

We report on the unaudited pro forma statement of assets and liabilities (the "unaudited Pro Forma Financial Information") of Inno-Tech Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Great China Media Holdings Limited ("Great China Media") (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed acquisition of 23.02% of the issued share capital of Great China Media (the "Proposed Acquisition"), might have affected the financial information presented for inclusion as Appendix III of the circular of the Company dated 23 January 2009 (the "Circular"). The basis of preparation for the unaudited Pro Forma Financial Information is set out on pages III-3 to III-5 to the Circular.

**Respective Responsibilities of Directors of the Company and Reporting Accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2008 or any future date.

**Opinion**

In our opinion:

- the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

**PCP CPA Limited**
*Certified Public Accountants*
Hong Kong

**Chua Suk Lin, Ivy**
Practising Certificate No.: P02044

**Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group**

The following is a summary of the unaudited pro forma statement of assets and liabilities of the Enlarged Group, which has been prepared on the basis of the notes set out below and assuming that the Proposed Acquisition had been completed as at 30 June 2008 for the purpose of illustrating how the Proposed Acquisition might have affected the financial position of the Group at that date.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group prepared is based on the audited consolidated balance sheet of the Group as at 30 June 2008, extracted from the published annual report of the Group for the period ended 30 June 2008 and the audited balance sheet of Great China Media as at 30 September 2008 as extracted from the Accountants' Report set out in Appendix II, after making appropriate pro forma adjustments that are considered necessary as if the Proposed Acquisition had been completed on 30 June 2008.

The unaudited pro forma statement of assets and liabilities is based on a number of assumptions, estimates and uncertainties. The accompanying unaudited pro forma statement of assets and liabilities does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on 30 June 2008. The unaudited pro forma statement of assets and liabilities does not purport to predict the future financial position of the Enlarged Group.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group should be read in conjunction with the Accountants' Report on Great China Media as set out in Appendix II to this circular, the historical financial information on the Group as set out in Appendix I to this circular and other financial information included elsewhere in this circular.

| | The Group as at 30 June 2008 *HK$'000* (Audited) | Pro forma adjustments *HK$'000* | *Notes* | Pro forma Enlarged Group *HK$'000* |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 24,285 | — | | 24,285 |
| Prepaid lease payments | 34,319 | — | | 34,319 |
| Intangible assets | 79,355 | — | | 79,355 |
| Goodwill | 60,643 | — | | 60,643 |
| Interest in associates | 2,353 | 44,484 | 1(i) | 46,837 |
| Loans to an associate | 6,273 | — | | 6,273 |
| | 207,228 | 44,484 | | 251,712 |
| **Current assets** | | | | |
| Trading securities — pledged | 1,024 | — | | 1,024 |
| Derivative financial instruments — pledged | 170 | — | | 170 |
| Inventories | 1,175 | — | | 1,175 |
| Accounts receivable | 85,162 | — | | 85,162 |
| Prepayments, deposits and other receivables | 82,989 | — | | 82,989 |
| Loans to an associate | 6,440 | — | | 6,440 |
| Tax recoverable | 317 | — | | 317 |
| Pledged deposits | 13,000 | — | | 13,000 |
| Cash and cash equivalents | 37,305 | — | | 37,305 |
| | 227,582 | — | | 227,582 |
| **Current liabilities** | | | | |
| Bank loans and overdrafts | 14,837 | — | | 14,837 |
| Trade payables, accrued expenses and other payables | 20,904 | 1,100 | 2 | 22,004 |
| Amounts due to directors | 55,559 | — | | 55,559 |
| | 91,300 | 1,100 | | 92,400 |
| **Net current assets** | 136,282 | (1,100) | | 135,182 |
| **Non-current liabilities** | | | | |
| Deferred taxation | 7,789 | — | | 7,789 |
| Convertible notes | — | 30,725 | 1(ii) | 30,725 |
| | 7,789 | 30,725 | | 38,514 |
| **Net assets** | 335,721 | 12,659 | | 348,380 |

*Notes to the Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group*

(1) On 10 December 2008, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with the vendor to acquire 23.02% of the issued share capital of Great China Media at a consideration of HK$43,384,000. The consideration will be satisfied by the issue of convertible note by the Company to the vendor in the principal amount of HK$43,384,000 (the "Convertible Note") on completion.

Upon completion of the Proposed Acquisition, Great China Media is considered by the directors of the Company as an associate of the Group as the Group will exercise significant influence in the financing and operating activities of Great China Media.

(i) The unaudited pro forma adjustment of HK$44,484,000 represents the total consideration of acquisition of 23.02% of the issued share capital of Great China Media as follows:

| | *HK$'000* |
|---|---|
| Consideration for the Proposed Acquisition | 43,384 |
| Professional fee in relation to the Proposed Acquisition | 1,100 |
| | 44,484 |

Details on goodwill arising from the Proposed Acquisition are as follows:

| | *HK$'000* |
|---|---|
| Consideration for the Proposed Acquisition | 43,384 |
| Less: share of net identifiable assets of Great China Media | (1,697) |
| | 41,687 |
| Add: professional fee in relation to the Proposed Acquisition | 1,100 |
| | 42,787 |

On completion, the fair value of the attributable share of the identifiable assets, liabilities and contingent liabilities of Great China Media will have to be reassessed. As a result of the reassessment, the amount of goodwill may be different from the amount estimated based on the basis stated above for the purpose of preparation of the unaudited pro forma statement of assets and liabilities. Accordingly, the actual goodwill arising from the Proposed Acquisition may be different from the estimated amount as shown above.

(ii) The Convertible Note of the Company with a principal amount of HK$43,384,000 has a maturity period of 2 years and not bearing any interest. For the purposes of preparing the unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group, the Convertible Note in sum of HK$43,384,000 has been taken to be its fair value as if it was issued on 30 June 2008. The unaudited pro forma adjustment of HK$30,725,000 represent the liability component of the Convertible Note which is determined using discounted cash flow method at an effective interest rate of 18.83%. The difference between the gross proceeds of the issuance of the Convertible Note and the value of the liability component is assigned as the equity component.

(2) The unaudited pro forma adjustment of approximately HK$1.1 million represents estimated professional fee in relation to the Proposed Acquisition.

## I. ACCOUNTANTS' REPORT OF HK GAOFENG

*The following is the text of the accountants' report of HK Gaofeng, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Lo and Kwong C.P.A Company Limited.*

## INTRODUCTION

We set out below our report on the financial information (the "Financial Information") of Gaofeng Holding Company Limited (香港高豐控股有限公司) (the "Company") set out on pages 3 to 30 which comprise the balance sheets as at 31 December 2006, 2007 and 31 March 2009, the income statements, the statements of changes in equity and the cash flow statements for the three years ended 31 December 2006, 2007 and 31 March 2009 (the "Relevant Periods"), and the notes thereto, prepared for inclusion in the circular (the "Circular") dated 11 September 2009. The Financial Information is prepared in connection with the proposed acquisition of the Company by Dragon Emperor International Limited, a wholly-owned subsidiary of Inno-Tech Holdings Limited ("Inno-Tech"), per the circular made by Inno-Tech on 11 September 2009.

The Company is a limited company incorporated in Hong Kong on 25 March 2004. It is principally engaged as investment holding.

## BASIS OF PREPARATION

The Financial Information has been prepared by the director (the "Director") of the Company based on the unaudited management accounts, after making adjustments as appropriate in compliance with the Hong Kong Financial Reporting Standards ("HKFRSs"), the collective terms of which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial statements of the Company for the year ended 31 December 2006, 2007 and for the period from 1 January 2008 to 31 March 2009 had been audited by Lo and Kwong C.P.A. Company Limited (盧鄺會計事務所有限公司).

We have satisfied ourselves by carrying out additional audit procedures that any material adjustments have been incorporated into the Company's Financial Information for the Relevant Periods presented in this report in accordance with the basis of presentation set out in below.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

## BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited management accounts of the Company for the relevant period accordance with HKASs issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of the Company in respect of any period subsequent to 31 March 2009.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgments policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion, for the purposes of this report and on the basis of presentation set out below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the results, changes in equity and cash flows of the Company as at 31 December 2006, 2007 and 31 March 2009 and of the Company's results and cash flows for each of the Relevant Periods.

## EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to note 22 to the financial statements which indicate that the Company incurred a loss attributable to equity shareholder of the Company of approximately HK$1,965,990 for the year ended 31 March 2009 and the Company's current liabilities exceeded its current assets by approximately HK$3,834,132 as at 31 March 2009. Notwithstanding the above, the financial statements have been prepared on a going concern basis, the validity of which depends upon these continuous financial support from the existing shareholder and the intention of continuous financial support from the proposed investor. These conditions, along with matters as set forth in note 20, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

**Consolidated Income Statement**
*For the period from 1 January 2008 to 31 March 2009*

| | *Notes* | **01.01.2008 to 31.03.2009** *HKD* | **01.01.2007 to 31.12.2007** *HKD* | **31.12.2006** *HKD* |
|---|---|---|---|---|
| Turnover | | — | — | — |
| Other revenue | | 3,082 | 2,766 | — |
| Administrative expenses | | (1,969,072) | (842,517) | (26,977) |
| Loss before taxation | 4 | (1,965,990) | (839,751) | (26,977) |
| Income tax expenses | 6 | — | — | (102,190) |
| Loss for the period/year | | (1,965,990) | (839,751) | (129,167) |
| Attributable to: | | | | |
| Equity holders of the Company | | (1,965,990) | (839,751) | (129,167) |

**Consolidated Balance Sheet**
*At 31 March 2009*

| | Notes | 31.03.2009 HKD | 31.12.2007 HKD | 31.12.2006 HKD |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 8 | 386,835 | 183,621 | 219,913 |
| Investment in an investee's company | 10 | 901,600 | 857,800 | — |
| | | 1,288,435 | 1,041,421 | 219,913 |
| **CURRENT ASSETS** | | | | |
| Deposits and other receivables | 9 | 16,849,347 | 7,654,094 | 5,444,248 |
| Cash and cash equivalents | | 38,372 | 487,745 | 98,797 |
| | | 16,887,719 | 8,141,839 | 5,543,045 |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Other payables and accrued charges | 11 | 807,749 | 437,459 | 778,446 |
| Amount due to a shareholder | 12 | 19,914,102 | 9,808,397 | 6,109,425 |
| | | 20,721,851 | 10,245,856 | 6,887,871 |
| **NET CURRENT LIABILITIES** | | (3,834,132) | (2,104,017) | (1,344,826) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | (2,545,697) | (1,062,596) | (1,124,913) |
| **TOTAL NET LIABILITIES** | | (2,545,697) | (1,062,596) | (1,124,913) |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 13 | 10,000 | 10,000 | 10,000 |
| Reserves | | (2,555,697) | (1,072,596) | (1,134,913) |
| **SHAREHOLDERS DEFICIENCY** | | (2,545,697) | (1,062,596) | (1,124,913) |

**Balance Sheet**
*At 31 March 2009*

| | Notes | 31.03.2009 HKD | 31.12.2007 HKD | 31.12.2006 HKD |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Investment in a subsidiary | 14 | 15,105,098 | 7,675,025 | 4,049,931 |
| **CURRENT ASSETS** | | | | |
| Deposits and other receivables | | 4,723,450 | 2,023,450 | 2,023,450 |
| Cash and cash equivalents | | 1,473 | 82,523 | 17,130 |
| | | 4,724,923 | 2,105,973 | 2,040,580 |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accrued charges | | 80,000 | 60,000 | 40,000 |
| Amount due to a shareholder | 12 | 20,061,989 | 9,808,397 | 6,109,425 |
| | | 20,141,989 | 9,868,397 | 6,149,425 |
| **NET CURRENT LIABILITIES** | | (15,417,066) | (7,762,424) | (4,108,845) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | (311,968) | (87,399) | (58,914) |
| **TOTAL NET LIABILITIES** | | (311,968) | (87,399) | (58,914) |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 13 | 10,000 | 10,000 | 10,000 |
| Reserves | 15 | (321,968) | (97,399) | (68,914) |
| **SHAREHOLDERS DEFICIENCY** | | (311,968) | (87,399) | (58,914) |

**Consolidated Statement of Changes in Equity**
*At 31 March 2009*

| | Attributable to the equity holders of the company | | | |
|---|---|---|---|---|
| | **Share capital** *HKD* | ***Foreign exchange reserve** *HKD* | ***Accumulated losses** *HKD* | **Total** *HKD* |
| At 1 January 2006 | 10,000 | 31,266 | (560,924) | (519,658) |
| Translation differences on overseas operations | — | (476,088) | — | (476,088) |
| Net income recognized directly in equity | 10,000 | (444,822) | (560,924) | (1,005,746) |
| Loss for the year | — | — | (129,167) | (129,167) |
| At 1 January 2007 | 10,000 | (444,822) | (690,091) | (1,124,913) |
| Translation differences on overseas operations | — | 902,068 | — | 902,068 |
| Net income recognized directly in equity | 10,000 | 457,246 | (690,091) | (222,845) |
| Loss for the year | — | — | (839,751) | (839,751) |
| At 31 December 2007 | 10,000 | 457,246 | (1,529,842) | (1,062,596) |
| Translation differences on overseas operations | — | 482,889 | — | 482,889 |
| Net income recognized directly in equity | 10,000 | 940,135 | (1,529,842) | (579,707) |
| Loss for the period | — | — | (1,965,990) | (1,965,990) |
| **At 31 March 2009** | 10,000 | 940,135 | (3,495,832) | (2,545,697) |

* These reserve accounts comprise the consolidated reserves of deficit of HKD2,555,697 (2007: deficit of HKD1,072,596) in the consolidated balance sheet.

**Consolidated Cash Flow Statement**
*For the period from 1 January 2008 to 31 March 2009*

| | 31.03.2009 *HKD* | 31.12.2007 *HKD* | 31.12.2006 *HKD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before taxation | (1,965,990) | (839,751) | (26,977) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 103,194 | 53,074 | 44,089 |
| **OPERATING CASH FLOW BEFORE MOVEMENTS IN WORKING CAPITAL** | (1,862,796) | (786,677) | 17,112 |
| Increase in deposits and other receivables | (8,907,748) | (1,948,795) | (3,803,423) |
| Increase (decrease) in other payables and accrued charges | 351,017 | (397,340) | 612,872 |
| Increase in amount due to a shareholder | 10,105,705 | 3,698,972 | 3,918,297 |
| **CASH GENERATED (USED IN) FROM OPERATING ACTIVITIES** | (313,822) | 566,160 | 744,858 |
| Tax paid | — | — | (102,190) |
| **NET CASH (USED IN) FROM OPERATING ACTIVITIES** | (313,822) | 566,160 | 642,668 |
| **INVESTING ACTIVITIES** | | | |
| Acquisition of property, plant and equipment | (444,580) | — | (253,844) |
| Acquisition of an investee's company | — | (857,800) | — |
| Proceeds on disposal of property, plant and equipment | 272,707 | — | 145,997 |
| **NET CASH USED IN INVESTING ACTIVITIES** | (171,873) | (857,800) | (107,847) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | (485,695) | (291,640) | 534,821 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR** | 487,745 | 98,797 | 109,744 |
| Effect of foreign exchange rate changes, net | 36,322 | 680,588 | (545,768) |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR** | 38,372 | 487,745 | 98,797 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents | 38,372 | 487,745 | 98,797 |

## Notes to the Financial Statement

*For the period from 1 January 2008 to 31 March 2009*

### 1. GENERAL

The Company is incorporated in Hong Kong with limited liability.

The addresses of registered office and principal place of business of the Company is Rooms 2002–2003, 20/F., Nan Fung Tower, 173 Des Voeux Road Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company. The functional currency of Company's certain subsidiary is Renminbi.

The Company acts as an investment holding company. The principal activities of its subsidiary are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the period.

### 2. PRINCIPAL ACCOUNTING POLICIES

**Basis of preparation**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost basis except for leasehold land and buildings and certain financial instruments, which are measured at revalued amount or fair values has explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed in note 21.

**Basis of consolidation**

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements incorporate the financial statement of the Company and its subsidiaries. All Intra-group transactions, balances income and expenses are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

**Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

**Investment in a subsidiary**

The Company's investment in a subsidiary is stated at cost less impairment loss, if any.

**Investment in an investee's company**

Investment in an investee's company is classified as deposit for the acquisition.

**Impairment**

Impairment tests on assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (ie the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the consolidated income statement, except to the extent they reverse income previously recognised directly in equity.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

**Property, plant and equipment**

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Fair value is determined by the Directors based on independent valuations which are performed periodically. The Directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the income statement. Any subsequent increases are credited to the consolidated income statement up to the amount previously charged and thereafter to property revaluation reserve.

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Property, plant and equipment — 19%

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the income statement in the period in which such expenses are incurred.

Upon disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to retained profits.

The gain or loss on disposal of property, plant and equipment other than leasehold building is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

**Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Consideration paid to reacquire the Company's own equity instruments are deducted from equity. No gain or loss is recognized in profit or loss.

**Financial Instruments**

*(i) Financial assets*

Financial assets comprise other receivables, loan to an investee's company and cash equivalents.

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest rate method, less any identified impairment losses.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investment are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the consolidated income statement. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

*(ii) Financial liabilities*

Financial liabilities comprise other payables, accrued charges and amount due to a shareholder.

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities was incurred. The Group's accounting policies for each category is as follows:

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in the consolidated income statement in the year in which they arise.

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

- Bank loans are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

*(iii) Derecognition*

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carry amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

**Related parties**

For the purposes of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent,or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**Employee benefits**

*(i) Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries operating in the People's Republic of China (the "PRC") are required to participate in a central pension scheme (the "Central Scheme") operated by the local municipal government in the PRC. The respective local municipal government in the PRC, undertakes to assume the retirement benefits obligations of all existing and future retired staff of these subsidiaries. The only obligation of these subsidiaries with respect to the Central Scheme is to meet the required contributions under the Central Scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the Central Scheme.

*(ii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is with out realistic possibility of withdrawal.

*(iii) Employee entitlements*

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**Revenue recognition**

Interest income is recognized on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

**Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**Income taxes**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**Foreign currency**

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the consolidated income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

Change in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORT STANDARD

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost basis except for leasehold land and buildings and certain financial instruments, which are measured at revalued amount or fair values as explained in the accounting policies set out below.

In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinances. The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed in note 19.

**Impact of new and revised HKFRSs and HKASs**

In the current year, the Group has applied a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

| | |
|---|---|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC) — Int 11 | HKFRS 2 — Group and Treasury Share Transaction |
| HK(IFRIC) — Int 12 | Service Concession Arrangements |
| HK(IFRIC) — Int 14 | HKAR 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction |

The application of the new HKFRSs has no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendment) | Eligible hedged items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) — Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC) — Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC) — Int 16 | Hedges of a Net Investment in a Foreign Operation[5] |
| HK(IFRIC) — Int 17 | Distribution of Non-cash Assets to Owners[3] |
| HK(IFRIC) — Int 18 | Transfer of Assets from Customers[6] |

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

6 Effective for transfer of assets from customers received on or after 1 July 2009

**4. LOSS BEFORE TAXATION**

The Group's loss before taxation is arrived at after charging:

| | **01.01.2008 to 31.03.2009** | **01.01.2007 to 31.12.2007** | **01.01.2006 to 31.12.2006** |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| Depreciation of property, plant and equipment on | | | |
| — owned assets | 103,194 | 53,074 | 44,089 |
| Auditors' remuneration | 20,000 | 20,000 | 20,000 |

**5. DIRECTORS' EMOLUMENTS**

| | | **Group** | |
|---|---|---|---|
| | **01.01.2008 to 31.03.2009** | **01.01.2007 to 31.12.2007** | **01.01.2006 to 31.12.2006** |
| | *HKD* | *HKD* | *HKD* |
| Directors' fees | — | — | — |
| Other emoluments for executive directors | | | |
| — Salaries and other benefits | — | — | — |
| — Retirement benefits scheme contributions | — | — | — |
| | — | — | — |

## 6. INCOME TAX EXPENSES

| | Group | | |
|---|---|---|---|
| | **01.01.2008 to 31.03.2009** | **01.01.2007 to 31.12.2007** | **01.01.2006 to 31.12.2006** |
| | *HKD* | *HKD* | *HKD* |
| Current taxation: | | | |
| Hong Kong | — | — | — |
| Other jurisdictions | — | — | 422,612 |
| (Over)/under-provision in prior years | | | |
| Hong Kong | — | — | — |
| Other jurisdictions | — | — | — |
| Deferred taxation | — | — | — |
| | — | — | 422,612 |

Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profits arising in Hong Kong for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Pursuant to the laws and regulations in the PRC, certain Group's PRC subsidiaries are entitled to exemption from PRC Foreign Enterprise Income Tax for two years commencing from their first profit-making year, followed by a 50% relief for the three years thereafter.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax assets and liabilities in respect of the period (2007: Nil).

The tax expenses for the period can be reconciled to the loss per the consolidated income statement are as follows:

| | **01.01.2008 to 31.03.2009** | **01.01.2007 to 31.12.2007** | **01.01.2006 to 31.12.2006** |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| Loss before taxation | (1,969,072) | (839,751) | (26,977) |
| Tax at domestic income tax rate | (324,897) | (146,956) | (4,721) |
| Tax effect of expenses that are not deductible | — | — | 422,612 |
| Tax effect of tax losses not recognized | 324,897 | 146,956 | 4,721 |
| Tax expenses for the year | — | — | 422,612 |

## 7. DIVIDEND

No dividend has paid or proposed during 2009 and no dividend has been proposed since the balance sheet date. (2007: Nil).

## 8. PROPERTY, PLANT AND EQUIPMENT

| Group | Motor vehicle | Furniture, fixture and equipment | Total |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| **Cost or valuation** | | | |
| At 1 January 2006 | 129,894 | 16,390 | 146,284 |
| Additions | 252,370 | 1,474 | 253,844 |
| Disposal | (145,997) | — | (145,997) |
| Exchange realignment | 4,795 | 606 | 5,401 |
| At 31 December 2006 | 241,062 | 18,470 | 259,532 |
| Exchange realignment | 18,396 | 1,410 | 19,806 |
| At 31 December 2007 | 259,458 | 19,880 | 279,338 |
| Additions | 436,648 | 7,932 | 444,580 |
| Disposal | (272,707) | — | (272,707) |
| Exchange realignment | 13,249 | 1,015 | 14,264 |
| At 31 March 2009 | 436,648 | 28,827 | 465,475 |
| **Depreciation** | | | |
| At 1 January 2006 | 10,283 | 1,859 | 12,142 |
| Provided for the year | 40,697 | 3,392 | 44,089 |
| Write off for the year | (17,061) | — | (17,061) |
| Exchange realignment | 380 | 69 | 449 |
| At 31 December 2006 | 34,299 | 5,320 | 39,619 |
| Provided for the year | 49,297 | 3,777 | 53,074 |
| Exchange realignment | 2,618 | 406 | 3,024 |
| At 31 December 2007 | 86,214 | 9,503 | 95,717 |
| **Depreciation** | | | |
| At 31 December 2007 | 86,214 | 9,503 | 95,717 |
| Provided for the period | 97,883 | 5,311 | 103,194 |
| Write off for the period | (125,159) | — | (125,159) |
| Exchange realignment | 4,403 | 485 | 4,888 |
| At 31 March 2009 | 63,341 | 15,299 | 78,640 |
| **Carrying amount** | | | |
| **At 31 March 2009** | 373,307 | 13,528 | 386,835 |
| At 31 December 2007 | 173,244 | 10,377 | 183,621 |
| At 31 December 2006 | 206,763 | 13,150 | 219,913 |

### 9. DEPOSITS AND OTHER RECEIVABLES

| | Group | | |
|---|---|---|---|
| | **31.03.2009** | **31.12.2007** | **31.12.2006** |
| | *HKD* | *HKD* | *HKD* |
| Deposits | 2,023,450 | 2,023,450 | 4,740,876 |
| Other receivables | 3,510,169 | 572,653 | 703,372 |
| Amount due from an investee company *(Note)* | 11,315,728 | 5,057,991 | — |
| | 16,849,347 | 7,654,094 | 5,444,248 |

The fair values of the Group's other receivables at 31 March 2009 approximated to the corresponding carrying amounts.

*Note:* The amount due from an investee company ("Zhang Jia Fan Gold Mine") is unsecured, non-interest bearing and has no fixed repayment terms.

In the directors' opinion, Zhang Jia Fan Gold Mine is an investee's company of Jiu Jiang Gaofeng as the approval from Jiangxi Commerce Administrative Bureau has not been obtained and all the expenses paid to Zhang Jia Fan Gold Mine by Jiu Jiang Gaofeng for the exploitation, excavation, operation and management of the gold mine would be classified as deposit and other receivables under accounting principal of accrual concept. Upon the approval from Jiangxi Commerce Administrative Bureau being obtained, these expenses will be released to cost of sales in profit and loss account and will then be consolidated into the accounts of Inno-Tech Holdings Limited, the ultimate holding company of Jiu Jiang Gaofeng.

### 10. INVESTMENT IN INVESTEE'S COMPANY

| | **31.03.2009** | **31.12.2007** | **31.12.2006** |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| Unlisted shares, at cost | 901,600 | 857,800 | — |

Particulars of the principal investee's company are as follows:

| Name | Place of incorporation/ establishment and operations | Nominal value of paid-up share/registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Dexing Zhang Jia Fan Gold Mine | PRC | RMB800,000 | 81.5% | — | Gold mining |

Under the Hong Kong Accounting Standard, it is an investment in subsidiary and capital nature. However, the approval from Jiangxi Commerce Administrative Bureau has not been obtained.

During the year, Jiujiang Gaofeng Mining Industry Company Limited (九江高豐礦業有限公司), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement whereby Jiujiang Gaofeng Mining Industry Company Limited agreed to acquire an aggregate of 81.5% equity interests in Dexing Zhang Jia Fan Gold Mine (德興市張家畈金礦) at a consideration of RMB800,000. At the balance sheet date, Jiujiang Gaofeng Mining Industry Company Limited had paid RMB800,000 to the vendor as a deposit for the acquisition.

According to the Provisional Regulations Regarding Establishment of Venture Capital Enterprises with Foreign Investment (外商投資企業境內投資的暫行規定) issued on 1 September 2000, if foreign investment enterprises (外商投資企業) change its equity-shareholder structure; and its business activities are the scope of limitation to foreign investment enterprises (外商投資限制類領域); this transaction of change equity should be approved by the Commerce Administrative Bureau of Jiangxi Province, PRC (江西省商務主管部門).

## 11. OTHER PAYABLES AND ACCRUED CHARGES

The fair values of the Group's other payables and accrued charges at 31 March 2009 approximated to the corresponding carrying amounts.

## 12. AMOUNT DUE TO A SHAREHOLDER

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

## 13. SHARE CAPITAL

**Group and Company**

| | **31.03.2009** | **31.12.2007** | **31.12.2006** |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| **Authorised, issued and fully paid:** | | | |
| 10,000 ordinary shares of HKD1 each | 10,000 | 10,000 | 10,000 |

## 14. INVESTMENT IN A SUBSIDIARY

| | | **Company** | |
|---|---|---|---|
| | **31.03.2009** | **31.12.2007** | **31.12.2006** |
| | *HKD* | *HKD* | *HKD* |
| Unlisted shares, at cost | 15,105,098 | 7,675,025 | 4,049,931 |

The balances due from a subsidiary included in the Company's current assets is unsecured, interest-free and repayable on demand. The carrying amount of these amount due from a subsidiary approximate to their fair value.

Particulars of the principal subsidiary are as follows:

| **Name** | **Place of incorporation/ establishment and operations** | **Nominal value of paid-up share/registered capital** | **Percentage of equity attributable to the Company Direct** | **Indirect** | **Principal activities** |
|---|---|---|---|---|---|
| Jiujiang Gaofeng Mining Industry Company Limited | PRC | USD1,946,000 | 100% | — | Sale and purchase of dolomite, investment, consultation and mining engineering technical consultation |

Jiujiang Gaofeng Mining Industry Company Limited (九江高豐礦業有限公司) is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 8 years commencing from its date of establishment on 15 July 2004. The registered and paid-up capital of Jiujiang Gaofeng Mining Industry Company Limited amounted to USD1,946,000.

None of the subsidiary had any debt securities subsisting at the end of the year or at any time during the year.

## 15. RESERVES

**Company**

| | Share capital | Accumulated losses | Total |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| At 1 January 2007 | 10,000 | (68,914) | (58,914) |
| Loss for the year | — | (28,485) | (28,485) |
| At 31 December 2007 and 1 January 2008 | 10,000 | (97,399) | (87,399) |
| Loss for the period | — | (224,569) | (224,569) |
| **At 31 March 2009** | 10,000 | (321,968) | (311,968) |

## 16. DEFERRED TAXATION

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax assets in respect of the period (2007: Nil).

## 17. TRADE RECEIVABLES

The Group normally allows credit terms ranging from 30 to 90 days to its customers.

None of trade receivables net of allowance for bad and doubtful trade receivables and its aging analysis as at balance sheet date.

## 18. TRADE PAYABLES

None of trade payables and its aging analysis as at balance sheet date.

## 19. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Allowances for bad and doubtful debts**

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required.

## 20. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the company review the capital structure on a regular basis. As a part of this review, the directors of the Company consider the cost of capital and the associated risks and take appropriate actions to adjust the Group's capital structure. The overall strategy of the Group remained unchanged during the two years ended 31 March 2009 and 31 December 2007.

## 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include other receivables, loan to an investee's company, amount due to a shareholder, bank balances, other payables and accrued charges. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Currency risk

Certain deposits of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

### Interest Rate Risk

The company does not expose to interest rate risk as the company does not has significant interest-bearing assets and liabilities.

### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2009 in relation to each class of recognized financial assets is the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet. As at 31 March 2009, the Group has significant concentration of credit risk as 99% (2007: 100%) of the total other receivables was due from a counterparty.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

**Liquidity Risk**

As the Group suffered a loss on HKD1,960,462 on continuous operating for the period ended 31 March 2009, the management has carefully considered the present policy applied by the Group on liquidity.

Regarding the present policy in the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| | Weighted average effective interest rate | Undiscounted cash flows within 1 year<br>*HKD* | Carrying amounts at 31 March 2009<br>*HKD* |
|---|---|---|---|
| **2009** | | | |
| **Non-derivative financial liabilities** | | | |
| Other payables and accrued charges | — | 807,749 | 807,749 |
| Amount due to a shareholder | — | 19,914,102 | 19,914,102 |
| | — | 20,721,851 | 20,721,851 |

**Fair value**

The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated balance sheet approximate to the corresponding carrying amounts due to their short-term maturities.

**Categories of financial instruments**

| | 31.03.2009<br>*HKD* | 31.12.2007<br>*HKD* | 31.12.2006<br>*HKD* |
|---|---|---|---|
| **Financial assets** | | | |
| Deposits and other receivables | 16,849,347 | 7,654,094 | 5,444,248 |
| Cash and cash equivalents | 38,372 | 487,745 | 98,797 |
| | 16,887,719 | 8,141,839 | 5,543,045 |
| **Financial liabilities** | | | |
| Financial liabilities measured at amortised cost | | | |
| Other payables and accrued charges | 807,749 | 437,459 | 778,446 |
| Amount due to a shareholder | 19,914,102 | 9,808,397 | 6,109,425 |
| | 20,721,851 | 10,245,856 | 6,887,871 |

## 22. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group incurred a loss HKD1,965,990 for the period ended 31 March 2009 and had net current liabilities and net liabilities of HKD3,834,132 and HKD2,545,697 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the shareholders, at a level sufficient to finance the working capital requirements of the Group. The shareholders have agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The Directors are of the view that Jiu Jiang Gaofeng will generate profit by the provision of management and consultation services pursuant to the Management Agreement which came into effect on 26 March 2009 and thus will improve its financial results in the future.

## 23. CHANGE OF YEAR END DATE

During the period, the Company changed its year end date from 31 December to 31 March in order to conform with the group year end date after the Company's acquisition by its holding company during the period. As a result, the comparative amounts for the last year's income statement, statement of recognized gains and losses, cash flow statement and related notes are not comparable to those of the current period of fifteen months.

## 24. POST BALANCE SHEET EVENTS

The Group did not have any material event occurred subsequent to 31 March 2009 up to the date of approval of these consolidated financial statement by the Board of Directors.

## 25. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on 15 June 2009.

## II. MANAGEMENT'S DISCUSSION AND ANALYSIS

To assist the Independent Shareholders in their analysis of the financial aspects of the Acquisition, the Company provides the following discussion and analysis of the financial condition and results of operations based on the financial information included in the preceding section of this Appendix and, as such, the following should be read in conjunction therewith.

### Financial information on the Target Group for the period from 1 January 2006 to 31 December 2006

*Turnover*

The Target Group principally engages in sale and purchase of dolomite, investment, consultation and mining engineering technical consultation. For the period from 1 January 2006 to 31 December 2006 the Target Group has been dormant and incurred loss before income tax of approximately HK$27,000 and loss after income tax of approximately HK$129,000 respectively.

*Cost of operation*

As the Target Group has been dormant during the reported period there was no direct cost of operation. The administrative expenses (including staff costs and depreciation) amounted to approximately HK$27,000.

*Property, plant and equipment*

The amount comprised furniture, fixtures and equipment of approximately HK$13,000 and motor vehicles of approximately HK$207,000.

*Liquidity and capital resources*

As at 31 December 2006, the net current liabilities of the Target Group were approximately HK$1,345,000. Out of the current assets of approximately HK$5,543,000, approximately HK$99,000 was cash and cash equivalent. The current ratio was 80.5%. There were no bank borrowings as at 31 December 2006. The net debt (that is total bank borrowings less cash and cash equivalent) was nil and accordingly the net debt ratio (that is net debt/net assets) was nil. The Target Group will continue to rely on its internal resources and loan from shareholders to fund its operations in the near future.

*Contingent liabilities*

There were no contingent liabilities as at 31 December 2006.

*Material acquisitions and disposals*

There were no material acquisitions and disposals during the reported period.

*Employees and remuneration policies*

The total staff costs for the reported period were nil.

*Exposure to fluctuation in exchange rate*

A subsidiary of the target group has foreign currency income and expenses. The target group actively monitors the currency exposures of material transactions and will consider using foreign exchange forward contracts to mitigate the currency exposures on those transactions, if applicable.

**Financial information on the Target Group for the period from 1 January 2007 to 31 December 2007**

*Turnover*

The Target Group principally engages in sale and purchase of dolomite, investment, consultation and mining engineering technical consultation. For the period from 1 January 2007 to 31 December 2007 (the "Reported Period") the Target Group has been dormant and incurred loss before and after income tax of approximately HK$832,000 respectively.

*Cost of operation*

As the Target Group has been dormant during the reported period there was no direct cost of operation. The administrative expenses (including staff costs and depreciation) amounted to approximately HK$835,000.

*Property, plant and equipment*

The amount comprised furniture, fixtures and equipment of approximately HK$10,000 and motor vehicles of approximately HK$173,000.

*Liquidity and capital resources*

As at 31 December 2007, the net current liabilities of the Target Group were approximately HK$2,104,000. Out of the current assets of approximately HK$8,142,000, approximately HK$488,000 was cash and cash equivalent. The current ratio was 79.5%. There were no bank borrowings as at 31 December 2007. The net debt (that is total bank borrowings less cash and cash equivalent) was nil and accordingly the net debt ratio (that is net debt/net assets) was nil. The Target Group will continue to rely on its internal resources and loan from shareholders to fund its operations in the near future.

*Contingent liabilities*

There were no contingent liabilities as at 31 December 2007.

*Material acquisitions and disposals*

There were no material acquisitions and disposals during the reported period.

*Employees and remuneration policies*

The total staff costs for the reported period were nil.

*Exposure to fluctuation in exchange rate*

A subsidiary of the target group has foreign currency income and expenses. The Target Group actively monitors the currency exposures of material transactions and will consider using foreign exchange forward contracts to mitigate the currency exposures on those transactions, if applicable.

**Financial information on the Target Group for the period from 1 January 2008 to 31 March 2009**

*Turnover*

The Target Group principally engages in sale and purchase of dolomite, investment, consultation and mining engineering technical consultation. For the period from 1 January 2008 to 31 March 2009 (the "Reported Period") the Target Group has been dormant and incurred loss before and after income tax of approximately HK$1,960,000 respectively.

*Cost of operation*

As the Target Group has been dormant during the reported period there was no direct cost of operation. The administrative expenses (including staff costs and depreciation) amounted to approximately HK$1,964,000.

*Property, plant and equipment*

The amount comprised furniture, fixtures and equipment of approximately HK$14,000 and motor vehicles of approximately HK$273,000.

*Liquidity and capital resources*

As at 31 March 2009, the net current liabilities of the Target Group were approximately HK$3,834,000. Out of the current assets of approximately HK$16,888,000, approximately HK$38,000 was cash and cash equivalent. The current ratio was 81.5%. There were no bank borrowings as at 31 March 2009. The net debt (that is total bank borrowings less cash and cash equivalent) was nil and accordingly the net debt ratio (that is net debt/net assets) was nil. The Target Group will continue to rely on its internal resources and loan from shareholders to fund its operations in the near future.

*Contingent liabilities*

There were no contingent liabilities as at 31 March 2009.

*Material acquisitions and disposals*

There were no material acquisitions and disposals during the reported period.

*Employees and remuneration policies*

The total staff costs for the reported period were nil.

*Exposure to fluctuation in exchange rate*

A subsidiary of the Target Group has foreign currency income and expenses. The Target Group actively monitors the currency exposures of material transactions and will consider using foreign exchange forward contracts to mitigate the currency exposures on those transactions, if applicable.

*Future plans*

The Zhang Jia Fan Gold Mine which is managed by Jiu Jiang Gaofeng, will be in full operation around September 2009. The plant is targeted to upgrade its daily production capacity to 1000 tons within two years. Furthermore, Jiangxi Bureau of Geological Exploration and Exploration of Mineral Resources has recently issued new policy that encourages the local mining firm to broaden mining dimension. Zhang Jia Fan Gold Mine is pending to increase its mining surface area and extend its mining depth, which will increase it mineral resource and future profitability significantly.

## I. ACCOUNTANTS' REPORT OF ZHANG JIA FAN GOLD MINE

*The following is the text of the accountants' report of Zhang Jia Fan Gold Mine, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Lo and Kwong C.P.A. Company Limited.*

## INTRODUCTION

We set out below our report on the financial information (the "Financial Information") of Dexing Zhang Jia Fan Gold Mine (德興市張家畈金礦) (the "Company") set out on pages 4 to 28 which comprise the balance sheets as at 31 December 2006, 2007 and 31 March 2009, the income statements, the statements of changes in equity and the cash flow statements for the three years ended 31 December 2006, 2007 and 31 March 2009 (the "Relevant Periods"), and the notes thereto, prepared for inclusion in the circular (the "Circular") dated 11 September 2009. The Financial Information is prepared in connection with the proposed acquisition of Gaofeng Holding Company Limited (香港高豐控股有限公司) (the "Ultimate Holding Company) by Dragon Emperor International Limited, a wholly-owned subsidiary of Inno-Tech Holdings Limited ("Inno-Tech") per the circular made by Inno-Tech dated 11 September 2009.

The Company is a limited company incorporated in People Republic of China ("PRC") on 18 July 1996. It is principally engaged in exploration, mining, ore processing and smelting.

## BASIS OF PREPARATION

The Financial Information has been prepared by the directors (the "Directors") of the Company based on the unaudited management accounts, after making adjustments as appropriate in compliance with the Hong Kong Financial Reporting Standards ("HKFRSs"), the collective terms of which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial statements of the Company for the year ended 31 December 2006, 2007 and for the period from 1 January 2008 to 31 March 2009 had been audited by Lo and Kwong C.P.A. Company Limited (盧鄺會計事務所有限公司).

We have satisfied ourselves by carrying out additional audit procedures that any material adjustments have been incorporated into the Company's Financial Information for the Relevant Periods presented in this report in accordance with the basis of presentation set out in below.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

## BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited management accounts of the Company for the relevant period accordance with HKASs issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of the Company in respect of any period subsequent to 31 March 2009.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgments policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion, for the purposes of this report and on the basis of presentation set out below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the results, changes in equity and cash flows of the Company as at 31 December 2006, 2007 and 31 March 2009 and of the Company's results and cash flows for each of the Relevant Periods.

## EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to note 19 to the financial statements which indicate that the Company incurred a loss attributable to equity shareholder of the Company of approximately HK$5,730,080 for the year ended 31 March 2009 and the Company's current liabilities exceeded its current assets by approximately HK$9,136,378 as at 31 March 2009. Notwithstanding the above, the financial statements have been prepared on a going concern basis, the validity of which depends upon these continuous financials support from the existing shareholder and the intention of continuous financial support from the proposed investor. These conditions, along with matters as set forth in note 13, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

**Lo and Kwong C.P.A. Company Limited**
*Certified Public Accountants (Practising)*
**Chan Chi Kei Ronald**
Practising Certificate Number: P04255

Hong Kong
15 June 2009

**Income Statement**

*For the period from 1 January 2008 to 31 March 2009*

| | Notes | 01.01.2008 to 31.03.2009 HKD | 01.01.2007 to 31.12.2007 HKD | 01.01.2006 to 31.12.2006 HKD |
|---|---|---|---|---|
| Turnover | 4 | 409,822 | — | — |
| Cost of sales | | (310,739) | — | — |
| Gross profit | | 99,083 | — | — |
| Other revenue | | 2,423 | — | — |
| Preliminary development and production costs | | (3,624,087) | (3,044,216) | — |
| Other operating expenses | | (675,582) | — | — |
| Administrative expenses | | (1,531,917) | (1,006,160) | — |
| Loss before taxation | 5 | (5,730,080) | (4,050,376) | — |
| Income tax expense | 6 | — | — | — |
| Loss for the period/year | | (5,730,080) | (4,050,376) | — |

**Balance Sheet**
*At 31 March 2009*

| | Notes | 31.03.2009 HKD | 31.12.2007 HKD | 31.12.2006 HKD |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Intangible assets | 7 | 1,620,931 | 1,884,568 | — |
| Property, plant and equipment | 8 | 3,972,791 | 169,560 | — |
| | | 5,593,722 | 2,054,128 | — |
| **CURRENT ASSETS** | | | | |
| Inventories | 9 | 7,401 | 206 | — |
| Trade and other receivables | 10 | 101,755 | 174,777 | — |
| Amount due from a shareholder | 11 | — | — | 796,800 |
| Cash and cash equivalents | | 4,767 | 692,609 | — |
| | | 113,923 | 867,592 | 796,800 |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 12 | 617,632 | 89,016 | — |
| Amount due to a shareholder | 11 | 2,910,663 | 967,289 | — |
| Amount due to an investor company | 13 | 11,315,728 | 5,057,991 | — |
| | | 14,844,023 | 6,114,296 | — |
| **NET CURRENT LIABILITIES** | | (14,730,100) | (5,246,704) | — |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | (9,136,378) | (3,192,576) | — |
| **TOTAL NET LIABILITIES** | | (9,136,378) | (3,192,576) | — |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 14 | 800,000 | 800,000 | 800,000 |
| Reserves | | (9,936,378) | (3,992,576) | (3,200) |
| **SHAREHOLDERS (DEFICIENCY) EQUITY** | | (9,136,378) | (3,192,576) | 796,800 |

**Statement of Changes in Equity**

*For the period from 1 January 2008 to 31 March 2009*

| | Attributable to the equity holders of the company | | | |
|---|---|---|---|---|
| | Share capital | *Foreign exchange reserve | *Accumulated losses | Total |
| | *HKD* | *HKD* | *HKD* | *HKD* |
| At 1 January 2006 | 800,000 | — | — | 800,000 |
| Translation differences on overseas operations | — | (3,200) | — | (3,200) |
| Net income recognized directly in equity | 800,000 | (3,200) | — | 796,800 |
| Loss for the year | — | — | — | — |
| At 31 December 2006, and 1 January 2007 | 800,000 | (3,200) | — | 796,800 |
| Translation differences on overseas operations | — | 61,000 | — | 61,000 |
| Net income recognized directly in equity | 800,000 | 57,800 | — | 857,800 |
| Loss for the year | — | — | (4,050,376) | (4,050,376) |
| At 31 December 2007, and 1 January 2008 | 800,000 | 57,800 | (4,050,376) | (3,192,576) |
| Translation differences on overseas operations | — | (213,722) | — | (213,722) |
| Net income recognized directly in equity | 800,000 | (155,922) | (4,050,376) | (3,406,298) |
| Loss for the period | — | — | (5,730,080) | (5,730,080) |
| **At 31 March 2009** | 800,000 | (155,922) | (9,780,456) | (9,136,378) |

**Cash Flow Statement**
*For the period from 1 January 2008 to 31 March 2009*

| | 01.01.2008 to 31.03.2009 *HKD* | 01.01.2007 to 31.12.2007 *HKD* | 01.01.2006 to 31.12.2006 *HKD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before taxation | (5,730,080) | (4,050,376) | — |
| Adjustments for: | | | |
| Amortization of intangible assets | 263,637 | | |
| Depreciation of property, plant and equipment | 299,916 | 3,479 | — |
| **OPERATING CASH FLOW BEFORE MOVEMENTS IN WORKING CAPITAL** | (5,166,527) | (4,046,897) | — |
| Increase in inventories | (7,195) | (206) | — |
| Decrease (Increase) in trade and other receivables | 73,022 | (174,777) | — |
| Decrease (Increase) in amount due from a shareholder | — | 796,800 | (796,800) |
| Increase in trade and other payables | 528,616 | 89,016 | — |
| Increase in amount due to a shareholder | 1,943,374 | 967,289 | — |
| Increase in amount due to an investor company | 6,257,737 | 5,057,991 | — |
| **NET CASH FROM (USED IN) OPERATING ACTIVITIES** | 3,629,027 | 2,689,216 | (796,800) |
| **INVESTING ACTIVITIES** | | | |
| Acquisition of property, plant and equipment | (4,103,147) | (173,039) | — |
| Acquisition of intangible assets | — | (1,884,568) | — |
| **NET CASH USED IN INVESTING ACTIVITIES** | (4,103,147) | (2,057,607) | — |
| **FINANCING ACTIVITY** | | | |
| Issuance of share capital | — | — | 800,000 |
| **NET CASH FROM FINANCING ACTIVITY** | — | — | 800,000 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (474,120) | 631,609 | 3,200 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR** | 692,609 | — | — |
| Effect of foreign exchange rate changes, net | (213,722) | 61,000 | (3,200) |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR** | 4,767 | 692,609 | — |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents | 4,767 | 692,609 | — |

## Notes to the Financial Statement

*For the period from 1 January 2008 to 31 March 2009*

### 1. GENERAL

The Company is incorporated in People Republic of China ("PRC") with limited liability.

The addresses of registered office and principal place of business of the Company is Zhangjiafan Gold Mine, Sizhou Village, Dexing City, Jiujiang Province, P.R.C. (江西省德興市泗洲鎮張家畈金礦).

The financial statements are presented in Hong Kong dollars. The functional currency of Company is Renminbi.

The Company's principal activity is engaged in engaged in exploration, mining, ore processing and smelting.

### 2. PRINCIPAL ACCOUNTING POLICIES

**Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared under the historical cost basis except for leasehold land and buildings and certain financial instruments, which are measured at revalued amount or fair values has explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed in note 18.

**Impairment**

Impairment tests on assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (ie the lowest Company of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse income previously recognised directly in equity.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

**Property, plant and equipment**

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Fair value is determined by the Directors based on independent valuations which are performed periodically. The Directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged and thereafter to property revaluation reserve.

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

| | | |
|---|---|---|
| Leasehold land and buildings | | The shorter of the lease terms |
| Property, plant and equipment | — | 5 years |

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the income statement in the period in which such expenses are incurred.

Upon disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to retained profits.

The gain or loss on disposal of property, plant and equipment other than leasehold building is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

**Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Consideration paid to reacquire the Company's own equity instruments are deducted from equity. No gain or loss is recognized in profit or loss.

**Financial Instruments**

*(i) Financial assets*

Financial assets comprise trade and other receivables and cash equivalents.

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest rate method, less any identified impairment losses.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Company's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

*(ii) Financial liabilities*

Financial liabilities comprise trade and other payables, amount due to a shareholder and amount due to an investor company.

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities was incurred. The Company's accounting policies for each category is as follows:

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in the income statement in the year in which they arise.

Other financial liabilities: Other financial liability includes the following item:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

*(iii) Derecognition*

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carry amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

**Related parties**

For the purposes of these financial statements, a party is considered to be related to the Company if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;

ii) the Company and the party are subject to common control;

iii) the party is an associate of the Company or a joint venture in which the Company is a venturer;

iv) the party is a member of key management personnel of the Company or the Company's parent,or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**Employee benefits**

*(i) Retirement benefits scheme*

The employees of the Company's operating in the People's Republic of China (the "PRC") are required to participate in a central pension scheme (the "Central Scheme") operated by the local municipal government in the PRC. The respective local municipal government in the PRC, undertakes to assume the retirement benefits obligations of all existing and future retired staff of these subsidiaries. The only obligation in respect to the Central Scheme is to meet the required contributions under the Central Scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the Central Scheme.

*(ii) Termination benefits*

Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

*(iii) Employee entitlements*

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**Revenue recognition**

(i) revenue from the sale of goods, when all conditions of sales have been met, the significant risks and rewards of ownership have been transferred to the buyer and title has passed, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) processing income, when the relevant services have been rendered;

(iii) interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

**Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Company has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**Income taxes**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**Foreign currency**

Transactions entered into by Company entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

Change in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

The results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of Company entities' separate financial statements on the translation of long-term monetary items forming part of the Company's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Company or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

**Intangible assets**

*(i) Mining rights and reserves*

Mining rights and reserves are stated at cost less accumulated amortisation and any impairment losses. Mining rights and reserves include the cost of acquiring mining licences and exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights and reserves are amortised over the estimated useful lives of the mines, ranging from 8 to 10 years, in accordance with the production plans of the entities concerned and the proven and probable mineral reserves of the mines using the UOP method. Mining rights and reserves are written off to the income statement if the mining property is abandoned.

*(ii) Exploration rights and assets*

Exploration rights and assets are stated at cost less impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and amortisation and depreciation charges in respect of assets consumed during the exploration activities. Exploration rights are amortised over the term of the rights from 8 to 10 years. Equipment used in exploration is depreciated over its useful life of ten years, or, if dedicated to a particular exploration project, over the life of the project, whichever is shorter. Amortisation and depreciation is included, in the first instance, in exploration rights and assets.

Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised by the UOP method based on the proven and probable mineral reserves. Costs incurred for exploration which can be directly attributable to the development of mining infrastructure are transferred to mining infrastructure when the exploration reaches the stage of commercial production. All other costs will be transferred to mining rights and reserves. Exploration rights and assets are written off to the income statement if the exploration property is abandoned.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORT STANDARD

**Impact of new and revised HKFRSs and HKASs**

In the current year, the Company has applied a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

| | |
|---|---|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC) — Int 11 | HKFRS 2 — Company and Treasury Share Transaction |
| HK(IFRIC) — Int 12 | Service Concession Arrangements |
| HK(IFRIC) — Int 14 | HKAR 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction |

The application of the new HKFRSs has no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Company has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendment) | Eligible hedged items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) — Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC) — Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC) — Int 16 | Hedges of a Net Investment in a Foreign Operation[5] |
| HK(IFRIC) — Int 17 | Distribution of Non-cash Assets to Owners[3] |
| HK(IFRIC) — Int 18 | Transfer of Assets from Customers[6] |

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

6 Effective for transfer of assets from customers received on or after 1 July 2009

## 4. TURNOVER

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges where applicable, and the value of services rendered.

## 5. LOSS BEFORE TAXATION

The Company's loss before taxation is arrived at after charging/(crediting):

| | **01.01.2008 to 31.03.2009** | **01.01.2007 to 31.12.2007** | **01.01.2006 to 31.12.2006** |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| Directors' remuneration: | | | |
| — Fee | — | — | — |
| — Other emoluments | — | — | — |
| Staff costs (excluding directors' emoluments) | | | |
| — Other staff costs | — | — | — |
| — Retirement benefit scheme contributions | — | — | — |
| Depreciation of property, plant and equipment on | | | |
| — owned assets | 299,916 | 3,479 | — |
| Amortization of intangible assets | 263,637 | — | — |
| Auditors' remuneration | 4,886 | 1,074 | — |
| Interest income | (2,423) | — | — |

## 6. INCOME TAX EXPENSE

### (a) Taxation in the income statement represents

| | 01.01.2008 to 31.03.2009 *HKD* | 01.01.2007 to 31.12.2007 *HKD* | 01.01.2006 to 31.12.2006 *HKD* |
|---|---|---|---|
| Current tax — The PRC | | | |
| Provision for the PRC income tax for the year | — | — | — |

For the year 2008, no provision for Hong Kong profits tax has been made as the Company has no estimated assessable profits arising in Hong Kong during the year.

### (b) Tax charge for the year can be reconciled to the loss per the income statement as follows:

| | 01.01.2008 to 31.03.2009 *HKD* | 01.01.2007 to 31.12.2007 *HKD* | 01.01.2006 to 31.12.2006 *HKD* |
|---|---|---|---|
| Loss before taxation | (5,730,080) | (4,050,374) | — |
| Calculated at a taxation rate of 25% (2007: 33%) | (1,432,520) | (1,336,623) | — |
| Tax effect of non-taxable income | (2,423) | — | — |
| Tax effect of non-deductible expenses | 299,916 | 3,479 | — |
| Tax effect of unused tax losses not recognized | 1,135,027 | 1,333,144 | — |
| Tax expense for the period/year | — | — | — |

No provision for deferred tax had been made as the Company did not have any significant unprovided deferred tax assets and liabilities in respect of the period (2007: Nil).

## 7. INTANGIBLE ASSETS

| | Exploration rights, Mining rights, reserves and Total |
|---|---|
| | *HKD* |
| **Cost** | |
| At 1 January, 31 December 2006 and 1 January 2007 | — |
| Additions | 1,834,000 |
| Exchange realignment | 50,568 |
| At 31 December 2007, and 1 January 2008 | 1,884,568 |
| Exchange realignment | 182,350 |
| At 31 March 2009 | 2,066,918 |
| **Depreciation** | |
| At 1 January, 31 December 2006 and 1 January 2007 | — |
| Provided for the year | — |
| At 31 December 2007, and 1 January 2008 | — |
| Provided for the period | 523,454 |
| Exchange realignment | (77,467) |
| At 31 March 2009 | 445,987 |
| **Carrying amount** | |
| **At 31 March 2009** | 1,620,931 |
| At 31 December 2007 | 1,884,568 |
| At 31 December 2006 | — |

Key assumptions used in the value in use calculation for 31 March 2009 and 31 December 2007 are as follows:

**Revenues**

The basis used to determine the values assigned to the future revenues is the estimated annual mine output based on mine designed capacity at expected future commodity prices.

**Mining costs**

The basis used to determine the values assigned to the mining costs is the input requirements in the long term mine plan at real unit costs.

**Commodity price**

Future commodity prices in the valuation model are estimated by management based on their industry experience, historic price trends and independent expert reports and commentaries.

**Discount rates**

The discount rates used are based on a weighted average cost of capital, and are real rates, before tax reflecting specific risks relating to the relevant cash generating units.

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold Land and Buildings | Construction In Progress | Plant and Machinery | Motor Vehicles | Furniture, Fixture and equipment | Total |
|---|---|---|---|---|---|---|
| | *HKD* | *HKD* | *HKD* | *HKD* | *HKD* | *HKD* |
| **Cost or valuation** | | | | | | |
| At 31 December 2006 and 1 January 2007 | — | — | — | — | — | — |
| Additions | — | — | 166,713 | — | 6,326 | 173,039 |
| At 31 December 2007, and 1 January 2008 | — | — | 166,713 | — | 6,326 | 173,039 |
| Additions | 2,538,004 | 372,938 | 1,104,933 | 47,334 | 48,176 | 4,111,385 |
| Exchange realignment | — | — | (8,099) | — | (307) | (8,406) |
| At 31 March 2009 | 2,538,004 | 372,938 | 1,263,547 | 47,334 | 54,195 | 4,276,018 |
| **Depreciation** | | | | | | |
| At 31 December 2006, and 1 January 2007 | — | — | — | — | — | — |
| Provided for the year | — | — | 3,279 | — | 200 | 3,479 |
| At 31 December 2007, and 1 January 2008 | — | — | 3,279 | — | 200 | 3,479 |
| Provided for the year | 158,625 | — | 122,889 | 5,996 | 12,406 | 299,916 |
| Exchange realignment | — | — | (159) | — | (9) | (168) |
| At 31 March 2009 | 158,625 | — | 126,009 | 5,996 | 12,597 | 303,227 |
| **Carrying amount** | | | | | | |
| **At 31 March 2009** | 2,379,379 | 372,938 | 1,137,538 | 41,338 | 41,598 | 3,972,791 |
| At 31 December 2007 | — | — | 163,434 | — | 6,126 | 169,560 |
| At 31 December 2006 | — | — | — | — | — | — |

### 9. INVENTORIES

| | 31/3/2009 | 31/12/2007 | 31/12/2006 |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| Raw materials | 7,401 | 206 | — |
| Work in progress | — | — | — |
| Finished goods | — | — | — |
| | 7,401 | 206 | — |

None of the above are carried at net realizable value.

### 10. TRADE AND OTHER RECEIVABLES

The fair values of the Company's trade and other receivables at 31 March 2009 approximated to the corresponding carrying amounts.

The Company normally allows credit terms ranging from 30 to 90 days to its customers.

None of trade and other receivables, net of allowance for bad and doubtful trade and other receivables and its aging analysis as at balance sheet date.

### 11. AMOUNT DUE FROM (TO) A SHAREHOLDER

The amount due from (to) a shareholder is unsecured, non-interest bearing and has no fixed repayment terms.

### 12. TRADE AND OTHER PAYABLES

The fair values of the Company's trade and other payables at 31 March 2009 approximated to the corresponding carrying amounts.

None of trade and other payables and its aging analysis as at balance sheet date.

### 13. AMOUNT DUE TO AN INVESTOR COMPANY

The amount due to Jiujiang Gaofeng Mining Industry Company Limited (九江高豐礦業有限公司) is unsecured, non-interest bearing and has no fixed repayment terms.

### 14. SHARE CAPITAL

| | 31.03.2009 | 31.12.2007 | 31.12.2006 |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| Authorised, issued and fully paid: | | | |
| 800,000 ordinary shares of RMB1 each | 800,000 | 800,000 | 800,000 |

Jiujiang Gaofeng Mining Industry Company Limited (九江高豐礦業有限公司), a wholly-owned subsidiary of the Gaofeng Holding Company Limited (香港高豐控股有限公司), entered into a sale and purchase agreement whereby Jiujiang Gaofeng Mining Industry Company Limited agreed to acquire an aggregate of 81.5% equity interests in the Company at a consideration of RMB800,000. At the balance sheet date, Jiujiang Gaofeng Mining Industry Company Limited had paid RMB800,000 to the vendor as a deposit for the acquisition.

According to the Provisional Regulations Regarding Establishment of Venture Capital Enterprises with Foreign Investment (外商投資企業境內投資的暫行規定) issued on 1 September 2000, if foreign investment enterprises (外商投資企業) change its equity-shareholder structure; and its business activities are the scope of limitation to foreign investment enterprises (外商投資限制類領域); this transaction of change equity should be approved by the Commerce Administrative Bureau of Jiangxi Province, PRC (江西省商務主管部門).

## 15. DEFERRED TAXATION

No provision for deferred tax had been made as the Company did not have any significant unprovided deferred tax assets in respect of the period (2007: Nil).

## 16. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Company's accounting policies which are described in note 2, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Company is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Company were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required.

### Write-down of inventories to net realisable value

The management of the Company reviews an aging analysis at each balance sheet date, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Company carries out an inventory review at each balance sheet date and makes provision for obsolete items.

### Mine reserves

Engineering estimates of the Company's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis at related depreciation rates.

### Impairment of mining and exploration assets and property, plant and equipment

The carrying value of mining and exploration assets and property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in note 2 to the financial statements. The recoverable amount of these assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Company to estimate the expected future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

**Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Company assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will affect the depreciation charges in the year in which the estimates change.

## 17. CAPITAL RISK MANAGEMEMT

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from prior year.

The capital structure of the Company consists of debt, which includes cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the company review the capital structure on a regular basis. As a part of this review, the directors of the Company consider the cost of capital and the associated risks and take appropriate actions to adjust the Company's capital structure. The overall strategy of the Company remained unchanged during the two years ended 31 March 2009 and 31 December 2007.

## 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include trade and other receivables, bank balances, trade and other payables, amount due to a shareholder and amount due to an investor company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Currency risk**

Certain deposits of the Company are denominated in foreign currencies. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

**Interest Rate Risk**

The company does not expose to interest rate risk as the company does not has significant interest-bearing assets and liabilities.

**Credit risk**

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2009 in relation to each class of recognized financial assets is the carrying amount of the respective recognized financial assets as stated in the balance sheet. As at 31 March 2009, the Company has significant concentration of credit risk as 99% (2007: 100%) of the total other receivables was due from a counterparty.

In order to minimize the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews regularly the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

**Liquidity Risk**

As the Company suffered a loss on HKD5,730,080 on continuous operating for the period ended 31 March 2009, the management has carefully considered the present policy applied by the Company on liquidity.

Regarding the present policy in the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Company's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

| | **Weighted average effective interest rate** | **Undiscounted cash flows within 1 year** | **Carrying amounts at 31 March 2009** |
|---|---|---|---|
| | | *HKD* | *HKD* |
| **2009** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables | — | 617,632 | 617,632 |
| Amount due to a shareholder | — | 2,910,663 | 2,910,663 |
| Amount due to an investor company | — | 11,315,728 | 11,315,728 |
| | — | 14,844,023 | 14,844,023 |

**Fair value**

The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the balance sheet approximate to the corresponding carrying amounts due to their short-term maturities.

**Categories of financial instruments**

| | 31.03.2009 | 31.12.2007 | 31.12.2006 |
|---|---|---|---|
| | *HKD* | *HKD* | *HKD* |
| **Financial assets** | | | |
| Inventories | 7,401 | 206 | — |
| Trade and other receivables | 101,755 | 174,777 | — |
| Amount due from a shareholder | — | — | 796,800 |
| Cash and cash equivalents | 4,767 | 692,609 | — |
| | 113,923 | 867,592 | 796,800 |
| **Financial liabilities** | | | |
| Financial liabilities measured at amortised cost | | | |
| Trade and other payables | 617,632 | 89,016 | — |
| Amount due to a shareholder | 2,910,663 | 967,289 | — |
| Amount due to an investor company | 11,315,728 | 5,057,991 | — |
| | 14,844,023 | 6,114,296 | — |

## 19. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company incurred a loss HKD5,730,080 for the period ended 31 March 2009 and had net current liabilities and net liabilities of HKD9,136,378. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the shareholders, at a level sufficient to finance the working capital requirements of the Company. The shareholders have agreed to provide adequate funds for the Company to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Company be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## 20. CHANGE OF YEAR END DATE

During the period, the Company changed its year end date from 31 December to 31 March in order to conform with the group year end date after the Company's acquisition by its holding company during the period. As a result, the comparative amounts for the last year's income statement, statement of recognized gains and losses, cash flow statement and related notes are not comparable to those of the current period of fifteen months.

## 21. POST BALANCE SHEET EVENTS

The Company did not have any material event occurred subsequent to 31 March 2009 up to the date of approval of these financial statement by the Board of Directors.

## 22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 15 June 2009.

## II. MANAGEMENT'S DISCUSSION AND ANALYSIS

To assist the Independent Shareholders in their analysis of the financial aspects of the Acquisition, the Company provides the following discussion and analysis of the financial condition and results of operations based on the financial information included in the preceding section of this Appendix and, as such, the following should be read in conjunction therewith.

**Financial information on the Zhang Jia Fan Gold Mine for the period from 1 January 2006 to 31 December 2006**

*Turnover*

The Zhang Jia Fan Gold Mine principally engages in exploration, mining, ore processing and smelting. For the period from 1 January 2006 to 31 December 2006 the Zhang Jia Fan Gold Mine has been dormant.

*Cost of operation*

As the Zhang Jia Fan Gold Mine has been dormant during the reported period there was no direct cost of operation and no administrative expenses.

*Property, plant and equipment*

There were no property, plant and equipment during the reporting period.

*Liquidity and capital resources*

As at 31 December 2006, the net current asset of the Zhang Jia Fan Gold Mine was approximately HK$797,000. The current ratio was nil. There were no bank borrowings as at 31 December 2006. The net debt (that is total bank borrowings less cash and cash equivalent) was nil and accordingly the net debt ratio (that is net debt/net assets) was nil. The Zhang Jia Fan Gold Mine will continue to rely on its internal resources and loan from shareholders to fund its operations in the near future.

*Contingent liabilities*

There were no contingent liabilities as at 31 December 2006.

*Material acquisitions and disposals*

There were no material acquisitions and disposals during the reported period.

*Employees and remuneration policies*

The total staff costs for the reported period were nil.

*Exposure to fluctuation in exchange rate*

The Zhang Jia Fan Gold Mine has foreign currency income and expenses. It actively monitors the currency exposures of material transactions and will consider using foreign exchange forward contracts to mitigate the currency exposures on those transactions, if applicable.

**Financial information on the Zhang Jia Fan Gold Mine for the period from 1 January 2007 to 31 December 2007**

*Turnover*

The Zhang Jia Fan Gold Mine principally engages in exploration, mining, ore processing and smelting. For the period from 1 January 2007 to 31 December 2007 (the "Reported Period") the Zhang Jia Fan Gold Mine has been dormant and incurred loss before and after income tax of approximately HK$4,050,000 respectively.

*Cost of operation*

As the Zhang Jia Fan Gold Mine has been dormant during the reported period there was no direct cost of operation. The administrative expenses (including staff costs and depreciation) amounted to approximately HK$1,006,000.

*Property, plant and equipment*

The amount comprised furniture, fixtures and equipment of approximately HK$6,000 and plant and machinery of approximately HK$167,000.

*Liquidity and capital resources*

As at 31 December 2007, the net current liabilities of the Zhang Jia Fan Gold Mine were approximately HK$5,247,000. Out of the current assets of approximately HK$868,000, approximately HK$693,000 was cash and cash equivalent. The current ratio was 14.2%. There were no bank borrowings as at 31 December 2007. The net debt (that is total bank borrowings less cash and cash equivalent) was nil and accordingly the net debt ratio (that is net debt/net assets) was nil. The Zhang Jia Fan Gold Mine will continue to rely on its internal resources and loan from shareholders to fund its operations in the near future.

*Contingent liabilities*

There were no contingent liabilities as at 31 December 2007.

*Material acquisitions and disposals*

The amount of intangible assets comprises of exploration rights, mining rights and reserves of approximately HK$1,885,000.

*Employees and remuneration policies*

The total staff costs for the reported period were nil.

*Exposure to fluctuation in exchange rate*

The Zhang Jia Fan Gold Mine has foreign currency income and expenses. It actively monitors the currency exposures of material transactions and will consider using foreign exchange forward contracts to mitigate the currency exposures on those transactions, if applicable.

**Financial information on the Zhang Jia Fan Gold Mine for the period from 1 January 2008 to 31 March 2009**

*Turnover*

The Zhang Jia Fan Gold Mine principally engages in exploration, mining, ore processing and smelting. For the period from 1 January 2008 to 31 March 2009 (the "Reported Period") the Zhang Jia Fan Gold Mine has a turnover of approximately HK$410,000 and incurred loss before and after income tax of approximately HK$5,730,000 respectively.

*Cost of operation*

As the Zhang Jia Fan Gold Mine has the cost of operation of approximately HK$311,000. The administrative expenses (including staff costs and depreciation) amounted to approximately HK$1,532,000.

*Property, plant and equipment*

The amount comprised furniture, fixtures and equipment of approximately HK$54,000 and motor vehicles of approximately HK$47,000, plant and machinery of approximately HK$1,263,000 construction in progress of approximately of HK$373,000 and leasehold land and buildings of approximately HK$2,538,000.

*Liquidity and capital resources*

As at 31 March 2009, the net current liabilities of the Zhang Jia Fan Gold Mine were approximately HK$14,730,000. Out of the current assets of approximately HK$114,000, approximately HK$5,000 was cash and cash equivalent. The current ratio was 0.78%. There were no bank borrowings as at 31 March 2009. The net debt (that is total bank borrowings less cash and cash equivalent) was nil and accordingly the net debt ratio (that is net debt/net assets) was nil. The Zhang Jia Fan Gold Mine will continue to rely on its internal resources and loan from shareholders to fund its operations in the near future.

*Contingent liabilities*

There were no contingent liabilities as at 31 March 2009.

*Material acquisitions and disposals*

There were no material acquisitions and disposals during the reported period.

*Employees and remuneration policies*

The total staff costs for the reported period were nil.

*Exposure to fluctuation in exchange rate*

The Zhang Jia Fan Gold Mine has foreign currency income and expenses. It actively monitors the currency exposures of material transactions and will consider using foreign exchange forward contracts to mitigate the currency exposures on those transactions, if applicable.

*Future plans*

The Zhang Jia Fan Gold Mine which is managed by Jiu Jiang Gaofeng, will be in full operation around September 2009. The plant is targeted to upgrade its daily production capacity to 1000 tons within two years. Furthermore, Jiangxi Bureau of Geological Exploration and Exploration of Mineral Resources has recently issued new policy that encourages the local mining firm to broaden mining dimension. Zhang Jia Fan Gold Mine is pending to increase its mining surface area and extend its mining depth, which will increase it mineral resource and future profitability significantly.

*The following is the text of a report, prepared for the purpose of incorporation in this circular, received from PCP CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group.*

**PCP CPA Limited**
**華德匡成會計師事務所**
**有限公司**

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510 King's Road, North Point, Hong Kong.
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11 September 2009

The Directors
**Inno-Tech Holdings Limited**
Room 903
Tung Wai Commercial Building
109–111 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

**ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES TO THE DIRECTORS OF INNO-TECH HOLDINGS LIMITED**

We report on the unaudited pro forma statement of assets and liabilities (the "unaudited Pro Forma Financial Information") of Inno-Tech Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Gaofeng Holding Co. Limited (the "HK Gaofeng") (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed acquisition of 47.2% of the issued share capital of HK Gaofeng (the "Proposed Acquisition"), might have affected the financial information presented for inclusion as Appendix V of the circular of the Company dated 11 September 2009 (the "Circular"). The basis of preparation for the unaudited Pro Forma Financial Information is set out on pages V-4 to V-7 to the Circular.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

## BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2008 or any future date.

## OPINION

In our opinion:

- the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

**PCP CPA Limited**
*Certified Public Accountants*
Hong Kong

**Chua Suk Lin, Ivy**
Practising Certificate No.: P02044

## UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma statement of assets and liabilities of the Enlarged Group, which has been prepared on the basis of the notes set out below and assuming that the Proposed Acquisition had been completed as at 31 December 2008 for the purpose of illustrating how the Proposed Acquisition might have affected the financial position of the Group at that date.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based upon the unaudited condensed consolidated balance sheet of the Group as at 31 December 2008, extracted from its published interim report for the six months ended 31 December 2008 and the audited consolidated balance sheet of HK Gaofeng as at 31 March 2009 as extracted from the Accountants' Report set out in Appendix III to this circular after making appropriate pro forma adjustments that are considered necessary as if the Proposed Acquisition had been completed on 31 December 2008.

The unaudited pro forma statement of assets and liabilities is based on a number of assumptions, estimates and uncertainties. The accompanying unaudited pro forma statement of assets and liabilities does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on 31 December 2008. The unaudited pro forma statement of assets and liabilities does not purport to predict the future financial position of the Enlarged Group.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group should be read in conjunction with the Accountants' Report on HK Gaofeng as set out in Appendix III to this circular, the historical financial information on the Group as set out in Appendix I to this circular and other financial information included elsewhere in this circular.

| | The Group as at 31 December 2008 *HK$'000* (Unaudited) | HK Gaofeng as at 31 March 2009 *HK$'000* (Audited) | Pro forma adjustments *HK$'000* | *Notes* | Pro forma Enlarged Group *HK$'000* |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Goodwill | 60,643 | — | 20,464 | 1(i) | 81,107 |
| Property, plant and equipment | 51,560 | 386 | — | | 51,946 |
| Construction in progress | 337 | — | — | | 337 |
| Prepaid lease payments | 33,879 | — | — | | 33,879 |
| Investment in an investee's company | — | 902 | — | | 902 |
| Intangible assets | 76,772 | — | 160,841 | 1(ii) | 237,613 |
| Interest in associates | 2,353 | — | — | | 2,353 |
| | 225,544 | 1,288 | 181,305 | | 408,137 |
| **Current assets** | | | | | |
| Inventories | 14,267 | — | — | | 14,267 |
| Accounts receivables | 95,256 | — | — | | 95,256 |
| Prepayments, deposits and other receivables | 74,406 | 5,534 | — | | 79,940 |
| Amount due from an investee company | — | 11,316 | — | | 11,316 |
| Loans to an associate | 12,626 | — | — | | 12,626 |
| Tax recoverable | 222 | — | — | | 222 |
| Pledge deposits | 10,000 | — | — | | 10,000 |
| Cash and cash equivalents | 1,797 | 38 | — | | 1,835 |
| | 208,574 | 16,888 | — | | 225,462 |
| **Current liabilities** | | | | | |
| Bank loans and overdrafts | 11,944 | — | — | | 11,944 |
| Trade payables, accrued expenses and other payables | 14,339 | 808 | 1,200 | 1(iii) | 16,347 |
| Amounts due to directors | 3,088 | — | — | | 3,088 |
| Amount due to a shareholder | — | 19,914 | — | | 19,914 |
| | 29,371 | 20,722 | 1,200 | | 51,293 |
| **Net current assets/(liabilities)** | 179,203 | (3,834) | (1,200) | | 174,169 |
| **Non-current liabilities** | | | | | |
| Bank loan | 21,666 | — | — | | 21,666 |
| Deferred taxation | 7,789 | — | 40,210 | 1(iv) | 47,999 |
| Convertible note | — | — | 65,646 | 1(v) | 65,646 |
| | 29,455 | — | 105,856 | | 135,311 |
| **Net assets/(liabilities)** | 375,292 | (2,546) | 74,249 | | 446,995 |

**Notes to the unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group**

(1) On 6 May 2009, an indirect wholly owned subsidiary of the Company entered into sale and purchase agreements with the vendors to acquire an aggregate of 15.4% effective equity interests in the issued share capital of HK Gaofeng.

On 8 June 2009, another indirect wholly owned subsidiary of the Company entered into sale and purchase agreement with the vendor to acquire 47.2% equity interest in the issued share capital of HK Gaofeng at a consideration of HK$75,000,000 (the "Proposed Acquisition). The consideration will be satisfied by the issue of convertible note by the Company to the vendor in the principal sum of HK$75,000,000. The Proposed Acquisition would result in increase in the Group's interest in HK Gaofeng to 62.6% after taking into account the acquisition by the Group an aggregate of 15.4% effective equity interest in the issued share capital of HK Gaofeng as mentioned above.

Upon the completion of the Proposed Acquisition, the identifiable assets and liabilities of HK Gaofeng will be accounted for in the consolidated financial statements of the Group at the fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard 3 "Business Combination".

(i) The unaudited pro forma adjustment of HK$20,464,000 represents goodwill arising from the Proposed Acquisition which is arrived as follows:

| | *HK$'000* | *HK$'000* |
|---|---|---|
| Consideration | | 75,000 |
| Add: Professional fee in relation to the Proposed Acquisition | | 1,200 |
| | | 76,200 |
| Fair value of identifiable assets acquired | | |
| — Net liabilities of the HK Gaofeng as at 31 March 2009 | (2,546) | |
| — Adjustment to recognise fair value of identifiable assets as set out in 1(ii) below | 160,841 | |
| — Deferred tax liabilities recognised as set out in 1(iv) below | (40,210) | |
| | 118,085 | |
| Less: Fair value of identifiable assets attributable to the Group -47.2% thereon | | 55,736 |
| Goodwill | | 20,464 |

The Directors of the Company considered that the carrying values of net liabilities of the HK Gaofeng approximately equal to their fair values.

On completion, the fair value of the attributable share of the identifiable assets, liabilities and contingent liabilities of HK Gaofeng will have to be reassessed. As a result of the reassessment, the amount of goodwill may be different from the amount estimated based on the basis stated above for the purpose of preparation of the unaudited pro forma statement of assets and liabilities. Accordingly, the actual goodwill arising from the Proposed Acquisition may be different from the estimated amount as shown above.

(ii) This represents the fair value of the management agreement entered into between Jiu Jiang Gaofeng Mining Company Limited and Da Xing City Zhang Jia Fan Gold Mine dated 26 March 2009 (the "Management Agreement"). The fair value of the Management Agreement as at 28 April 2009 in the sum of RMB140,350,000 (approximately HK$ 160,841,000) is determined with reference to a valuation report prepared by Greater China Appraisal Limited, a firm of independent valuers.

(iii) The unaudited pro forma adjustment of approximately HK$1,200,000 represents estimated professional fee in relation to the Proposed Acquisition.

(iv) Deferred tax liabilities of approximately HK$40,210,000 are resulted from taxable temporary difference on surplus arising from recognising intangible assets at fair value on acquisition.

(v) The convertible note of the Company with principal amount of HK$75,000,000 has a maturity period of 2 years and not bearing any interest. For the purposes of preparing the unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group, the convertible note in sum of HK$75,000,000 has been taken to be its fair value as if it was issued on 31 December 2008. The unaudited pro forma adjustment of approximately HK$65,646,000 represent the liability component of the convertible note which is determined using discounted cash flow method at an effective interest rate of 14.25%. The difference between the gross proceeds of the issuance of the convertible note and the value of the liability component is assigned as the equity component.

## A. STATEMENT OF INDEBTEDNESS

**Borrowings**

*The Enlarged Group*

As at the close of business on 31 July 2009, the Enlarged Group had outstanding borrowings of approximately HK$42,322,000. The outstanding borrowings comprised secured bank borrowings of approximately HK$6,623,000 and unsecured borrowings of approximately HK$35,699,000. The unsecured borrowings included convertible notes of approximately HK$13,504,000 and amount due to directors of approximately HK$22,195,000.

*The Group*

As at the close of business on 31 July 2009 the Group had outstanding borrowings of approximately HK$22,379,000. The outstanding borrowings comprised secured bank borrowings of approximately HK$6,623,000 and unsecured borrowings of approximately HK$15,756,000. The unsecured borrowings included convertible notes of approximately HK$13,504,000 and amount due to directors of approximately HK$2,252,000.

**Securities and guarantees**

*The Enlarged Group*

As at the close of business on 31 July 2009, the borrowings of Gaofeng in the amount of approximately HK$19,943,000, being amount due to directors is an unsecured borrowing. Accordingly, the amount of securities and guarantees of the Enlarged Group is the same as those of the Group disclosed below.

*The Group*

As at the close of business on 31 July 2009, the Group has pledged fixed deposits of approximately HK$5,000,000 to secure the general banking facilities granted in the amount of approximately HK$6,623,000 to the Group.

As at the close of business on 31 July 2009, the Group provided unlimited corporate guarantees to banks in respect of general banking facilities of approximately HK$6,623,000 granted to a subsidiary namely Cyberworks Technology Limited.

**Disclaimer**

*The Enlarged Group*

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 July 2009, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other material contingent liabilities.

Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Enlarged Group since 31 July 2009 and up to the Latest Practicable Date.

*The Group*

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 July 2009, being the Latest Practicable Date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other material contingent liabilities.

Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Group since 31 July 2009 and up to the Latest Practicable Date.

## B. WORKING CAPITAL

As at the Latest Practicable Date, after taking into account of the available credit facilities and the internal resources of the Enlarged Group, the Directors were of the opinion that the Enlarged Group had sufficient working capital for the 12-month period from the date of this circular.

## C. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2008, being the date to which the latest audited financial statements of the Group were made up.

## D. FINANCIAL AND TRADING PROSPECTS

During the 15 months ended 30 June 2008, the domestic sale of iPanel and Apbus products and the provision of intranet design for residential communities remained the core business of the Group. As stated in the annual report of the Company for the 15 months ended 30 June 2008, 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 electronic software solutions as a platform.

Growth rate of sales of iPanel and Apbus products in the past is not expected to sustain due to the overall contraction in the residential market.

The Group has been expanding into the economy hotel industry. It has entered into joint venture agreements with various strategic business partners in economy hotel operation and management business and entered into various management contracts in relation to the management of nine hotels located in various provinces in the PRC and developed its own hotel brand "YES". The Group's progress in the hotel business section is in line with the Group's corporate strategy and it expects this sector to offer tremendous growth opportunities.

The Acquisition represents a move to implement the Enlarged Group's business plan as stated above and in the meantime brings synergies to the Group and increases Shareholders' return. Looking forward, the Directors believe the recent economic sluggish could present opportunities for the Enlarged Group's long term investments which enhance the Enlarged Group's further expansion into different business sectors in the PRC.

Zhang Jia Fan Gold Mine which is currently managed by Jiu Jiang Gaofeng pursuant to the Management Agreement will be in full operation around September 2009. The plant is targeted to upgrade its daily production capacity to 1,000 tons within two years. Furthermore, Jiangxi Bureau of Geological Exploration and Exploration of Mineral Resources has recently issued new policy that encourages the local mining firm to broaden mining dimension. Zhang Jia Fan Gold Mine is pending to increase its mining surface area and extend its mining depth, which will increase it mineral resource and future profitability significantly.

*The following is the text of the Valuation Report prepared for the purpose of incorporation in this circular received from Greater China Appraisal Limited, an independent valuer, in connection with its valuation on the fair value of 100% interest of the Management Agreement as at 28 April 2009.*

GREATER CHINA APPRAISAL LIMITED
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11 September 2009

The Directors
**Inno-Tech Holdings Limited**
Room 903, Tung Wai Commercial Building
109–111 Gloucester Road
Wan Chai, Hong Kong

Dear Sirs/Madams,

At the request of the management of Inno-Tech Holdings Limited (the "Company"), we were engaged to perform a valuation analysis pertaining to the fair value of the 100% interest of the Management Agreement (the "Management Agreement") signed between Jiu Jiang Gaofeng Mining Company Limited ("Jiu Jiang Gaofeng") and De Xing City Zhang Jia Fan Gold Mine (the "Zhang Jia Fan Gold Mine") dated 26 March 2009.

It is our understanding that our analysis will be used as a reference for your investment purpose, details of which are set out in the circular dated 11 September 2009 issued by the Company to the Shareholders (the "Circular"), of which this valuation report forms part. Unless otherwise stated, terms used in this valuation report have the same meanings as those defined in the circular to the shareholder dated 11 September 2009. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes.

We confirm that we have made relevant enquiries and obtained such information as we consider necessary to perform a valuation analysis on the fair value of the 100% interest of the Management Agreement as at 28 April 2009 (the "Valuation Date").

## INTRODUCTION

### The Management Agreement

The Management Agreement was signed between the Gaofeng Company and the Zhang Jia Fan Gold Mine on 26 March 2009. The Management Agreement requires the Gaofeng Company to provide management and consulting expertise on the operation of the Zhang Jia Fan Gold Mine.

Following is a list of the general services and expertise that will be provided by the Gaofeng Company:

1. Assist the Zhang Jia Fan Gold Mine in its exploration, mining, selecting, processing and marketing;

2. Assist the Zhang Jia Fan Gold Mine in bringing in the latest gold mining technologies;

3. Provide the Zhang Jia Fan Gold Mine with information regarding the domestic, as well as international mining industry;

4. Provide the Zhang Jia Fan Gold Mine with the hedging expertise and management service;

5. Assign qualified representatives to the Zhang Jia Fan Gold Mine to assist its day-to-day operation, as well as its business development strategy, in the likes of public relations and financings;

6. Provide training to the employees of the Zhang Jia Fan Gold Mine in relation to the mining operation;

7. Provide periodic exploration plans to the Zhang Jia Fan Gold Mine;

8. Provide necessary support such as management, financing, accounting, and other administrative tasks; and

9. Other management service or expertise that will be agreed upon.

To compensate the Gaofeng Company for the services provided, the Zhang Jia Fan Gold Mine will pay the Gaofeng Company 81.5% of its earnings before interest, taxes, depreciation and amortization ("EBITDA"). The calculation of EBITDA is based on the Zhang Jia Fan Gold Mine's annual audit report, and the amount has to be paid to Gaofeng Company within 30 days of its issuance.

The Management Agreement ends on the date when the Gaofeng Company obtains approval from the relevant provincial-level government authority that allows it to legally acquire 81.5% of the Zhang Jia Fan Gold Mine's equity interest.

**The Zhang Jia Fan Gold Mine**

According to the Jiang Xi Province Zhang Jia Fan 150 t/d Processing Plant Construction Project — Feasibility Study Report (the "Feasibility Study") prepared by the Ha Er Bin Gold Design Institute dated February 2009, the Zhang Jia Fan Gold Mine is located in De Xing Shi of Jiang Xi Province, PRC (at approximately 117° 40' 57" ~ 117° 41' 27" E and 29° 02' 01" ~ 29° 02' 30" N), covering a mining area of 0.4970 $km^2$.

The mining rights of the Zhang Jia Fan Gold Mine (the "Mining Rights") (No. 3600000830028) will expire in January of 2010, but the Zhang Jia Fan Gold Mine has the right to renew it until all reserves in the Zhang Jia Fan Gold Mine is exhausted. The Zhang Jia Fan Gold Mine was constructed back in 1991, and production began in the same year. Underground mining method remains to be the only mining method with a production capacity of 25 t/d. No other feasibility study was performed previously.

The overall estimated amount of resources for gold (Au) of the Zhang Jia Fan Gold Mine is:

| Altitude | Ore Specification | Ore Reserve (t) |
|---|---|---|
| +70m | 333-1 | 157,266 |
| +40m | 333-1 | 118,195 |
| +10m | 333-1 | 83,767 |
| −20m | 333-1 | 57,021 |
| −50m | 333-2 | 30,993 |
| **Total** | | **447,242** |
| −50m | 334-1 | 302,980 |
| −50m | 334-2 | 350,428 |
| −50m | 334-3 | 361,487 |
| **Total** | | **1,014,895** |

The above identified resources were concluded in accordance with the New Chinese Resources Classification Scheme. Under the Australian Code for Mineral Resources and Ore Reserves Reporting of Exploration Results (the JORC Code), 332 and 333 materials are placed in the Inferred Resources category, and 334 materials are categorized as Unclassified or Exploration Potential.

**Law and Regulations**

The Management Agreement is signed under the jurisdictions of the Jiang Xi Province; hence subject to the law and regulations of the PRC.

## MINERAL OVERVIEW

### Gold

Gold is a chemical element with the symbol Au and atomic number 79[1]. It is a type of precious metal that is highly sought after worldwide for a good number of different industries. The metal occurs as nuggets or grains in rocks. Pure gold has a bright yellow color when in its pure form.


*Source:* www.mindmillion.com

Gold is a good conductor of heat and electricity, and it is the most malleable and ductile of all metals, as a single gram of gold can be beaten into a sheet of one square meter, or an ounce into 300 square feet. In addition, gold leaf can be beaten thin enough to become translucent. It is also a good alloy with many other metals, and these alloys can be produced to modify the hardness and other metallurgical properties, so as to control the melting point or to create exotic colors[2].

*Application*

Long before the introduction of cash (money notes), gold was used as a standard for monetary exchange, and Switzerland was the last country to back their money with gold before joining the International Monetary Fund in 1999[3]. Even when its status as the standard of monetary exchange has long gone, gold still remains one of the most actively traded metals in the world, and often act as a hedge against movements in the stock markets due to their low coefficient of correlation.

1 Gold Jewellery Alloys > Utilise Gold. Scientific, industrial and medical applications, products,suppliers from the World Gold Council". Utilisegold.com. 2000-01-20. www.utilisegold.com/jewellery_technology/colours/colour_alloys/. Retrieved on 5 May 2009.

2 Investing in Gold > Why Gold > Demand & Supply, World Gold Council. www.invest.gold.org/sites/en/why_gold/demand-and_supply/. Retrieved on 5 May 2009.

3 Gold Backed Currency — MoneyTec.com Traders Community Forum. www.moneytec.com/forums/f33/gold-backed-currency-14196/. Retrieved on 5 May 2009.

Most gold are used in the jewelry industry, and due to the softness of pure (24k) gold, this precious metal is usually alloyed with base metals for use in jewelry, altering its hardness and ductility, melting point, color and other properties. Alloys with at lower karats, typically 22k, 18k, 14k, or 10k contain higher percentages other base metals, with copper being the most popular one[4].

Besides it usual demand from the jewelry industry, other modern industrial usages include dentistry and electronics, because of gold's exceptional resistance to oxidative corrosion and most corrosive reagents. It is for this very reason that gold is extremely well-suited for use in coins and jewelry and as a protective coating on other, more reactive, metals.

## BASIS OF VALUATION

We have valued the 100% interest of the Management Agreement on the standard of fair value.

### Fair Value

According to Hong Kong Financial Reporting Standard, fair value is the amount for which an asset could be exchanged, or a fair value liability settled, between knowledgeable, willing parties in an arm's length transaction.

For the purpose of this valuation, the term fair value is similar and/or interchangeable with the valuation standards or definitions below and will be used throughout this valuation report.

### Market Value

According to The Hong Kong Business Valuation Forum — Business Valuation Standards, market value is defined as the estimated amount for which an asset (a property) should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

### Fair Market Value

The International Valuation Glossary defined fair market value as the amount at which property would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprise (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum which are generally accepted

4 WebElements Periodic Table > Gold > Essential Information. http://www.webelements.com/gold/. Retrieved on 5 May 2009.

valuation standards followed by relevant professional practitioners in Hong Kong. These standards contain the detailed guidelines on the basis and valuation approaches in valuing assets used in the operation of a trade or business and business enterprises.

**Principal Sources of Information**

In completing this valuation, we have relied heavily on the following list of information:

1. Feasibility study report of the Zhang Jia Fan Gold Mine prepared by the Ha Er Bin Gold Design Institute dated February 2009;

2. Technical report and its supplement of the Jiang Xi Province Zhang Jia Fan Zhang Jia Fan Gold Mine (the "Technical Report") prepared by the Bureau of Exploration & Development of Geology & Mineral Resources of Jiangxi Province dated June 2007;

3. Gold price and its forecast were obtained from Commodity Price Forecast function of Bloomberg, dated on 28 April 2009;

4. Exchange rate of RMB-USD applied was obtained from exchange rate function of Bloomberg, dated on 28 April 2009;

5. Operational records produced by the management of the Gaofeng Company;

6. Mining rights owned by the Zhang Jia Fan Gold Mine; and

7. Other related business licenses provided to us by the management of the Gaofeng Company.

**ECONOMIC OUTLOOK AND INDUSTRY ANALYSIS**

In conjunction with the preparation of this valuation opinion, we have reviewed and analyzed the current economic conditions in China, as well as how the gold industry may be impacted.

**China's Economic Outlook**

The Chinese economy attained double digit growth rates of 10.7% and 11.9% in 2006 and 2007 respectively. Entering 2008, real GDP growth has been hampered by the global financial crisis but remained impressive at 9.0%. However, growth is expected to slow down further in 2009 and beyond mainly due to weakening export growth and slumping domestic investment. Growth is expected to average at an impressive 7.8% heading into year 2013, contributed rapid growth in domestic demand, private consumption and increases in government spending.

| **Key Economic Indicators** | **2008** *Actual* | **2009** *Forecast* | **2010** *Forecast* | **2011** *Forecast* |
|---|---|---|---|---|
| Real GDP growth (%) | 9.0 | 6.0 | 7.0 | 8.4 |
| Consumer price inflation (%) | 5.9 | (0.2) | 2.5 | 3.5 |
| Budget balance (% GDP) | (0.1) | (3.6) | (2.1) | (1.6) |
| Current-account balance (% GDP) | 10.2 | 6.1 | 4.5 | 3.6 |
| Commercial bank prime rate (%) | 5.6 | 5.4 | 6.6 | 7.0 |
| Exchange rate RMB: US$ (av) | 6.95 | 6.84 | 6.66 | 6.51 |
| Exchange rate RMB: ¥100 (av) | 6.72 | 7.39 | 7.24 | 7.16 |
| Unemployment rate (%) | 9.0 | 10.1 | 10.6 | 10.0 |

*Source:* Country Briefings — China, the Economist[5]

The government will continue to boost the contribution of private consumption to overall growth. Service industries have been boosted during in 2008 by the Olympic Games in Beijing and will be further enhanced in the future by the 2010 Shanghai World Expo. Private investments should be expected to bounce back after the recent decrease in interest rate. As part of the global effort to counter the effects of the financial crisis, the Chinese government has announced an enormous stimulus plan worth more than RMB4,000 billion through 2010, with a focus on infrastructures and social welfare. Inflation, which was one of the Chinese government's main concerns before the financial crisis, is no longer an issue as worldwide commodities prices had dropped significantly over the past year, and an average deflation rate of 0.2% is expected for the year 2009.

**Business Environment Rankings**

| **Value of Index** *(out of 10)* | | **Global Rank** *(out of 82 countries)* | | **Regional Rank** *(out of 17 countries)* | |
|---|---|---|---|---|---|
| **2004–08** | **2009–13** | **2004–08** | **2009–13** | **2004–08** | **2009–13** |
| 5.85 | 6.38 | 57 | 51 | 11 | 10 |

*Source:* Country Forecast, China. Economist Intelligence Unit, March 2009

[5] "Economist.com: Country Briefings — China". Retrieved on 26 Mar 2009, from: http://www.economist.com/countries/china/profile.cfm?folder=Profile%2DEconomic%20Data.

The government will likely struggle to reduce social inequalities with their focus now switched to the urgent need to manage an increasingly challenging economic environment in 2009–13. Domestic demand is expected to remain strong in the forecast period, and rapid private consumption growth and massive increases in government spending will offset weaker export growth. The Renminbi will continue to be held in a managed exchange-rate system while being allowed to appreciate gradually against the U.S. dollar. The country's competitiveness on its export goods will be eroded by the appreciating Renminbi[6].

**Market Trends and Issues**

***Global Gold Market***

The year 2008 was one of extreme uncertainty, as a result of the financial crisis. As the year progressed, a recession became a reality for many countries around the world. The response from asset markets was fierce, as the oil price soared to highs of near US$150 per barrel but by year end, it plunged to four year lows of below US$40 per barrel. The fall in gold price from its March 2008 peak of US$1,011/oz to around US$700/oz in September was generally a result of pessimism[7].

**Chart 2: The five year daily gold price (per oz) in selected currencies**


*Source:* WGC based on Global insight data

6 Country Forecast, China. Economist Intelligence Unit, March 2009.

7 World Gold Council > Gold Investment Digest > Quarter 1 2009. www.gold.org. Retrieved on 5 May 2009.

Slower global economic growth was widely expected to result in a significant contraction in both spending, especially on luxury goods like gold, both in the jewelry and electronic markets. Gold also played the role of an asset of last resort. One of the key reasons that major central banks around the world own gold is to ensure access to emergency funds in times of crisis.

The extreme uncertainty that currently surrounds the global economy is unlikely to abate and should continue to underpin demand of gold. The extent of weakness in the jewelry demand partly depends on the gold price. While western markets are expected to continue to struggle, decrease in gold price could trigger bouts of buying in some non-western markets. The constraints surrounding mine output are unlikely to ease, and in fact, have the potential to worsen as credit conditions continue to cause problems for some miners and explorers.

***Summary of the Global Gold Market in 2008[8]:***

- Gold demand remained strong in Q4 2008 although it was unable to sustain the record highs seen in Q3. Demand was up 26% on the levels of Q4 2007.
- Total demand during 2008 was up 4% from 2007.
- Gold price averaged US$794.76 during Q4, a very similar number to Q4 2007. On a yearly basis, the gold price averaged US$871.96, an increase of 25% from US$695.39 in 2007.
- Biggest source of growth in the demand of gold was investment, as it increased by 64%, equivalent to an additional inflow of US$15.2bn.
- Weakening economic conditions continued to impact negatively on jewelry demand in Q4.
- Most regions experienced a sharp decline in jewelry demand relative to Q4 2007, but there were exceptions, which were India, Egypt and Greater China (China, Hong Kong, and Taiwan).
- Industrial and dental demand declined 10% on a year-to-year basis, with the electronic sector being the industry who took the hardest hit by the slumping economy.

[8] World Gold Council > Gold Demand Trends > Full Year and Fourth Quarter 2008 > Executive Summary. www.gold.org. Retrieved on 5 May 2009.

**Table 5: Consumer demand in selected countries: 2007 and 2008 (tonnes)**

| | 2007 | | | 2008[1] | | | % ch 2008 vs 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Jewellery | Net retail invest. | Total | Jewellery | Net retail invest. | Total | Jewellery | Net retail invest. | Total |
| India | 551.7 | 217.5 | 769.2 | 469.7 | 190.5 | 660.2 | -15 | -12 | -14 |
| **Greater China** | 331.1 | 34.0 | 365.1 | 353.5 | 78.6 | 432.1 | 7 | 131 | 18 |
| China | 302.2 | 25.6 | 327.8 | 326.7 | 68.9 | 395.6 | 8 | 169 | 21 |
| Hong Kong | 14.2 | 1.0 | 15.3 | 14.7 | 1.0 | 15.7 | 3 | -2 | 3 |
| Taiwan | 14.7 | 7.4 | 22.1 | 12.1 | 8.7 | 20.8 | -17 | 18 | -6 |
| Japan | 30.6 | -56.3 | -25.7 | 28.2 | -39.4 | -11.2 | -8 | ... | ... |
| Indonesia | 55.2 | 0.3 | 55.5 | 55.9 | 2.9 | 58.7 | 1 | 834 | 6 |
| Vietnam | 21.4 | 56.1 | 77.5 | 19.6 | 96.2 | 115.8 | -8 | 71 | 49 |
| **Middle East** | 325.5 | 20.1 | 345.6 | 311.4 | 28.2 | 339.6 | -4 | 40 | -2 |
| Saudi Arabia | 117.9 | 9.0 | 126.9 | 108.9 | 13.5 | 122.4 | -8 | 50 | -4 |
| Egypt | 67.8 | 0.7 | 68.5 | 74.3 | 2.5 | 76.8 | 10 | 247 | 12 |
| UAE | 99.8 | 7.5 | 107.3 | 93.4 | 9.5 | 102.9 | -6 | 27 | -4 |
| Other Gulf | 40.0 | 2.9 | 42.9 | 34.8 | 2.6 | 37.5 | -13 | -9 | -13 |
| Turkey | 188.1 | 61.1 | 249.3 | 153.2 | 57.1 | 210.3 | -19 | -7 | -16 |
| Russia[2] | 85.7 | ... | 85.7 | 96.1 | ... | 96.1 | 12 | ... | 12 |
| USA | 257.9 | 16.6 | 274.5 | 179.1 | 77.8 | 256.9 | -31 | 370 | -6 |
| Italy[2] | 59.1 | ... | 59.1 | 50.8 | ... | 50.8 | -14 | ... | -14 |
| UK[2] | 50.1 | ... | 50.1 | 36.2 | ... | 36.2 | -28 | .. | -28 |
| Europe ex CIS[3] | ... | 9.6 | 9.6 | ... | 173.8 | 173.8 | ... | 1718 | 1718 |
| Total Above | 1956.3 | 359.1 | 2315.4 | 1753.6 | 665.6 | 2419.2 | -10 | 85 | 4 |
| Other | 444.3 | 51.3 | 495.6 | 384.0 | 103.7 | 487.7 | -14 | 102 | -2 |
| World Total | 2400.6 | 410.3 | 2810.9 | 2137.5 | 769.3 | 2906.8 | -11 | 87 | 3 |

*Source:* GFMS. 1. Provisional. 2. Jewellery only. 3. Net retail investment only.

**Table 4: Gold supply and demand (WGC presentation)**

| | 2006 | 2007 | 2008 | % ch 2008 vs 2007 | Q4'07 | Q1'08 | Q2'08 | Q3'08 | Q4'08[1] | % ch Q4'08 vs Q4'07 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Supply** | | | | | | | | | | |
| Mine Production | 2,486 | 2,473 | 2,407 | -3 | 630 | 550 | 589 | 634 | 634 | 1 |
| Net Producer Hedging | -410 | -447 | -363 | ... | -74 | -128 | -126 | -63 | -46 | ... |
| Total Mine Supply | 2,076 | 2,026 | 2,044 | 1 | 557 | 422 | 463 | 570 | 588 | 6 |
| Official Sector Sales[2] | 370 | 485 | 279 | -42 | 97 | 80 | 86 | 42 | 71 | -27 |
| Old Gold Scrap | 1,129 | 977 | 1,146 | 17 | 277 | 339 | 275 | 211 | 320 | 15 |
| Total Supply | 3,574 | 3,488 | 3,468 | -1 | 931 | 841 | 824 | 824 | 980 | 5 |
| **Demand** | | | | | | | | | | |
| Fabrication | | | | | | | | | | |
| Jewellery | 2,285 | 2,401 | 2,138 | -11 | 488 | 472 | 519 | 672 | 475 | -3 |
| Industrial & Dental | 459 | 461 | 430 | -7 | 110 | 111 | 112 | 108 | 99 | -10 |
| Sub-Total Above Fabrication | 2,744 | 2,862 | 2,568 | -10 | 598 | 583 | 632 | 780 | 574 | -4 |
| Bar & Coin Retail Investment[3] | 424 | 446 | 636 | 43 | 61 | 86 | 137 | 202 | 212 | 247 |
| Other Retail Investment | -19 | -36 | 133 | ... | 0 | -5 | -2 | 47 | 93 | ... |
| ETFs & similar | 260 | 253 | 321 | 27 | 80 | 73 | 4 | 150 | 95 | 18 |
| Total Demand | 3,409 | 3,526 | 3,659 | 4 | 739 | 736 | 771 | 1,179 | 973 | 32 |
| **"Inferred Investment"[4]** | 165 | -38 | -191 | ... | 192 | 104 | 53 | -355 | 7 | -96 |
| London PM Fix ($US/oz) | 603.77 | 695.39 | 871.96 | 25 | 786.25 | 924.83 | 896.29 | 871.60 | 794.76 | 1 |

*Note:* jewellery data in this table refer to fabrication not consumption and quarterly data differ from the data in Table 1 and 2.

*Source:* GFMS. Data in this table are consistent with those published by GFMS but adapted to the WGC's presentation and take account of the additional demand data now available. The "inferred investment" figure differs from the "implied net (dis)investment" figure in GFMS" supply and demand table as it excludes "ETFs and similar" and "other retail investment". 1. Provisional. 2. Excluding any delta hedging of central bank options. 3. Equal to net retail investment from Table 1 less the "other identified retail investment category. 4. This is the residual from combining all the other data in the table. It includes institutional investment other than ETFs & similar, stock movements and other elements as well as any residual error. In previous editions of GDT it was referred to as the "balance".

***Market Trends and Development***

*Price*

Gold price continued to head higher in Q1 2009, ending the quarter at US$916.50/oz, compared with US$869.75/oz at the end of 2008, a rise of 5%. The rally of gold is driven mainly by the ongoing worries about the stability of the financial system, risk aversion and increasing concerns over price stability. Following a brief dip back below the US$900/oz mark, the US Federal Reserve's announcement that it would purchase a further US$1.15 trillion in treasuries, mortgage-backed securities and agency debt, helped boosted gold price back to US$960.50/oz[9].

*Jewelry*

Demand for gold jewelry contracted in 2008, as the global economic crisis worsened and price volatility remained high throughout the year, with total tonnage dropped by 11% below that of 2007[10]. Fortunately, gold jewelry's largest market, India, helped to cushion the industry from an even further decline, as the country experienced a strong resurgence in Q4. The jewelry market has further deteriorated through Q1, hit by the deepening recession.

*Industrial Applications*

On average, around 12% of total demand for gold comes from industrial and dental applications. So as electronics demand fell by 7% last year[10], it had a profound effect of the overall demand. Decreasing consumer spending has resulted in sharp declines in both production and exports from the world's largest producers of electronic goods. Short-term prospects for the electronic sector remains bleak, as world economic conditions continue to worsen and consumer confidence hovers at record lows.

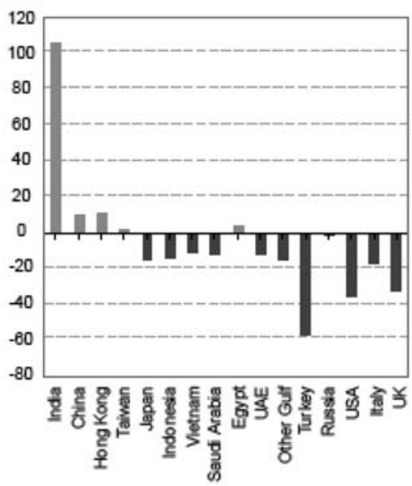
9 World Gold Council > Gold Investment Digest > Quarter 1 2009. www.gold.org. Retrieved on 5 May 2009.

10 World Gold Council > Gold Investment Digest > Quarter 1 2009. www.gold.org. Retrieved on 5 May 2009.

*Mine Production*

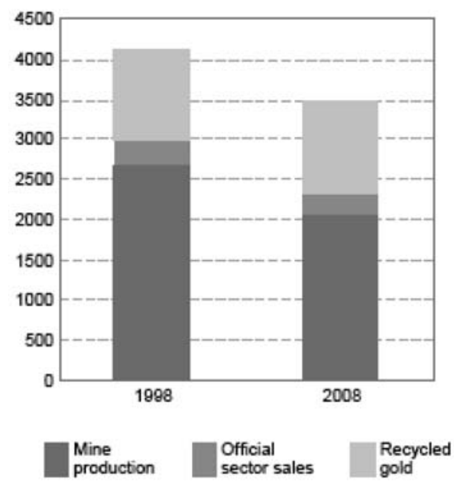
China remained the world's largest gold producer last year with 288 tonnes mined[10]. Because the decline in mine production has not been offset by an increase in other elements of supply, total gold supply continues to decline, and this situation seems unlikely to change anytime soon. Moreover, the outlook for mine production has deteriorated further as a result of the financing constraints.

**Chart 16: Jewellery by country (tonnes, Q4.08 vs Q4.07, %)**




*Source:* GFMS

**Chart 18: Total gold supply (tonnes)**




*Source:* GFMS

## METHODOLOGIES CONSIDERED BUT REJECTED

The valuation of any asset can be broadly classified into one of three approaches, namely the asset approach, the market approach and the income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed the most relevant will then be selected for use in the fair value analysis of the asset.

### The Asset Approach

The asset approach essentially measures what is the net value of the assets today or how much it would cost to replace those assets. One of the replacement value, liquidation value or adjusted book value method is used to estimate the fair value of the business enterprise or its assets.

We have considered but rejected the asset approach due to the following reason:

— our analysis and investigation indicated that it is very unlikely that the Management Agreement can be replaced by one alike, containing comparable covenants and ore specification.

**The Market Approach**

The Market Approach develops a value using the principle of substitution. This simply means that if one thing is similar to another and could be used (our case invested in) for another, then they must be equal. Furthermore, the price of two like and similar items should approximate one another. For the Market Approach to be used, there must be a sufficient number of comparable companies to make comparisons, or, alternatively, the industry composition must be such that meaningful comparisons can be made.

We have considered but rejected the market approach due to the following reasons:

— the market approach is the approximate transaction price of the Management Agreement in the market place. We were not able to satisfy ourselves that the approach would be the most appropriate since the Management Agreement is unique;

— the Management Agreement is unique and it is difficult to locate gold mines with similar ore specifications within the same geographical region. Although public information is sometimes available, there are generally not enough of these transactions (gold mines with comparable terms and ore specifications in approximate geographical area) to perform the valuation adequately.

**METHODOLOGY APPLIED**

While the asset approach and the market approach as mentioned above are not the most appropriate methodologies in this valuation, we have considered the income approach to arrive at a fair value of the Management Agreement.

**The Income Approach**

The income approach is the most generally accepted way of determining a value indication of a business/project, business ownership interest, security, intangible asset, or mineral asset using one or more methods that convert anticipated economic benefits into a present single amount.

The discounted cash flow method ("DCF") requires an explicit forecast of the future benefit streams over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable, i.e. not varying from period to period and the benefit stream is determined to continue into the future without compromise. An appropriate discount rate and an estimate of long term growth beyond the forecast period allow discrete present values to be calculated and summed for all the benefit streams to determine the entity values.

The income approach measures the present value of a company's future income stream, commonly through using the DCF. In general, the DCF is likely to provide a more accurate evaluation of future performance than the two other approaches.

The essential elements of the DCF are: (1) the expected earnings stream to be discounted, and (2) the discount rate. Past earnings history is indicative of potential future earnings, but business transactions are made mostly based on expectations of future and not strictly on past performance.

Accordingly, the EBITDA from the Management Agreement were estimated for the period from the Valuation Date to 30 April 2013, in which the Zhang Jia Fan Gold Mine is expected to be fully exhausted. We then discounted the sum to a present value at the appropriate discount rate, as illustrated below:

$$PV = \frac{E1}{(1+k)} + \frac{E2}{(1+k)^2} + \frac{E3}{(1+k)^3} + \cdots + \frac{En}{(1+k)^n}$$

— E1, 2, 3, etc. = Expected economic income in the 1st, 2nd, 3rd periods, and etc.

— En = Expected economic income in the nth or last period in which an element of income is expected. (An investment with an expected perpetual life can be assumed to terminate at some point, since income in the remotely distant future will have only negligible impact when discounted to present value.)

— k = Discount rate

**Discount Rate**

Discount rate was applied for calculation of the present value of cash flows. Discounting the future cash flows allows for the time value of money. For the purpose of valuing the Management Agreement, we have assessed the Weighted Average Cost of Capital ("WACC") to calculate the discount rate. The WACC is determined through the utilisation of the Capital Asset Pricing Model ("CAPM"), the industry beta (which is a reflection of market sensitivity), cost of equity and cost of debt.

***Capital Asset Pricing Model (the "CAPM")***

In financial theory, the cost of equity is defined as the minimum rate of return required by investors that a company must earn on the equity-financed portion of its capital to leave the market price of its stock unchanged. If the return on equity was lower than the minimum rate required by investors (that is, the company was not meeting the earnings expectations), the company's share price would fall so that it would yield the necessary minimum return. Thus, we calculated the required rate of return on equity by using the CAPM.

When applying the CAPM to estimate a company's cost of equity capital, we added a risk premium; that is, the additional return that investors require over the risk-free rate. The underlying assumption is that investors are risk-adverse and are seeking to maximize the returns on their investments. The cost of equity using CAPM is calculated from the formula below:

$$\mathbf{Re = Rf + Beta * (Rm - Rf) + SCP + SCA}$$

***Beta***

The beta used in the calculation of the CAPM is the average betas of guideline public companies listed on the stock exchange in China or operating in China, with comparable operating business, size and geographical region of the Company. The comparable companies we have selected for this valuation are:

***Comparable Companies***

| | | |
|---|---|---|
| 1 | Zhaojin Mining Industry Company Limited | 001818.HK |
| 2 | Shandong Humon Smelting Company Limited | 002237.CH |
| 3 | Real Gold Mining Limited | 000246.HK |
| 4 | Zhongjin Gold Company Limited | 600489.CH |

The calculation of CAPM therefore becomes:

| | |
|---|---|
| The risk free rate of return (Rf)[11]: | 4.16% |
| Beta | 0.71 |
| Expected Market Return for China (Rm)[12]: | 14.42% |
| Small Company Premium (SCP) | 3.74% |
| Specific Company Adjustment (SCA) | 0.00% |
| ∴ **CAPM (Cost of equity) (Re)** | **15.19%** |

*Risk Free Return ("Rf")*

The rate of return on risk-free security was found by looking at the yields of China Government Bond. Ideally, the duration of the security used as an indication of the risk-free rate should match the horizon of the projected cash flows that are being discounted, which is into perpetuity in the present case. As such, we relied on the 30-year China Government Bond.

*Expected Market Return ("Rm")*

Expected market return represents the risk premium for the equity market. The expected equity risk premium in China applied is 14.42%, as quoted from Bloomberg.

*Small company premium ("SCP")*

The risk premium for unsystematic risk attributes to size of the Management Agreement. The smaller the size of the business subject, the riskier it is. We relied on the research conducted by Ibbotson Associates 2009 Yearbook. The indicated SCP for the Zhang Jia Fan Gold Mine was 3.74%.

11 Expected Market Return of China, at Valuation Date from Bloomberg.

12 Yield of 30-Year Chinese Government Bond, at the Valuation Date from Bloomberg.

*Cost of Debt*

To determine the cost of debt, we have reviewed the long-term interest rate in China.

*Weighted Average Cost of Capital*

WACC (being the discount rate for this valuation) is determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure. Subsequent to the calculations of cost of equity and the cost of debt, the following equation is used to develop the WACC:

$$\mathbf{WACC = [(\%D) \times (Rd) \times (1 - T)] + [(\%E) \times (Re)]}$$

The calculation of WACC, or the discount rate, therefore becomes:

| | |
|---|---|
| Percentage of Interest Bearing Debt (%D) | 5.19% |
| × Market cost of debt (China above 5 years lending rate) (Rd) | 5.94% |
| × 1 – Tax | 75.00% |
| **Weighted cost of debt** | **0.23%** |
| + Percentage of equity (%E) | 94.81% |
| × Cost of equity (CAPM) (Re) | 15.19% |
| **Weighted cost of equity** | **14.41%** |
| ∴ **WACC (rounded)** | **14.64%** |

From the above calculations, we have concluded that a discount rate of 14.64% is reasonable to use in the valuation.

## SUMMARY OF VALUATION RESULTS

The calculation of the fair value of the Management Agreement is listed below, and details of the valuation can be located in the appendices.

| | |
|---|---|
| Present value of expected EBITDA of the Zhang Jia Fan Gold Mine | RMB172,208,459 |
| Percentage shared | 81.5% |
| Share of present value | RMB140,349,894 |
| Effective interest | 100% |
| **Fair Value of the Management Agreement** | **(rounded) RMB140,350,000** |

## VALUATION ASSUMPTIONS

This valuation is subject to uncertainties and there is no assurance that all the documentation, business plans and agreements provided to us by the Company will materialize. As a result, a number of assumptions have to be established in order to sufficiently support our concluded value of the Management Agreement. Details of the assumptions can be located in the appendices, and the major assumptions adopted in this valuation are:

— there will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;

— there will be no material changes to the estimated reserves as reported in the Technical Report;

— there will be no material changes to the estimated operational inputs, which includes the mining capacity, cost of sales and other operational expenses as listed in the Feasibility Study;

— all relevant legal approvals, land use rights and business certificates or licenses for the mining operation are formally obtained and that no additional costs or fees are needed to procure such during the application;

— the Mining Rights of Zhang Jia Fan Gold Mine is free from any encumbrance and liability including but not limited to mortgage, charge, land premium, relocation compensation and development costs;

— the Company, after completion of the transaction, will retain competent management, key personnel, and technical staff to support the ongoing operation and development of the mining business;

— Zhang Jia Fan Gold Mine will be able to retain its existing competent management, technical and operational staff and at the same time to recruit new experienced personnel to join its management, technical and operational teams so as to ensure the smooth and safe operation and continuing growth of its mining business;

— No introduction of any new law or regulation in the PRC or any change in existing laws or regulations in the PRC or other occurrence of any nature whatsoever which may materially and adversely affect the business or the production or the operation cost of Zhang Jia Fan Gold Mine;

— No occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing) of a political, military, financial, economic, currency or other nature, or in the nature of any local, national, international outbreak or escalation of hostilities which may materially and adversely affect the business or the production or the operation cost or the prospects of Zhang Jia Fan Gold Mine; and

— Zhang Jia Fan Gold Mine will not commit any breach of or omits to observe any of its obligations and other requirements pursuant to relevant laws and regulations of the PRC.

## LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Management Agreement valued.

The opinions expressed in this report have been based on the information supplied to us by the Gaofeng Company and its staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the Gaofeng Company management reader of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

## SYNTHESIS AND RECONCILIATION

Because valuations cannot be made on the basis of a prescribed formula, there is no means whereby the various applicable factors in a particular case can be assigned mathematical weights in deriving the fair value. For this reason, no useful purpose is served by taking an average of several factors (for example, book value, capitalized earnings and capitalized dividends) and basing the valuation on the result. Such a process excludes active consideration of other pertinent factors, and the end result cannot be supported by a realistic application of the significant facts in the case except by mere chance.

The following comparative data summarizes and the various methods that we have accepted or considered and rejected, along with their respective final values. Each method is rated relative to the applicability of the method relative to the Management Agreement's facts and circumstances, and strengths/weaknesses which were previously discussed.

### The Asset Approach

Replacement Value, Liquidation Value or Book Value Method . . . . . . . . . . . . . . . N/A
Application . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Rejected

### The Market Approach

Guideline Public Company Method/Guideline Transactions Method . . . . . . . . . . . N/A
Application . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Rejected

### The Income Approach

Discounted Cash Flow Method . . . . . . . . . . . . . . . . . . . . . . . . . . RMB140,350,000
Application . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Accepted

Since the income approach is the only valid and applicable approach in this valuation, we conclude the fair value of the 100% interest of the Management Agreement is RMB140,350,000 using the DCF method.

**CONCLUSION OF VALUE**

Based on the investigation and analysis stated above and on the valuation method employed, in our opinion, the fair value of the 100% interest of the Management Agreement as of the Valuation Date is RMB140,350,000.

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Company and have neither personal interest nor bias with respect to the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
For and on behalf of
**GREATER CHINA APPRAISAL LIMITED**

**K. K. Ip**
*Registered Business Valuer of HKBVF*
*MRICS, MHKIS and RPS (GP)*
*Managing Director*

**Samuel Y.C. Chan**
*MBA, CVA, CM&AA and*
*Associate Member of AIMA*
*Director*
*Head of Business Valuation*

Investigated and Reported by:
**Andrew Y. H. Wong**
**Victor C. W. Siu**

*Footnotes:*

- Mr. K.K. Ip, a Chartered Valuation Surveyor of The Royal Institution of Chartered Surveyors (RICS), Member of Surveyors Registration Board of Hong Kong, Member (General Practice Division) of The Hong Kong Institute of Surveyors (HKIS) and Registered Business Valuer of The Hong Kong Business Valuation Forum (HKBVF), has substantial experience in property, plant and machinery, business enterprise and intellectual property valuations for various purposes in Greater China Region since 1992.

- Mr. Samuel Y.C. Chan, MBA, Certified Valuation Analyst of The International Association of Consultants, Valuators and Analysts (IACVA), Associate Member of The American Institute of Minerals Appraisers and Certified Merger & Acquisition Advisor, has been conducting business enterprise and intellectual property valuations for various purposes since 2004. He also spends a significant portion of his time in valuation of financial instruments including convertible bonds, preference shares, swaps, corporate guarantees and employee share options for private and public companies in China, Hong Kong, Taiwan, Japan, Singapore and the United States.

## Zhang Jia Fan Gold Mine
## Business Enterprise value

**Valuation Date** **2009/4/28**

| | |
|---|---|
| FSR | Feasibility Study Report |
| TAR | Technical Advisor Report |
| STR | Supplemental technical advisor report |
| MRH | Mining Rights Valuation Handbook, 2007 Edition |
| MRG | Mining Rights Valuation Handbook, 2004 Edition |

**Design utilization reserve**

| | | Altitude + 70m above | |
|---|---|---|---|
| Ore quantity | *(t)* | 157,266.00 | FSR section 4.4.2.2 |
| Confidence index based on 333 standard | | 0.60 | MRG page 286 |
| Ore quantity | *(t)* | 94,359.60 | |

| | | Altitude -50m to +70m | |
|---|---|---|---|
| Ore quantity | *(t)* | 289,976.00 | FSR section 4.4.2.2 |
| Confidence index based on 333 standard | | 0.60 | MRG page 286 |
| Ore quantity | *(t)* | 173,985.60 | |

| | | Altitude -50m to +70m | |
|---|---|---|---|
| Ore quantity | | | |
| V334-1 | *(t)* | 302,980.00 | STR section 2 |
| V334-2 | | 350,428.00 | STR section 2 |
| V334-3 | | 361,487.00 | STR section 2 |
| Ore quantity | | 1,014,895.00 | |
| Confidence index based on 334 standard | | 0.50 | MRG page 286 |
| Ore quantity | *(t)* | 507,447.50 | |
| Total ore to be produced | *(t)* | 775,792.70 | |
| Total ore of altitude +70m above | | 94,359.60 | |
| Total ore of altitude -50m to +70m | | 681,433.10 | |

**Metals grade**

| | | | |
|---|---|---|---|
| Gold concentrate | *(g/t)* | 75.00 | FSR section 5.4 |

**Metals price**

| | | 2009 | 2010 | 2011 | 2012 thereafter | |
|---|---|---|---|---|---|---|
| Gold (Grade 9999) | *(usd/oz)* | 933.82 | 966.67 | 902.05 | 863.28 | Bloomberg |
| Price discount | *(%)* | 17.00% | Discount on gold price | | | |
| Gram per ounce | | 28.35 | | | | |
| Gram per tons | | 1,000,000.00 | | | | |

| | | 2009 | 2010 | 2011 | 2012 thereafter | |
|---|---|---|---|---|---|---|
| USD per RMB | | 6.83 | 6.83 | 6.83 | 6.83 | Bloomberg |

**Operational Inputs**

| | | | |
|---|---|---|---|
| Gold concentrate production yield | | 3.30% | FSR section 5.2 |
| Cost of sales | *(rmb/t)* | 132.38 | FSR table 14.5 |
| SG&A expenses | *(rmb/t)* | 19.07 | FSR table 14.1 |
| Finance cost | *(rmb/t)* | 0.00 | FSR table 14.1 |
| Income tax expense | *(rmb/t)* | 0.00% | FSR section 14.4 |

**Capital Investment**

| | | | | |
|---|---|---|---|---|
| Maximum daily mining capacity | | 150.00 | 1,200.00 | FSR table 14.2 |
| Incremental CAPEX | *(rmb)* | 12,538,300 | 43,540,000 | FSR table 14.2 |
| Life of fixed assets | *(years)* | 3.68 | | |

**Net working capital requirement**

| | | | |
|---|---|---|---|
| % to revenue | *(%)* | 0.70% | refer to NWC worksheet |

**Capacity**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 |
|---|---|---|---|---|---|
| | | FSR section 4.4.2.1 | | FSR section 14.7 | |
| Maximum daily mining capacity | | 150.00 | 1,200.00 | 1,200.00 | 1,200.00 |
| Days/yr mining | *(days)* | 300.00 | 300.00 | 300.00 | 300.00 |
| Maximum ore mined per year | *(t)* | 45,000.00 | 360,000.00 | 360,000.00 | 360,000.00 |

**Opening ore reserves**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 | 2013/12/31 |
|---|---|---|---|---|---|---|
| Altitude +70 above | *(t)* | 94,359.60 | 63,907.55 | 0.00 | 0.00 | 0.00 |
| Altitude — from -50m to +70m | *(t)* | 681,433.10 | 681,433.10 | 385,340.65 | 25,340.65 | 0.00 |

**Production Schedule**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 |
|---|---|---|---|---|---|
| **Altitude +70 above** | | | | | |
| Capacity | *(t)* | 45,000.00 | 63,907.55 | 0.00 | 0.00 |
| Pro-rata | | 0.68 | 1.00 | 1.00 | 1.00 |
| Ore mined | *(t)* | 30,452.05 | 63,907.55 | 0.00 | 0.00 |
| Gold concentrate production yield | *(%)* | 3.30% | 3.30% | 3.30% | 3.30% |
| Gold concentrate produced | *(t)* | 1,004.92 | 2,108.95 | 0.00 | 0.00 |
| Concentration Au Grade | *(g/t)* | 75.00 | 75.00 | 75.00 | 75.00 |
| Gold Embedded | *(g)* | 75,368.84 | 158,171.17 | 0.00 | 0.00 |
| **Altitude — from -50m to +70m** | | | | | |
| Capacity | *(t)* | 0.00 | 296,092.45 | 360,000.00 | 25,340.65 |
| Pro-rata | | 0.68 | 1.00 | 1.00 | 1.00 |
| Ore mined | *(t)* | 0.00 | 296,092.45 | 360,000.00 | 25,410.07 |
| Gold concentrate production yield | *(%)* | 3.30% | 3.30% | 3.30% | 3.30% |
| Gold concentrate produced | *(t)* | 0.00 | 9,771.05 | 11,880.00 | 838.53 |
| Concentration Au Grade | *(g/t)* | 75.00 | 75.00 | 75.00 | 75.00 |
| Gold Embedded | *(g)* | 0.00 | 732,828.83 | 891,000.00 | 62,889.93 |
| **Gold concentrate produced** | ***(t)*** | **1,005** | **11,880** | **11,880** | **839** |
| **Au (9999) produced** | ***(g)*** | **75,369** | **891,000** | **891,000** | **62,890** |

**Price Assumptions**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 |
|---|---|---|---|---|---|
| Gold | *(usd/oz)* | 933.82 | 966.67 | 902.05 | 863.28 |
| Price discount for gold concentrate | | 17% | 17% | 17% | 17% |
| Gold concentrate | *(usd/oz)* | 775.07 | 802.34 | 748.70 | 716.52 |
| Gram per ounce | | 28.35 | 28.35 | 28.35 | 28.35 |
| Gold concentrate | *(usd/g)* | 27.34 | 28.30 | 26.41 | 25.27 |
| Exchange USD/RMB | | 6.83 | 6.83 | 6.83 | 6.83 |
| Gold concentrate | *(rmb/g)* | 186.73 | 193.30 | 180.37 | 172.62 |

**Income Statement**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 |
|---|---|---|---|---|---|
| **Revenue** | ***(rmb)*** | **14,073,454** | **172,227,175** | **160,714,125** | **10,856,217** |
| Cost of sales | *(rmb/t)* | 132.38 | 132.38 | 132.38 | 132.38 |
| Cost of sales | *(rmb)* | (4,031,243) | (47,656,800) | (47,656,800) | (3,363,785) |
| **Gross Margin** | ***(rmb)*** | **10,042,211** | **124,570,375** | **113,057,325** | **7,492,431** |
| **Gross Margin** | ***(%)*** | **71%** | **72%** | **70%** | **69%** |
| SG&A, ex-depreciation | *(rmb/t)* | 19.07 | 19.07 | 19.07 | 19.07 |
| SG&A, ex-depreciation | *(rmb)* | (580,721) | (6,865,200) | (6,865,200) | (484,570) |
| **EBITDA** | ***(rmb)*** | **9,461,491** | **117,705,175** | **106,192,125** | **7,007,861** |
| **EBITDA** | ***(%)*** | **67%** | **68%** | **66%** | **65%** |

**Zhang Jia Fan Gold Mine**
**Management Agreement**

**Valuation Date** **2009/4/28**

**Date of receipt**

| | | 2010/4/30 | 2011/4/30 | 2012/4/30 | 2013/4/30 |
|---|---|---|---|---|---|
| **EBITDA** | ***(rmb)*** | **9,461,491** | **117,705,175** | **106,192,125** | **7,007,861** |
| Years from model start date | | 1.01 | 2.01 | 3.01 | 4.01 |
| Discount factor | | 0.87 | 0.76 | 0.66 | 0.58 |
| Present value | *(rmb)* | 8,247,242 | 89,499,164 | 70,408,882 | 4,053,171 |

| WACC | IA adjustment | Asset return | Profit stream | Profit shared | Effective interest |
|---|---|---|---|---|---|
| 14.64% | 0.00% | 14.64% | 172,208,459 | 81.50% | 140,349,894 |
| | | | | rounded | 140,350,000 |

| Comparable Companies | Ticker | Currency | Mkt Cap (mil) | Sales (mil) | Services | Location | Accept | Reject | Reason for Rejection |
|---|---|---|---|---|---|---|---|---|---|
| 1 Zhaojin Mining Industry Company Limited | 1818 HK | HKD | 14,413.98 | 2,152.70 | Principal operations include exploring, mining and processing of gold | China | Accept | | |
| 2 Shandong Humon Smelting Co Limited | 002237 CH | CNY | 7,440.79 | 2,122.60 | Principal operations include the mining, concentration and smelting of gold | China | Accept | | |
| 3 Real Gold Mining Limited | 246 HK | HKD | 3,821.40 | 312.30 | Principal operations include mining and processing of gold ore into concentrates | China | Accept | | |
| 4 Zhongjin Gold Co Limited | 600489 CH | CNY | 21,022.93 | 14,469.20 | Principal operations include acquiring, exploring, developing gold products | China | Accept | | |
| 5 Zijin Mining Group Co Limited | 2899 HK | HKD | 127,865.60 | 16,322.30 | Principal operations include exploring, mining, processing and marketing of gold | China | | Reject | Size of operation too large and core operation is not gold mining |
| 7 Shandong Gold Mining Co Limited | 600547 CH | CNY | 26,881.84 | 19,871.40 | Principal operations include exploring, mining and processing of gold | China | | Reject | Core business is gold alloy instead of gold mining |
| 8 Sino Gold Mining Limited | SGX AU | AUD | 1,637.03 | 198.16 | Principal operation is the mining of gold | China | | Reject | Recorded net loss for consecutive years |

## Beta

| Comparable Companies | Ticker | Currency | BV Debt (mil) | MV Preferred Stock (mil) | MV+MI Equity (mil) | MVIC (mil) | Levered Beta | Debt as a % of MVIC | MV Equity as a % of MVIC | Effective Tax Rate | Unlevered Beta[6] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Zhaojin Mining Industry Company Limited | 1818 HK | HKD | 543.86 | — | 14,815.13 | 15,358.99 | 0.699 | 3.54% | 96.46% | 23.33% | 0.680 |
| Shandong Humon Smelting Co Limited | 002237 CH | CNY | 546.00 | — | 7,440.79 | 7,986.79 | 0.704 | 6.84% | 93.16% | 26.42% | 0.668 |
| Real Gold Mining Limited | 246 HK | HKD | — | — | 3,839.26 | 3,839.26 | 0.686 | 0.00% | 100.00% | 40.50% | 0.686 |
| Zhongjin Gold Co Limited | 600489 CH | CNY | 1,611.55 | — | 21,022.93 | 22,634.48 | 1.035 | 7.12% | 92.88% | 0.00% | 0.961 |
| | | | | | | | Median | 5.19% | 94.81% | 24.88% | 0.683 |
| | | | | | | | Selected | 5.19% | 94.81% | 25.00% | 0.683 |
| Re-leverage Beta *[1+{(D/E)*(1-T)}] | | | | | | | | | | | 0.71 |

## CAPM (Build up method)

Expected return on Equity (Re) = Rf + Beta * (Rm-Rf) + SCP + SCA

| | | | |
|---|---|---|---|
| Rf | = | 4.16% | Yield of 30-years Chinese Government Bond |
| Beta | = | 0.71 | Industry/Comparable Companies Beta |
| *Rm* | = | 14.42% | Expected market return of China quoted in Bloomberg |
| *SCP** | = | 3.74% | Small Company Premium SSBI 2009 Valuation Year Book |
| *SCA*** | = | 0.00% | Specific Company Adjustment |
| | | | |
| Re | = | 15.19% | |

**WACC (Weighted average cost of capital)**

WACC = [(%/D) * (Rd) * (1-T)] + {(%E) * (Re)}

| | | | |
|---|---|---|---|
| %D | = | 5.19% | Percentage of Interest Bearing Debt |
| Rd | = | 5.94% | China above 5 years Lending Rate |
| T | = | 25.00% | China Income Tax Rate |
| Weighted Cost of Debt | | 0.23% | |
| %E | = | 94.81% | Percentage of Equity |
| Re | = | 15.19% | Expected Return on Equity |
| Weighted Cost of Equity | | 14.41% | |
| WACC | | 14.64% | |

* **Small Company Premium ("SCP")**

SCP, over the risk premium for the market, can be calculated by subtracting the estimated return in excess of the riskless rate from the realized return in excess of the riskless rate of companies. For this particular valuation, we applied the size premium return in excess of CAPM of companies that belongs to the micro cap segment of NYSE/EMEX/NASDAQ in the United States. We relied on the studies performed by Ibbotson Associates as reflected in their Stocks, Bonds, Bills, and Inflation: 2009 Yearbook.

** **Specific Company Adjustment ("SCA")**

SCA for unsystematic risk attributable to the specific company is designed to account for additional risk factors, such as company history, cyclical risk, risks of competitive encroachment, size and various operating concentrations (key-executive dependency, customer concentration, and the like). For this particular valuation, we concluded that no additional risk is necessary.

## GENERAL SERVICE CONDITIONS

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional valuation standards. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, workpapers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least five years.

Our report is to be used only for the specific purposes stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for his or her own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorneys' fees, to which we may become subjects in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

*The following is a letter received from PCP CPA Limited, Certified Public Accountants, Hong Kong, in respect of the Valuation Report which constitutes a profit forecast under the GEM Listing Rules.*

**PCP CPA Limited**
**華德匡成會計師事務所有限公司**

Suites 2205-6, Island Place Tower,
510 King's Road, North Point, Hong Kong.
Telephone: (852) 2882 8378
Facsimile: (852) 3009 8534

香港北角英皇道510號港運大廈22樓5至6室
電話：(852) 2882 8378
傳真：(852) 3009 8534

11 September 2009

The Board of directors
**Inno-Tech Holdings Limited**
Room 903, Tung Wai Commercial Building,
109–111 Gloucester Road,
Wanchai,
Hong Kong

Dear Sirs,

**Inno-Tech Holdings Limited (the "Company")**
**Proposed acquisition of approximately 47.2% interest in Gaofeng Holding Co. Limited (the "HK Gaofeng") by the Dragon Emperor International Limited (the "Dragon Emperor")**

We have examined the accounting policies adopted and arithmetical accuracy of the calculations of the valuation report as to the fair value of the 100% interest of the management agreement signed between Jiu Jiang Gaofeng Mining Company Limited and Da Xing City Zhang Jia Fan Gold Mine dated 26 March 2009 (the "Valuation Report"), prepared by Great China Appraisal Limited ("GCAL") dated 11 September 2009. The Valuation Report is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("SEHK") (the "GEM Listing Rules").

GCAL is solely responsible for the preparation of the Valuation Report while GCAL and the directors of the Company (the "Directors") are responsible for the accounting policies adopted and the reasonableness and validity of the assumptions based on which the Valuation Report is prepared (the "Assumptions").

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The procedures were performed solely to assist the directors of the Company to comply with Rule 19.62 of the GEM Listing Rules. Our work does not constitute any valuation of the fair value of the 100% interest of the management agreement signed between Jiu Jiang Gaofeng Mining Company Limited and Da Xing City Zhang Jia Fan Gold Mine dated 26 March 2009.

It is our responsibility to form an opinion, based on our work on the accounting policies adopted and our work on the arithmetical accuracy of the calculation of the Valuation Report and to report our opinion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the GEM Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

We were informed by the directors of the Company that the valuation is discounted cash flow model. The Assumptions include hypothetical assumptions about future events as detailed in Appendix 1 and management actions that cannot be confirmed and verified in the same way as past results, and these assumptions may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation Report and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

In our opinion, so far as the accounting policies and calculations are concerned, the Valuation Report has been properly complied on the bases and assumptions made by GCAL and the directors of the Company as set out in Appendix 1 and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group for the period ended 30 June 2008 as set out in Appendix I "Financial Information on the Group" to this circular.

**PCP CPA Limited**
*Certified Public Accountants*
Hong Kong

**Chua Suk Lin, Ivy**
Practising Certificate No.: P02044

## APPENDIX 1

## EXHIBIT — ASSUMPTIONS OF MANAGEMENT AGREEMENT VALUATION

### Zhang Jia Fan Gold Mine
### Business Enterprise value

**Valuation Date** **2009/4/28**

| | |
|---|---|
| FSR | Feasibility Study Report |
| TAR | Technical Advisor Report |
| STR | Supplemental technical advisor report |
| MRH | Mining Rights Valuation Handbook, 2007 Edition |
| MRG | Mining Rights Valuation Handbook, 2004 Edition |

**Design utilization reserve**

| | | **Altitude + 70m above** | |
|---|---|---|---|
| Ore quantity | *(t)* | 157,266.00 | FSR section 4.4.2.2 |
| Confidence index based on 333 standard | | 0.60 | MRG page 286 |
| Ore quantity | *(t)* | 94,359.60 | |

| | | **Altitude -50m to +70m** | |
|---|---|---|---|
| Ore quantity | *(t)* | 289,976.00 | FSR section 4.4.2.2 |
| Confidence index based on 333 standard | | 0.60 | MRG page 286 |
| Ore quantity | *(t)* | 173,985.60 | |

| | | **Altitude -50m to +70m** | |
|---|---|---|---|
| Ore quantity | | | |
| V334-1 | *(t)* | 302,980.00 | STR section 2 |
| V334-2 | | 350,428.00 | STR section 2 |
| V334-3 | | 361,487.00 | STR section 2 |
| Ore quantity | | 1,014,895.00 | |
| Confidence index based on 334 standard | | 0.50 | MRG page 286 |
| Ore quantity | *(t)* | 507,447.50 | |
| Total ore to be produced | *(t)* | 775,792.70 | |
| Total ore of altitude +70m above | | 94,359.60 | |
| Total ore of altitude -50m to +70m | | 681,433.10 | |

**Metals grade**

| | | | |
|---|---|---|---|
| Gold concentrate | *(g/t)* | 75.00 | FSR section 5.4 |

**Metals price**

| | | 2009 | 2010 | 2011 | 2012 thereafter | |
|---|---|---|---|---|---|---|
| Gold (Grade 9999) | *(usd/oz)* | 933.82 | 966.67 | 902.05 | 863.28 | Bloomberg |
| Price discount | *(%)* | 17.00% | Discount on gold price | | | |
| Gram per ounce | | 28.35 | | | | |
| Gram per tons | | 1,000,000.00 | | | | |

| | | 2009 | 2010 | 2011 | 2012 thereafter | |
|---|---|---|---|---|---|---|
| USD per RMB | | 6.83 | 6.83 | 6.83 | 6.83 | Bloomberg |

**Operational Inputs**

| | | | |
|---|---|---|---|
| Gold concentrate production yield | | 3.30% | FSR section 5.2 |
| Cost of sales | *(rmb/t)* | 132.38 | FSR table 14.5 |
| SG&A expenses | *(rmb/t)* | 19.07 | FSR table 14.1 |
| Finance cost | *(rmb/t)* | 0.00 | FSR table 14.1 |
| Income tax expense | *(rmb/t)* | 0.00% | FSR section 14.4 |

**Capital Investment**

| | | | | |
|---|---|---|---|---|
| Maximum daily mining capacity | | 150.00 | 1,200.00 | FSR table 14.2 |
| Incremental CAPEX | *(rmb)* | 12,538,300 | 43,540,000 | FSR table 14.2 |
| Life of fixed assets | *(years)* | 3.68 | | |

**Net working capital requirement**

| | | | |
|---|---|---|---|
| % to revenue | *(%)* | 0.70% | refer to NWC worksheet |

**Capacity**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 |
|---|---|---|---|---|---|
| | | FSR section 4.4.2.1 | | FSR section 14.7 | |
| Maximum daily mining capacity | | 150.00 | 1,200.00 | 1,200.00 | 1,200.00 |
| Days/yr mining | *(days)* | 300.00 | 300.00 | 300.00 | 300.00 |
| Maximum ore mined per year | *(t)* | 45,000.00 | 360,000.00 | 360,000.00 | 360,000.00 |

**Opening ore reserves**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 | 2013/12/31 |
|---|---|---|---|---|---|---|
| Altitude +70 above | *(t)* | 94,359.60 | 63,907.55 | 0.00 | 0.00 | 0.00 |
| Altitude — from -50m to +70m | *(t)* | 681,433.10 | 681,433.10 | 385,340.65 | 25,340.65 | 0.00 |

**Production Schedule**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 |
|---|---|---|---|---|---|
| **Altitude +70 above** | | | | | |
| Capacity | *(t)* | 45,000.00 | 63,907.55 | 0.00 | 0.00 |
| Pro-rata | | 0.68 | 1.00 | 1.00 | 1.00 |
| Ore mined | *(t)* | 30,452.05 | 63,907.55 | 0.00 | 0.00 |
| Gold concentrate production yield | *(%)* | 3.30% | 3.30% | 3.30% | 3.30% |
| Gold concentrate produced | *(t)* | 1,004.92 | 2,108.95 | 0.00 | 0.00 |
| Concentration Au Grade | *(g/t)* | 75.00 | 75.00 | 75.00 | 75.00 |
| Gold Embedded | *(g)* | 75,368.84 | 158,171.17 | 0.00 | 0.00 |
| **Altitude — from -50m to +70m** | | | | | |
| Capacity | *(t)* | 0.00 | 296,092.45 | 360,000.00 | 25,340.65 |
| Pro-rata | | 0.68 | 1.00 | 1.00 | 1.00 |
| Ore mined | *(t)* | 0.00 | 296,092.45 | 360,000.00 | 25,410.07 |
| Gold concentrate production yield | *(%)* | 3.30% | 3.30% | 3.30% | 3.30% |
| Gold concentrate produced | *(t)* | 0.00 | 9,771.05 | 11,880.00 | 838.53 |
| Concentration Au Grade | *(g/t)* | 75.00 | 75.00 | 75.00 | 75.00 |
| Gold Embedded | *(g)* | 0.00 | 732,828.83 | 891,000.00 | 62,889.93 |
| **Gold concentrate produced** | ***(t)*** | **1,005** | **11,880** | **11,880** | **839** |
| **Au (9999) produced** | ***(g)*** | **75,369** | **891,000** | **891,000** | **62,890** |

**Price Assumptions**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 |
|---|---|---|---|---|---|
| Gold | *(usd/oz)* | 933.82 | 966.67 | 902.05 | 863.28 |
| Price discount for gold concentrate | | 17% | 17% | 17% | 17% |
| Gold concentrate | *(usd/oz)* | 775.07 | 802.34 | 748.70 | 716.52 |
| Gram per ounce | | 28.35 | 28.35 | 28.35 | 28.35 |
| Gold concentrate | *(usd/g)* | 27.34 | 28.30 | 26.41 | 25.27 |
| Exchange USD/RMB | | 6.83 | 6.83 | 6.83 | 6.83 |
| Gold concentrate | *(rmb/g)* | 186.73 | 193.30 | 180.37 | 172.62 |

**Income Statement**

| | | 2009/12/31 | 2010/12/31 | 2011/12/31 | 2012/12/31 |
|---|---|---|---|---|---|
| **Revenue** | ***(rmb)*** | **14,073,454** | **172,227,175** | **160,714,125** | **10,856,217** |
| Cost of sales | *(rmb/t)* | 132.38 | 132.38 | 132.38 | 132.38 |
| Cost of sales | *(rmb)* | (4,031,243) | (47,656,800) | (47,656,800) | (3,363,785) |
| **Gross Margin** | ***(rmb)*** | **10,042,211** | **124,570,375** | **113,057,325** | **7,492,431** |
| **Gross Margin** | ***(%)*** | **71%** | **72%** | **70%** | **69%** |
| SG&A, ex-depreciation | *(rmb/t)* | 19.07 | 19.07 | 19.07 | 19.07 |
| SG&A, ex-depreciation | *(rmb)* | (580,721) | (6,865,200) | (6,865,200) | (484,570) |
| **EBITDA** | ***(rmb)*** | **9,461,491** | **117,705,175** | **106,192,125** | **7,007,861** |
| **EBITDA** | ***(%)*** | **67%** | **68%** | **66%** | **65%** |

**Zhang Jia Fan Gold Mine**
**Management Agreement**

**Valuation Date** **2009/4/28**

**Date of receipt**

| | | 2010/4/30 | 2011/4/30 | 2012/4/30 | 2013/4/30 |
|---|---|---|---|---|---|
| **EBITDA** | ***(rmb)*** | **9,461,491** | **117,705,175** | **106,192,125** | **7,007,861** |
| Years from model start date | | 1.01 | 2.01 | 3.01 | 4.01 |
| Discount factor | | 0.87 | 0.76 | 0.66 | 0.58 |
| Present value | *(rmb)* | 8,247,242 | 89,499,164 | 70,408,882 | 4,053,171 |

| WACC | IA adjustment | Asset return | Profit stream | Profit shared | Effective interest |
|---|---|---|---|---|---|
| 14.64% | 0.00% | 14.64% | 172,208,459 | 81.50% | 140,349,894 |
| | | | | rounded | 140,350,000 |

| Comparable Companies | Ticker | Currency | Mkt Cap (mil) | Sales (mil) | Services | Location | Accept | Reject | Reason for Rejection |
|---|---|---|---|---|---|---|---|---|---|
| 1 Zhaojin Mining Industry Company Limited | 1818 HK | HKD | 14,413.98 | 2,152.70 | Principal operations include exploring, mining and processing of gold | China | Accept | | |
| 2 Shandong Humon Smelting Co Limited | 002237 CH | CNY | 7,440.79 | 2,122.60 | Principal operations include the mining, concentration and smelting of gold | China | Accept | | |
| 3 Real Gold Mining Limited | 246 HK | HKD | 3,821.40 | 312.30 | Principal operations include mining and processing of gold ore into concentrates | China | Accept | | |
| 4 Zhongjin Gold Co Limited | 600489 CH | CNY | 21,022.93 | 14,469.20 | Principal operations include acquiring, exploring, developing gold products | China | Accept | | |
| 5 Zijin Mining Group Co Limited | 2899 HK | HKD | 127,865.60 | 16,322.30 | Principal operations include exploring, mining, processing and marketing of gold | China | | Reject | Size of operation too large and core operation is not gold mining |
| 7 Shandong Gold Mining Co Limited | 600547 CH | CNY | 26,881.84 | 19,871.40 | Principal operations include exploring, mining and processing of gold | China | | Reject | Core business is gold alloy instead of gold mining |
| 8 Sino Gold Mining Limited | SGX AU | AUD | 1,637.03 | 198.16 | Principal operation is the mining of gold | China | | Reject | Recorded net loss for consecutive years |

## Beta

| Comparable Companies | Ticker | Currency | BV Debt (mil) | MV Preferred Stock (mil) | MV + MI Equity (mil) | MVIC (mil) | Levered Beta | Debt as a % of MVIC | MV Equity as a % of MVIC | Effective Tax Rate | Unlevered Beta[6] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Zhaojin Mining Industry Company Limited | 1818 HK | HKD | 543.86 | — | 14,815.13 | 15,358.99 | 0.699 | 3.54% | 96.46% | 23.33% | 0.680 |
| Shandong Humon Smelting Co Limited | 002237 CH | CNY | 546.00 | — | 7,440.79 | 7,986.79 | 0.704 | 6.84% | 93.16% | 26.42% | 0.668 |
| Real Gold Mining Limited | 246 HK | HKD | — | — | 3,839.26 | 3,839.26 | 0.686 | 0.00% | 100.00% | 40.50% | 0.686 |
| Zhongjin Gold Co Limited | 600489 CH | CNY | 1,611.55 | — | 21,022.93 | 22,634.48 | 1.035 | 7.12% | 92.88% | 0.00% | 0.961 |
| | | | | | | | Median | 5.19% | 94.81% | 24.88% | 0.683 |
| | | | | | | | Selected | 5.19% | 94.81% | 25.00% | 0.683 |

Re-leverage Beta *[1 + {(D/E)*(1-T)}] 0.71

## CAPM (Build up method)

Expected return on Equity (Re) = Rf + Beta * (Rm-Rf) + SCP + SCA

| | | | |
|---|---|---|---|
| Rf | = | 4.16% | Yield of 30-years Chinese Government Bond |
| Beta | = | 0.71 | Industry/Comparable Companies Beta |
| *Rm* | = | 14.42% | Expected market return of China quoted in Bloomberg |
| *SCP** | = | 3.74% | Small Company Premium SSBI 2009 Valuation Year Book |
| *SCA*** | = | 0.00% | Specific Company Adjustment |
| | | | |
| Re | = | 15.19% | |

**WACC (Weighted average cost of capital)**

WACC = [(%/D) * (Rd) * (1-T)] + {(%E) * (Re)}

| | | | |
|---|---|---|---|
| %D | = | 5.19% | Percentage of Interest Bearing Debt |
| Rd | = | 5.94% | China above 5 years Lending Rate |
| T | = | 25.00% | China Income Tax Rate |
| Weighted Cost of Debt | | 0.23% | |
| %E | = | 94.81% | Percentage of Equity |
| Re | = | 15.19% | Expected Return on Equity |
| Weighted Cost of Equity | | 14.41% | |
| WACC | | 14.64% | |

* **Small Company Premium ("SCP")**

SCP, over the risk premium for the market, can be calculated by subtracting the estimated return in excess of the riskless rate from the realized return in excess of the riskless rate of companies. For this particular valuation, we applied the size premium return in excess of CAPM of companies that belongs to the micro cap segment of NYSE/EMEX/NASDAQ in the United States. We relied on the studies performed by Ibbotson Associates as reflected in their Stocks, Bonds, Bills, and Inflation: 2009 Yearbook.

** **Specific Company Adjustment ("SCA")**

SCA for unsystematic risk attributable to the specific company is designed to account for additional risk factors, such as company history, cyclical risk, risks of competitive encroachment, size and various operating concentrations (key-executive dependency, customer concentration, and the like). For this particular valuation, we concluded that no additional risk is necessary.

The biographical details of the Vendor, who is proposed to be the Chief Operating Officer of the Company responsible for gold mining operation of the Group, are set out as follows:

**Mr. Wong Chung Pong, Christopher** ("**Mr. Wong**"), aged 53 and whose business address is Rooms 2002–2003, 20th Floor, Nan Fung Tower, 173 Des Voeux Road Central, Hong Kong, began his career with the Hong Kong Gold and Silver Exchange in the late 1970's, as a floor trader. He then worked on numerous mining and finance projects, focused mainly on the Canadian capital and equity markets. This included raising monies for, and advising on Initial Public Offerings, private placements and Venture Capital financings with a specific focus on junior gold mining entities. He has worked with numerous companies and organizations through his consultancy company, Interpacific Capital Corp. of Canada, where he helped to give strategic advice and guidance, raising a substantial amount of money for junior to senior organizations. He advises both public and private companies. In early 2002 he began to focus more of his efforts on Mainland China, which is also an area of his expertise and made numerous strategic property acquisitions. He has taken several early stage exploration and development projects in China all the way into feasibility, construction and production. This currently includes the Zhang Jia Fan Gold Mine and a copper mine operated by Mr. Wong, both of which are located in the Jiangxi province of China. Mr. Wong is the legal representative of Zhang Jia Fan Gold Mine. Mr. Wong's immense knowledge of the mining industry, his network of contacts around the globe and his over 30 years of industry experience have contributed to an extensive depth of knowledge in the mining industry.

As at the Latest Practicable Date, Mr. Wong is interested in an aggregate of 48,487,866 Shares, representing approximately 2.10% of the existing issued share capital of the Company. Save as disclosed, Mr. Wong does not have any interests in the shares of the Company or any of its associated corporations within the meaning of Part XV of the SFO.

Mr. Wong does not have any relationship with any directors, senior management or management shareholders (as defined in the GEM Listing Rules) or substantial shareholders (as defined in the GEM Listing Rules) or controlling shareholders (as defined in the GEM Listing Rules) of the Company. Apart from the proposed position as a Chief Operating Officer of the Company, Mr. Wong does not hold any position with the Company and other members of the Group. Mr. Wong has not held any directorship in any other listed companies in the last three years.

As at the Latest Practicable Date, no service agreement has been entered into between the Company and Mr. Wong.

## RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## SHARE CAPITAL

The table below sets out the authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) upon Completion:

| | | |
|---|---|---|
| | | *HK$* |
| *Authorized share capital:* | | |
| 5,000,000,000 | Shares (as at the Latest Practicable Date) | 100,000,000.00 |
| *Issued and fully paid, or credited and fully paid, share capital:* | | |
| 2,311,635,677 | Shares (as at the Latest Practicable Date) | 46,232,713.54 |
| *New Shares to be issued and fully paid, or credited as fully paid upon Completion:* | | |
| 543,478,260 | Shares to be issued upon exercise of the conversion rights attached to the Convertible Note | 10,869,565.20 |
| *Total share capital upon Completion* | | |
| 2,855,113,937 | Shares | 57,102,278.74 |
| *Share options* | | |
| 190,339,865 | Share options (as at the Latest Practicable Date) | |

On 28 February 2009, the Company issued convertible notes with the principal amount of HK$43,384,000 as consideration for acquisition of assets. The convertible notes, with maturity date of 28 February 2011, are convertible into Shares at an initial conversion price of HK$0.0638 per Share during the conversion period. As at the Latest Practicable Date, the principal amount of HK$24,316,000 of the convertible notes has been converted into Shares and the balance of the principal amount of the convertible notes is HK$19,068,000.

All the issued Shares fully paid up and Shares to be issued and paid up of nominal value HK$0.02 each are and will and rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. Save for the share options and the convertible notes set out above, the Company did not have any other debt securities in issue, options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Company is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

### (a) Directors' and chief executives' interest in the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executive of the Company 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 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 follows:

*(i) Beneficial interest and short position in Shares as at the Latest Practicable Date*

| Name of director | Personal Interests | Corporate Interests | Aggregate Interests | Percentage of the Company's issued share capital |
|---|---|---|---|---|
| Ms. Wong Yuen Yee *(Notes 1 and 2)* | 155,030,597 | 119,926,263 | 274,956,860 | 11.89% |
| Mr. Wong Kwok Sing *(Notes 1 and 2)* | 7,678,500 | 119,926,263 | 127,604,763 | 5.52% |
| Mr. Wong Yao Wing, Robert *(Note 1)* | 145,070,596 | 94,362,000 | 239,432,596 | 10.36% |
| Mr. Lam Shiu San *(Note 1)* | 6,018,500 | 94,362,000 | 100,380,500 | 4.34% |
| Mr. Cheng King Hung *(Note 3)* | 200,000 | 500,000 | 700,000 | 0.03% |

*Notes:*

1. The 94,362,000 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 94,362,000 Shares held by Multiturn Trading Limited under the SFO.

2. The 25,564,263 Shares are held by Capital Base Holdings Limited, which is beneficially owned as to 50% by Ms. Wong Yuen Yee and as to 50% by Mr. Wong Kwok Sing. Accordingly each of Ms. Wong Yuen Yee and Mr. Wong Kwok Sing is deemed to be interested in the 25,564,263 Shares held by Capital Base Holdings Limited under the SFO.

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

*(ii) Beneficial interests and short positions in underlying shares of equity derivatives of the Company as at the Latest Practicable Date*

| **Directors** | **Date of grant** | **No. of shares attached to the option** | **Exercisable period** | **Exercise price per share** |
|---|---|---|---|---|
| Ms. Wong Yuen Yee | 23 August 2007 | 7,930,000 | 23 August 2007 to 22 August 2017 | HK$0.63 |
| Mr. Wong Kwok Sing | 23 August 2007 | 7,930,000 | 23 August 2007 to 22 August 2017 | HK$0.63 |
| Mr. Wong Yao Wing, Robert | 23 August 2007 | 7,930,000 | 23 August 2007 to 22 August 2017 | HK$0.63 |
| Mr. Lam Shiu San | 23 August 2007 | 7,930,000 | 23 August 2007 to 22 August 2017 | HK$0.63 |
| Mr. Wong Tak Leung, Charles | 23 August 2007 | 1,000,000 | 23 August 2007 to 22 August 2017 | HK$0.63 |
| Mr. Lai Ying Sum | 23 August 2007 | 1,000,000 | 23 August 2007 to 22 August 2017 | HK$0.63 |
| Mr. Cheng King Hung | 23 August 2007 | 1,000,000 | 23 August 2007 to 22 August 2017 | HK$0.63 |

*(iii) Interests in associated corporation of the Group*

| Directors | Name of associated corporation | Approximate percentage of shareholding as at the Latest Practicable Date |
|---|---|---|
| Ms. Wong Yuen Yee *(Note)* | Great China Media Holdings Limited | 30.20% |
| Mr. Wong Kwok Sing *(Note)* | Great China Media Holdings Limited | 30.20% |

*Note:* Great China Media Holdings Limited is 30.20% owned by Capital Base Holdings Limited, which is beneficially owned as to 50% by Ms. Wong Yuen Yee and 50% by Mr. Wong Kwok Sing.

Save as disclosed above, as at the Latest Practicable Date, 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.

**(b) Substantial Shareholders' interests in the Company**

As at the Latest Practicable Date, 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 expected, 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:

| Name | Capacity | Number of Shares interested | Number of underlying Shares interested | Approximate percentage of shareholding |
|---|---|---|---|---|
| Multiturn Trading Limited | Corporate *(Note 1)* | 94,362,000 | — | 4.08% |
| Capital Base Holdings Limited | Corporate *(Note 2)* | 25,564,263 | 298,871,473 *(Note 3)* | 14.03% |

*Notes:*

1. Multiturn Trading Limited is 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. Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Wong Yao Wing, Robert and Mr. Lam Shiu Saw are also directors of Multiturn Trading Limited.

2. Capital Base Holdings Limited is beneficially owned as to 50% by Ms. Wong Yuen Yee and as to 50% by Mr. Wong Kwok Sing. Ms. Wong Yuen Yee and Mr. Wong Kwok Sing are also directors of Capital Base Holdings Limited.

3. On 28 February 2009, the Company issued convertible notes with the principal amount of HK$43,384,000 as consideration for acquisition of assets. The convertible notes, with maturity date of 28 February 2011, are convertible into Shares at an initial conversion price of HK$0.0638 per Share during the conversion period. As at the Latest Practicable Date, the principal amount of HK$24,316,000 of the convertible notes has been converted into Shares and the balance of the principal amount of the convertible notes is HK$19,068,000.

Save as disclosed above, as at the Latest Practicable Date, 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 expected, 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.

## SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, 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 INTEREST

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors 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.

## EXPERT AND CONSENT

The qualification of the expert who has given opinion in this circular is as follows:

| Name | Qualification |
|---|---|
| Veda Capital | a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity |
| PCP CPA Limited | Certified Public Accountants |
| Lo and Kwong C.P.A. Company Limited | Certified Public Accountants |
| Greater China Appraisal Limited | Valuer |

As at the Latest Practicable Date, none of the above experts has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and has no direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 30 June 2008, being the date to which the latest published audited accounts of the Company were made up.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which they respectively appear.

**INTERESTS IN ASSETS**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Enlarged Group or is proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 30 June 2008, being the date to which the latest published audited accounts of the Company were made up.

**INTERESTS IN CONTRACT OR ARRANGEMENT**

As at the Latest Practicable Date, none of the Directors is materially interested in contract or arrangement subsisting which is significant in relation to the business of the Enlarged Group.

**LITIGATION**

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 instalment payments of consideration. As at the Latest Practicable Date, 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 members of the Enlarged Group 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 any members of the Enlarged Group.

## MISCELLANEOUS

(1) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(2) The head office and principal place of business of the Company is at Room 903 Tung Wai Commercial Building, 109–111 Gloucester Road, Wan Chai, Hong Kong.

(3) The company secretary of the Company is Mr. Li Kar Fai, Peter who is also the qualified accountant of the Company. Mr. Li is a member of the Hong Kong Institute of Certified Public Accountants.

(4) The compliance officer of the Company is Mr. Wong Yao Wing, Robert.

(5) The Hong Kong branch share registrars and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(6) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

## AUDIT COMMITTEE

The Company's audit committee comprises of three members, namely Mr. Wong Tak Leung, Charles ("**Mr. Wong**"), Mr. Cheng King Hung ("**Mr. Cheng**") and Mr. Lai Ying Sum ("**Mr. Lai**"), all of whom are independent non-executive Directors.

Mr. Wong graduated from the University of Hong Kong in 1972 with a bachelor degree of Science and became a Solicitor of the Supreme Court of Hong Kong in 1976, a solicitor of the Supreme Court of England & Wales in 1978, Barrister & Solicitor of Victoria, Australia in 1983, a Notary Public since 1987, Advocate & Solicitor of Supreme Court of Republic of Singapore in 1990. Mr. Wong is currently a partner of Messrs. Lo, Wong & Tsui, Solicitors. Mr. Wong has sat as a Temporary Deputy Registrar of the High Court and he is also a Deputy Chief Commissioner of the Scout Association of Hong Kong.

Mr. Cheng graduated from the Southern Illinois University at Carbondale, United States of America with a Bachelor of Science in Special Major: Film-Television Communication in 1980. Mr. Cheng obtained the degree of Master of Philosophy in Communication from the Chinese University of Hong Kong in 1986 and the degree of Doctor of Philosophy from the Research Institute in Chinese Literature and History, Hong Kong Chu Hai College in 1991. Mr. Cheng has worked as a copywriter with the Television and Broadcasting Limited from 1980 to 1981. Between 1981 and 1990, Mr. Cheng was an information officer with the Government Information Services. Mr. Cheng left the civil service in 1990 to join the Kowloon-Canton Railway Corporation as a community relations manager until 1992. Mr. Cheng was Head of News & Media Section of Hong Kong University of Science and Technology between 1992 to 2000. Mr. Cheng has been a school manager of YLPMS Tang Siu Tong Secondary School since 2005 and is currently the chairman of Writers Fellowship and executive committee member of Group 26 (environmental industries) of the Federation of Hong Kong Industries.

Mr. Lai is the proprietor of Sam Lai & Co., a CPA firm in Central. Mr. Lai was admitted respectively as member and fellow member of the Association of Chartered Certified Accountants in 1994 and 1999. He has over 15 years of experience in auditing and advising different companies. Mr. Lai holds two master degrees, an MBA degree from the University of Edinburgh and a Master of Science Degree in Business Economics from the Chinese University of Hong Kong. Mr. Lai also holds a Bachelor Degree of Laws from the University of London and is a member of the Taxation Institute of Hong Kong.

Save as disclosed above, none of the three audit committee members have served or are serving as directors of other companies listed on the GEM or the Main Board of the Stock Exchange or any other stock exchanges.

The function of the Company's audit committee includes, among other things:

(a) to consider and make recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the audit fees and terms of engagement, and any questions of their resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and

(c) to develop and implement policy on the engagement of an external auditor to provide non-audit services.

## MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years preceding the date of this circular and are or may be material:

(1) the joint venture agreement entered into between the Company and Swiss-Belhotel International Limited on 10 October 2007 for the incorporation of a company in the British Virgin Islands for engagement in the management and operation of economy hotels in the PRC ("**Swiss JV**"), with 70% of the issued share capital to be held by the Group, pursuant to which the Company agreed to make initial capital contribution of HK$3 million and total investment of HK$10 million to the Swiss JV on a pro rata basis;

(2) the sale and purchase agreement entered into between Inno Hotel Investment & Management Holdings Limited ("**Inno Hotel**"), a wholly-owned subsidiary of the Company, and Smart Boom Development Limited ("**Smart Boom**") on 5 November 2007, pursuant to which Inno Hotel acquired the entire issued share

capital of Sunny Team Corporation Limited ("**Sunny Team**") for a consideration of RMB13.5 million and the entire issued share capital of China Earn Limited for a consideration of RMB14 million;

(3) the share exchange agreement entered into among Autoscale, a 56% owned subsidiary of the Company, United Premier Medical Group Limited ("**UPMG**"), The Cavalier Group ("**Cavalier**") and other parties on 21 January 2008, pursuant to which Autoscale agreed to dispose of 6,000 shares in UPMG (representing approximately 35.57% in UPMG) to Cavalier in consideration for its issue and allotment of 12,000,000 shares to Autoscale;

(4) the sale and purchase agreement entered into between Inno Hotel and Smart Boom on 4 February 2008, pursuant to which Inno Hotel agreed to acquire of the entire issued share capital of Homesmart Properties Limited ("**Homesmart**") for a consideration of RMB20 million;

(5) the joint venture agreement entered into between Inno-Hotel Investment Holdings Limited ("**Inno-Hotel Holdings**") and 浙江彩江和祥集團 (Zhe Jiang Harmony Group*) (the "**JV Partner**") on 20 May 2008, pursuant to which Inno-Hotel Holdings and the JV Partner formed a joint venture company for engagement in the management and operation of economy hotels in the PRC (with 51% interest to be held by Inno-Hotel Holdings) and Inno-Hotel Holdings agreed to make capital contribution of RMB10.2 million to the joint venture company;

(6) the placing agreement entered into between the Company, President Securities (Hong Kong) Limited (the "**First Placing Agent**") and Ms. Wong Yuen Yee on 11 June 2008, pursuant to which Ms. Wong Yuen Yee agreed to sell through the First Placing Agent, on a best effort basis, an aggregate of up to 70,000,000 Shares at a placing price of HK$0.37 per placing Share;

(7) the placing agreement entered into between the Company, Emperor Securities Limited (the "**Second Placing Agent**") and Mr. Wong Yao Wing, Robert on 11 June 2008, pursuant to which Mr. Wong Yao Wing, Robert agreed to sell through the Second Placing Agent, on a best effort basis, an aggregate of up to 110,000,000 placing Shares at a price of HK$0.37 per placing Share;

(8) the subscription agreement entered into between the Company, Ms. Wong Yuen Yee and Mr. Wong Yao Wing, Robert ("**Wong's Vendors**") on 11 June 2008, pursuant to which Wong's Vendors agreed to subscribe for an aggregate of up to 180,000,000 Shares at a subscription price of HK$0.37 per Share;

(9) the placing agreement entered into between the Company and the First Placing Agent on 11 June 2008 pursuant to which the Company conditionally agreed to place, through the First Placing Agent on a best effort basis, up to 55,660,000 new Shares at the placing price of HK$0.37 per new Share (the "**New Shares Placing Agreement**");

(10) the subscription agreement entered into between the Company and Wong's Vendors on 15 July 2008, pursuant to which Wong's Vendors agreed to subscribe for an aggregate of up to 107,704,193 new Share at a subscription price of HK$0.37 per new Share;

(11) the termination agreement entered into between the Company and the First Placing Agent on 15 July 2008 pursuant to which the New Shares Placing Agreement was terminated;

(12) the placing agreement entered into between the Company and the First Placing Agent on 29 October 2008 pursuant to which the Company conditionally agreed to place, through the First Placing Agent, on a best effort basis, up to 100,000,000 new Shares at the placing price of HK$0.087 per new Share;

(13) the subscription agreement entered into between the Company and the City Beat Holdings Limited ("**City Beat**") on 29 October 2008, pursuant to which City Beat agreed to subscribe for 135,000,000 Shares at the subscription price of HK$0.087 per new Share;

(14) the sale and purchase agreement entered into between Shiny Step Investments Limited ("**Shiny Step**"), a wholly-owned subsidiary of the Company, and Capital Base Holdings Limited dated 10 December 2008, pursuant to which Shiny Step acquired approximately 23% interest in Great China Media Holdings Limited at a consideration of HK$43,384,000;

(15) the sale and purchase agreement entered into between the Company and Certain Success Holdings Limited dated 16 February 2009, pursuant to which the Company disposed of 56% interest in Autoscale Resources Limited at a consideration of HK$3,144,960;

(16) the sale and purchase agreement entered into between Inno Gold Mine, the Vendor and Ms. Ou Yang Ying dated 6 May 2009, pursuant to which Inno Gold Mine acquired the entire issued share capital of Dragon Emperor at a consideration of HK$21,636,364;

(17) the sale and purchase agreement entered into between Inno Gold Mine and the Vendor dated 6 May 2009, pursuant to which Inno Gold Mine acquired 1.8% of the issued share capital of HK Gaofeng at a consideration of HK$2,863,636;

(18) the supplemental option deed dated 2 June 2009 entered into by the Vendor in favour of Dragon Emperor pursuant to which Dragon Emperor was granted an option to require the Vendor to transfer to Dragon Emperor up to 47.2% of issued share capital in HK Gaofeng;

(19) the Sale and Purchase Agreement;

(20) the sale and purchase agreement entered into between Inno Hotel and Timewon Limited dated 26 June 2009, pursuant to which Inno Hotel agreed to sell and Timewon Limited agreed to purchase the entire issued share capital of Sunny Team for a consideration of RMB2,000,000 (equivalent to approximately HK$2,222,000);

(21) the sale and purchase agreement entered into between Inno Hotel and Main Move Limited dated 26 June 2009, pursuant to which Inno Hotel agreed to sell and Main Move Limited agreed to purchase the entire issued share capital of Homesmart for a consideration of RMB2,000,000 (equivalent to approximately HK$2,222,000); and

(22) the placing agreement entered into between the Company and the First Placing Agent dated 10 July 2009 in relation to the placing of maximum of 1,000,000,000 Shares in four tranches of not less than 250,000,000 Shares each.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during 9:00 a.m. to 5:00 p.m. at the head office and principal place of business in Hong Kong at Room 903, Tung Wai Commercial Building, 109–111 Gloucester Road, Wanchai, Hong Kong up to and including 28 September 2009:

(1) the memorandum of association and bye-laws of the Company;

(2) the annual reports of the Company for the year ended 31 March 2007 and the 15 months ended 30 June 2008 and the third quarterly report of the Company for the nine months ended 31 March 2009;

(3) material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(4) a letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 41 of this circular;

(5) the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 20 to 40 of this circular;

(6) the accountants' report on HK Gaofeng, the text of which is set out in Appendix III to this circular;

(7) the accountants' report on Zhang Jia Fan Gold Mine, the text of which is set out in Appendix IV to this circular;

(8) the report on the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix V to this circular;

(9) the written consent from each of the experts referred to in the paragraph headed "Expert and Consent" in this appendix;

(10) the circular of the Company dated 6 August 2008 relating to the subscription of an aggregate of 107,704,193 new Shares by Wong's Vendors pursuant to the subscription agreement entered into between the Company and Wong's Vendors on 15 July 2008; and

(11) the circular of the Company dated 23 January 2009 relating to the acquisition of approximately 23% interest in Great China Media Holdings Limited pursuant to a sale and purchase agreement entered into between Shiny Step and Capital Base Holdings Limited dated 10 December 2008.

# INNO-TECH HOLDINGS LIMITED
# 匯 創 控 股 有 限 公 司 *

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8202)**

## NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting of Inno-Tech Holdings Limited (the "**Company**") will be held at Room 903, Tung Wai Commercial Building, 109–111 Gloucester Road, Wanchai, Hong Kong on 30 September 2009 at 11:30 a.m., for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution:

### ORDINARY RESOLUTION

"**THAT**:

(a) the agreement (the "**Sale and Purchase Agreement**") dated 9 June 2009 entered into between Dragon Emperor International Limited (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, and Mr. Wong Chung Pong, Christopher (the "**Vendor**") pursuant to which the Purchaser agreed to purchase from the Vendor 4,720 shares of HK$1.00 each in the issued share capital of Gaofeng Holding Co. Limited at HK$75,000,000, to be satisfied by the issue of a redeemable convertible note of the Company (the "**Note**") with the principal amount of HK$75,000,000 carrying rights to convert the outstanding principal amount into shares of HK$0.02 each in the capital of the Company ("**Share(s)**") at the initial conversion price of HK$0.138 per Share subject to the terms and conditions thereof (a copy of which has been produced to the special general meeting marked "A" and initialled by the Chairman of the meeting for the purpose of identification), be and is hereby confirmed, approved and ratified and the directors of the Company be and are hereby authorised to issue the Note and to issue and allot Shares upon exercise of the conversion rights under the Note; and

* *for identification purposes only*

(b) any one director of the Company, or any two directors of the Company where required, be and is/are hereby authorised to implement and to take all steps and do any and all acts and things, to sign and execute all such further documents for and on behalf of the Company under hand or under seal, as may be necessary or desirable to give effect to the Sale and Purchase Agreement and the Note and any other documents or matters incidental thereto and/or as contemplated thereunder."

By order of the Board
**INNO-TECH HOLDINGS LIMITED**
**Wong Yuen Yee**
*Chairman*

Hong Kong, 11 September 2009

*Head Office and Principal Place of Business in Hong Kong:*
Room 903
Tung Wai Commercial Building
109–111 Gloucester Road
Wanchai
Hong Kong

**Notes:**

(1) Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead in accordance with the Company's Bye-laws. A proxy need not be a shareholder of the Company. A form of proxy for use at the meeting is enclosed herewith.

(2) Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.

(3) Where there are joint registered holders of any shares, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders is present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such shares shall alone be entitled to vote in respect thereof.

(4) To be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806–07, 18th Floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong at least 48 hours before the time appointed for holding the meeting or any adjournment thereof as the case may be and in default thereof the form of proxy and such power or authority shall not be treated as valid.

(5) The register of members of the Company will be closed from 26 September 2009, Saturday to 30 September 2009, Wednesday (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for attending the meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, Room 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 25 September 2009, Friday.

(6) As at the date hereof, the board of directors ("**Directors**") of the Company comprises four executive Directors, namely, Ms. Wong Yuen Yee (Chairman), Mr. Wong Yao Wing, Robert (Deputy Chairman), Mr. Wong Kwok Sing and Mr. Lam Shiu San; and three independent non-executive Directors, namely Mr. Wong Tak Leung, Charles, Mr. Lai Ying Sum and Mr. Cheng King Hung.