



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

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

2010 / 2011

Third Quarterly Report

* For identification purposes only

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

CORPORATE INFORMATION

Board of Directors

Mr. Chen Chuan (*Chairman*)
(*appointed on 19 January 2011*)

Ms. Wong Yuen Yee (*Chairman*)
(*resigned on 19 January 2011*)

Mr. Wong Yao Wing, Robert
(*Deputy Chairman*)
(*resigned on 31 January 2011*)

Mr. Ang Wing Fung

Ms. Wong On Yee*

Ms. Au Yuk Kit*

Ms. Lu Di*

* *Independent non-executive Directors*

Compliance Officer

Mr. Wong Yao Wing, Robert
(*resigned on 31 January 2011*)

Mr. Chen Chuan
(*appointed on 31 January 2011*)

Authorised Representatives

Mr. Wong Yao Wing, Robert
(*resigned on 31 January 2011*)

Ms. Wong Yuen Yee
(*resigned on 19 January 2011*)

Mr. Chen Chuan
(*appointed on 31 January 2011*)

Mr. Ang Wing Fung
(*appointed on 19 January 2011*)

Company Secretary

Mr. Li Kar Fai, Peter, *CPA*

Audit Committee Members

Ms. Wong On Yee
(*Chairman of audit committee*)

Ms. Au Yuk Kit

Ms. Lu Di

Auditors

Crowe Horwath (HK) CPA Limited

Legal Advisers to the Company

Troutman Sanders (*as to Hong Kong Laws*)
Tang, Tso & Lau Solicitors
(*as to Hong Kong Laws*)

Principal Bankers

Wing Lung Bank Limited
Shanghai Commercial Bank Limited

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

Room 606, 6th Floor
MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Principal Share Registrars and Transfer Office

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrars and Transfer Office

Computershare Hong Kong
Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Company Website

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

Gem Stock Code

8202

HIGHLIGHTS

- Revenue for the nine months ended 31 March 2011 amounted to approximately HK\$20,125,000, representing an increase of approximately 159% as compared to amount reported in the corresponding period in 2010.
- Loss from ordinary activities attributable to equity holders amounted to approximately HK\$42,964,000 for the nine months ended 31 March 2011.
- Basis loss per share amounted to HK\$0.09 for the nine months ended 31 March 2011.
- The Board did not recommend the payment of a dividend for the nine months ended 31 March 2011.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 31 March 2011

The board of directors (the "Board") of Inno-Tech Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the nine months ended 31 March 2011 as follow:-

	Notes	Unaudited three months ended 31 March		Unaudited nine months ended 31 March	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Continuing operations:					
Revenue	3	9,066	1,826	20,125	7,764
Cost of sales		(10,011)	(1,700)	(22,864)	(6,679)
Gross profit/(loss)		(945)	126	(2,379)	1,085
Other revenue and net gains or losses		4,870	73	6,225	13,620
Marketing and promotion expenses		(714)	(459)	(2,077)	(3,018)
Administrative expenses		(7,073)	(5,176)	(26,557)	(28,097)
Finance costs		(1,802)	(1,995)	(6,747)	(4,688)
Share of profits/(losses) of associates and jointly controlled entities		-	-	(2)	5,505
Loss on disposal of trading securities		(3,129)	-	(4,718)	-
Loss on fair value change in trading securities		(2,681)	-	(2,581)	-
Deemed loss on disposal of associates		-	(754)	-	(754)
Loss before income tax expenses from continuing operations		(11,474)	(8,185)	(39,196)	(16,347)
Income tax expenses	4	(3)	-	(390)	-
Loss for the period from continuing operations		(11,477)	(8,185)	(39,586)	(16,347)
Discounting operation:					
Loss for the period from discounting operation		(1,679)	(4,749)	(3,366)	(12,718)
Loss for the period		(13,156)	(12,934)	(42,952)	(29,065)
Other comprehensive loss for the period					
Exchange difference acting on translation of foreign operations		(70)	-	(78)	108
Total comprehensive loss for the period		(13,226)	(12,934)	(43,030)	(28,957)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 31 March 2011

	Notes	Unaudited three months ended 31 March		Unaudited nine months ended 31 March	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss for the period attributable to:					
Owners of the Company		(13,716)	(12,500)	(42,964)	(28,276)
Non-controlling interests		560	(434)	12	(789)
		(13,156)	(12,934)	(42,952)	(29,065)
Total comprehensive loss attributable to:					
Owners of the Company		(13,786)	(12,500)	(43,042)	(28,168)
Non-controlling interests		560	(434)	12	(789)
		(13,226)	(12,934)	(43,030)	(28,957)
Loss per share attributable to owners of the Company	5				
From continuing and discounting operations – Basic and diluted		(0.01)	(Restated) (0.21)	(0.09)	(Restated) (0.55)
From continuing operations – Basic and diluted		(0.01)	(0.14)	(0.08)	(0.32)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2011

	Attributable to owners of the Company										Non-controlling interest	Total
	Share capital	Share premium	Share options reserve	Convertible notes reserve	Contributed surplus	Capital redemption reserve	Exchange reserve	Investment revaluation reserve	Accumulated losses	Attributable to owners of the Company		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2009	42,884	441,580	36,398	8,631	5,625	43	(205)	(640)	(451,332)	82,984	-	82,984
Loss for the period	-	-	-	-	-	-	-	-	(28,276)	(28,276)	(789)	(29,065)
Exchange difference on consolidation	-	-	-	-	-	-	108	-	-	108	-	108
Total comprehensive loss for the period	-	-	-	-	-	-	108	-	(28,276)	(28,168)	(789)	(28,957)
Issuance of shares upon exercise of share options	3,494	5,778	(1,000)	-	-	-	-	-	-	8,272	-	8,272
Recognition of equity component of convertible note	-	-	-	15,184	-	-	-	-	-	15,184	-	15,184
Issuance of shares upon conversion of convertible notes	6,309	21,898	-	(6,620)	-	-	-	-	-	21,587	-	21,587
Obtaining control of subsidiary	-	-	-	-	-	-	-	-	-	-	(6,996)	(6,996)
Issuance of shares	21,446	31,225	-	-	-	-	-	-	-	52,671	-	52,671
Share issuance cost	-	(1,025)	-	-	-	-	-	-	-	(1,025)	-	(1,025)
At 31 March 2010	74,133	499,456	35,398	17,195	5,625	43	(97)	(640)	(479,608)	151,505	(6,784)	144,721
At 1 July 2010	74,203	504,779	38,714	14,690	5,625	43	(221)	-	(592,038)	45,795	9,449	55,244
Loss for the period	-	-	-	-	-	-	-	-	(42,964)	(42,964)	12	(42,952)
Exchange difference on consolidation	-	-	-	-	-	-	(78)	-	-	(78)	-	(78)
Total comprehensive loss for the period	-	-	-	-	-	-	(78)	-	(42,964)	(43,042)	12	(43,030)
Issue of new shares on acquisition	14,025	-	-	-	-	-	-	-	-	14,025	-	14,025
Issue of convertible note	-	-	-	5,187	-	-	-	-	-	5,187	-	5,187
Issuance of shares	46,444	229,715	-	-	-	-	-	-	-	276,159	-	276,159
Share issuance cost	-	(10,686)	-	-	-	-	-	-	-	(10,686)	-	(10,686)
Obtaining control of subsidiaries	-	-	-	-	-	-	-	-	-	-	217	217
Redemption of convertible notes	-	-	-	(14,030)	-	-	-	-	5,734	(8,296)	-	(8,296)
Capital reorganisation	(118,828)	(504,779)	-	-	31,569	-	-	-	592,038	-	-	-
At 31 March 2011	15,844	219,029	38,714	5,847	37,194	43	(299)	-	(37,230)	279,142	9,678	288,820

Notes:

1. 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 (the “HKFRSs”), which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “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 (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “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 2010. The principal accounting policies adopted are disclosed in the Group’s 09/10 Annual Report dated 29 September 2010.

These unaudited condensed consolidated financial statements should be read in conjunction with the Group’s 09/10 Annual Report.

2. PRINCIPAL ACCOUNTING POLICIES

In the current period, the Group has applied the following new and revised standards, amendments or interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are or have become effective.

HKFRS 3 (Revised) Business Combinations (the “HKFRS 3R”)

HKFRS 3R introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in HKFRS 3R are as follows:

- Acquisition-related costs of the combination are recorded as an expense in profit or loss. Previously, these costs would have been accounted for as part of the cost of the acquisition.
- The assets acquired and liabilities assumed are generally measured at their acquisition-date fair values unless HKFRS 3R provides an exception and provides specific measurement rules.
- Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

HKFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 April 2010.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Early adoption of new or revised HKFRSs

The following new or revised HKFRSs that are potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted:

HKAS 24 (Revised) Related Party Disclosures ¹

HKFRS 9 Financial Instruments ²

¹ Effective for annual periods beginning on or after 1 January 2011

² Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs upon initial application and the Directors so far concluded that the application of these new/revised HKFRSs will not have material impact on the Quarterly Results of the Group.

3. REVENUE

Revenue represents design of residential intranet, provision of e-property management software application consulting services and trading of home-automation and rental revenue from outdoor advertising space in the People's Republic of China (the "PRC").

	Unaudited nine months ended 31 March	
	2011	2010
Advertising	19,882	–
Intelligent system	243	7,764
	20,125	7,764

4. INCOME TAX EXPENSES

The amount of income tax expenses in the unaudited condensed consolidated statement of comprehensive income of the Group represents:

	Unaudited nine months ended 31 March	
	2011	2010
Current tax charge -PRC	390	-

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits for Hong Kong profits tax purpose for the nine months ended 31 March 2011 (nine months ended 31 March 2010: HK\$ nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

5. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted loss per share for the period is based on the loss for the period attributable to the owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Basic and diluted loss per share amounts for the three months ended 31 March 2010 and the nine months ended 31 March 2010 are restated to take into effect the Company's capital reorganisation and right issue completed on 9 December 2010 and 12 January 2011 respectively.

As the Company's outstanding convertible notes and share options, where applicable, had an anti-dilutive effect to the basic loss per share calculation for the current and prior periods, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share amounts. Therefore, the basic and diluted loss amounts per share calculations for the respective periods are equal.

5. LOSS PER SHARE (continued)

From continuing and discontinued operations:

The calculation of basic and diluted loss per share are based on:

	Unaudited three months ended 31 March		Unaudited nine months ended 31 March	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss for the period attributable to: Owners of the Company	(13,716)	(12,500)	(42,964)	(28,276)
	Number of shares three months ended 31 March		Number of shares nine months ended 31 March	
	2011 (Unaudited) '000	2010 (Unaudited - restated) '000	2011 (Unaudited) '000	2010 (Unaudited - restated) '000
Weight average number of ordinary shares for basic and diluted loss per share calculation	1,205,558	59,123	468,922	50,976

From continuing operations:

The calculation of basic and diluted loss per share are based on:

	Unaudited three months ended 31 March		Unaudited nine months ended 31 March	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss for the period attributable to: Owners of the Company	(11,477)	(8,185)	(39,586)	(16,347)

5. LOSS PER SHARE (continued)

From continuing operations: (continued)

	Number of shares three months ended 31 March		Number of shares nine months ended 31 March	
	2011 (Unaudited) '000	2010 (Unaudited) - restated '000	2011 (Unaudited) '000	2010 (Unaudited) - restated '000
Weight average number of ordinary shares for basic and diluted loss per share calculation	1,205,558	59,123	468,922	50,976

6. SIGNIFICANT SUBSEQUENT EVENT

On 7 October 2010, the Company entered into a conditional disposal agreement (the "Disposal") with the purchaser for the disposal of the sale shares and the sale loan, representing 100% equity interests in Inno Gold Mining Limited (the "Inno Gold Mine"), an wholly-owned subsidiary of the Company (immediately before the completion of the Disposal), held by the Company for a total cash consideration of HK\$15 million less the face value of the sale loan as at completion date.

The Disposal was completed on 9 May 2011.

7. COMPARATIVE FIGURES

As detailed in Note 5, the Company's basic and diluted losses per share figures for the prior period ended have been restated to conform with the current period's presentation.

DIVIDEND

The Directors did not recommend the payment of a dividend for the nine months ended 31 March 2011 (2010: Nil).

BUSINESS REVIEW

For the nine months ended 31 March 2011, the Group's unaudited consolidated turnover amounted to approximately HK\$20,125,000 (2010: HK\$7,764,000).

The Group recorded a net loss of approximately HK\$42,964,000 for the nine months ended 31 March 2011 (2010: net loss HK\$28,276,000). Basic loss per share for the nine months ended 31 March 2011 was HK\$0.09 (2010: basic loss per share: HK\$0.55 (restated)).

Intelligent system business

The domestic sale of i-Panel and Adbus products and the provision of intranet design for residential communities remained the core business of the Group. Sales orders are obtained by the Group before completion of the construction of residential properties and intellectual system installations and related works will commence after the construction has been completed. As it usually takes more than a year from the date of receiving the orders up to commencement of the installation of the intellectual system and related works, revenue from this business sector in a financial year reflects the performance and ability of the Group to secure sales orders in the previous one to two years. Due to the financial crisis and subsequent economy downturn in 2008 and 2009, the Group was unable to maintain sufficient amount of sales orders from the slow residential market during that period and the Group's revenue generated from this business sector for the year ended 30 June 2010 experienced a significant decrease. With the gradual recovery of the global economy, the performance of this business sector of the Group has been picking up and the sale teams of the Group have been in negotiation with contractors in various construction projects. Although the market conditions in the property sector in the PRC has proved to be tough and various government measures to cool down this sector had been put in place, the Group believes that the performance of its intelligent system business will experience improvement as a result of the economy recovery and will cope with the challenges and continue to develop this core business. In addition, to brace itself from future fluctuations due to economic cycles, the Group is in the course of reviewing its intelligent system business, in particular the viability of expanding this business into other sectors other than residential properties.

Advertising and display industry

In order to broaden the source of income and expand the business operations of the Group, the Directors believe that it is beneficial for the Group to diversify its business into the advertising and display industry in the PRC.

The acquisition of 100% of the equity interest in Active Link Group. Active Link is principally engaged in investment holding which effectively hold 80% equity interest of Shijiazhuang Municipal Xun Hua De Gao Bus Advertising Company Limited (the "Shijiazhuang Xunhua"). Shijiazhuang Xunhua is principally engaged in design, production and publication of outdoor advertisements in PRC.

There is a sub-license, Shandong Xunhua has sub-licensed its advertising rights on all such 2,100 single-decker buses to Shijiazhuang Xunhua. The sub-license agreement will expire on 31 January 2015. It is the common understanding between the Shandong Xunhua and Shijiazhuang Xunhua that the granting of such advertising rights is on an executive basis. The Group is reviewing existing single-decker outdoor advertisements business with Local Bus Company in order to operate and develop sustainable regional business in PRC.

There are two licensing agreements made between the Shijiazhuang City General Public Transportation Company Limited (the "Local Bus Company") and Shijiazhuang Municipal Xun Hua De Gao Bus Advertising Company Limited (the "Shijiazhuang Xunhua"), one of the subsidiary of Active Link Group, the Local Bus Company has granted to Shijiazhuang Xunhua the advertising rights on all the 12 double-decker buses and 1,544 bus stations operated and owned by the Local Bus Company. The licensing agreements of double-decker buses and bus stations will expire on 31 August 2015 and 30 June 2017. It is the common understanding between the Local Bus Company and Shijiazhuang Xunhua that the granting of such advertising rights is on an executive basis.

In addition, the ex-shareholders of Active Link guarantee to the Company that the net profit after tax of Shijiazhuang Xunhua (based on its audited accounts) for each of the two calendar years ending 31 December 2011 and 31 December 2012 shall not be less than HK\$11,000,000.

The Board believes that the potential within the advertising and marketing industry could be realized and strong growth would be expected in the near future.

Disposal of Gold Mining Industry

The Group is principally engaged in domestic sale of i-Panel and Apmus products and the provision of intranet design for residential communities in the PRC and gold mining in the PRC. The Group has recently announced the acquisition of an outdoor advertising business in the PRC.

Pursuant to the major new regulations (the “Regulations”) in the PRC regulating mining operations, smaller mines have either to be closed down or consolidated with larger mines within the proximity so as to reduce the mining permits granted. Zhang Jia Fan Gold Mine has not been classified as small or large scale pursuant to the Regulations and could commence production without merging with other mines. However, the Directors are of the view that when comparing with other mines in the proximity in terms of size and annual output, Zhang Jia Fan Gold Mine is of relatively small scale. Given the size of the Company and its management team, such administrative action would affect the Company’s business strategy in terms of reducing the availability of the number of mining properties and/or properties of natural resource of suitable size from which the Company can consider for acquisition. As the result, the Group deferred the timeline for introducing more advanced mining technology and hence affected the efficiency of the operation.

Since Zhang Jia Fan Gold Mine has been in the early development stage of reconnaissance investigation and infrastructure strengthening and expansion, Zhang Jia Fan Gold Mine has been operating at a loss. The management of the Company has kept monitoring the situation and assessing its business strategy from time to time. In June 2010, taking into account, among others, principally (i) the delay in making progress in increasing the output of Zhang Jia Fan Gold Mine; and (ii) the uncertainty as to the time the Group can make further acquisition of gold mines around Dexing City, it was concluded that the Group should amend its business strategy and consider focusing its resources on businesses which would bring stable income to the Group without having to incur significant capital investment.

In light of change in circumstances, the management of the Group has undertaken a review of the business strategy and focus of the Group and concluded that the Group should consider focusing its resources on businesses which would bring stable income to the Group without having to incur significant capital investment.

The Directors believe that the Group's financial position will be improved subsequent to the Disposal because the Disposal will be enable the Group to focus its resources on the Group's other lines of business in the future and at the same time the Group can further seek for new business opportunities to broaden its income base.

Capital Structure

On 28 October 2010, the Company entered into the underwriting agreement with the underwriter for the right issue of 1,200,282,180 ordinary shares (the "Right Issue") and 1,200,282,180 shares were issued on 12 January 2011.

On 7 March 2011, the Company entered into the placing agreement with the placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, of 264,062,079 shares to not less than 6 independent placees at a price of HK\$0.059 per share and the 264,062,079 shares ordinary shares were issued on 16 March 2011.

As at 31 March 2011, the total issued share capital is 1,584,372,477 shares.

PROSPECTS

On 18 February 2011, it was announced that the Group has entered into an agreement for the acquisition of 19% interest in China New Media (HK) Company Limited ("CNM") (the "CNM Acquisition") from Win Today Limited ("Win Today") for a consideration of HK\$78,000,000 to be satisfied partly in cash and as to HK\$39,000,000 by issue of convertible bonds. CNM engages in outdoor advertising in Hong Kong, specializing in advertising spaces in lifts and outer walls of buildings. The CNM Acquisition has not yet completed.

The Board believes that the potential within the advertising and marketing industry could be realized and strong growth would be expected in the near future. The Board is of the view that the completion of the CNM Acquisition will further enrich the earning base of the Group.

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

Save as the acquisition of 100% equity interest in Active Link Group and disposal of Inno Gold Mine Group mentioned in "Business Review" and the acquisition of 19% equity interest in CNM mentioned in "Prospects" there were no material acquisitions and disposals of investments by the Group during the nine months ended 31 March 2011.

Addition, the Group is constantly looking for any other business opportunities for new possible potential investment to improve the standard performance of the Group and improve shareholders' return.

CONVERTIBLE NOTES

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\$0.319 (restated) per Share during the conversion period. As at 31 March 2010, an equivalent of HK\$27,506,000 convertible notes has been converted into Ordinary Shares of the Company. The remaining balance of convertible notes with an equivalent amount of HK\$15,878,000 was redeemed on 28 February 2011 at principal amount.

On 27 October 2009, the Company issued convertible notes with the principal amount of HK\$75,000,000 as consideration for acquisition of assets. The convertible notes, with maturity date of 27 October 2011, are convertible into Shares at an initial conversion price of HK\$1.007 (restated) per Share during the conversion period. As at 31 January 2011, the convertible notes with an equivalent amount of HK\$25,000,000 were redeemed at 95% of principal amount. As at 31 March 2011, an equivalent of HK\$13,800,000 convertible notes has been converted into Ordinary Shares of the Company. The remaining balance of convertible notes with an equivalent amount of HK\$36,200,000 were outstanding as at 31 March 2011.

On 5 October 2010, the Company issued convertible notes with the principal amount of HK\$25,560,000 as consideration for acquisition of assets. The convertible notes, with maturity date of 4 October 2012, are convertible into Shares at an initial conversion price of HK\$0.549 (restated) per Share during the conversion period. As at 31 January 2011, all the convertible notes with an equivalent amount of HK\$25,560,000 were redeemed at 95% of principal amount.

FOREIGN CURRENCY RISK

During the nine months ended 31 March 2011, the majority of the Group's income and expenses was denominated in Hong Kong dollar while an insignificant portion of expenses was denominated in Renminbi. As at 31 March 2011, there were no bank borrowings which were denominated in Renminbi (2010: HK\$Nil). The management of the Company is of the opinion that the Group has insignificant exposure to interest rate risk and foreign exchange risk. As a result, the Group had not used any financial instruments for hedging against fluctuation in interest rate nor foreign currencies for the three months ended 31 March 2011.

EMPLOYEES

The number of employees (including Directors) was 66 as at 31 March 2011 (2010: 46), and the total staff costs (including Directors' remuneration) for the nine months ended 31 March 2011 was approximately HK\$7,535,000 (2010: HK\$7,280,000). Other benefits provided by the Group to the employees include MPF, medical coverage and share-based payments.

SHARE OPTION SCHEME

(i) Pre-IPO Share Option Scheme

The Company's pre-IPO share option scheme ("Pre-IPO Share Option Scheme") was adopted on 5 July 2002 and the principal terms of which were set out in the prospectus of the Company dated 30 July 2002 (the "Prospectus"). There were 1,261,395 share options granted to the grantees. Up to 31 March 2011, there were 928,818 options under the Pre-IPO Share Option Scheme have been exercised and 88,298 share options have been lapsed. The remaining 252,279 share options under the Pre-IPO Share option Scheme will lapse on 4 July 2012. Details of which were as follows:

	Date of grant	Number of share options					Outstanding as at 31 March 2011	Option period	Exercise price per share
		Outstanding as at 1 July 2010	Granted during the period	Exercised during the period	Lapsed during the period				
Employee	5 July 2002	252,279	-	-	-	252,279	5 Jul 2002 to 4 Jul 2012	HK\$5.327	
Total		252,279	-	-	-	252,279			

(ii) Post-IPO Share Option Scheme

Pursuant to a written resolution passed by the sole shareholder of the Company on 5 July 2002, the Company conditionally adopted the share option scheme, the principal terms of which are set out in the section head “Share Option Schemes” in Appendix IV of the Prospectus (“Post-IPO Share Option Scheme”). Up to 31 March 2011, there were 33,990,951 share options granted to the grantees and there were 21,561,774 shares options under the Post-IPO Share Option Scheme exercised and no options has been cancelled. The remaining 12,429,177 share options under the Post-IPO Share Option Scheme will lapse from 6 January 2014 to 14 January 2020. Details of which were as follows:

	Date of grant	Number of share options				Outstanding as at 31 March 2011	Option period	Exercise price per share
		Outstanding as at 1 July 2010	Granted during the period	Exercised during the period	Lapsed during the period			
Other employees And consultants	6 January 2004	552	-	-	-	552	6 Jan 04 to 5 Jan 14	HK\$4.186
	20 September 2005	52,558	-	-	-	52,558	20 Sep 05 to 19 Sep 15	HK\$2.169
	23 August 2007	3,667,507	-	-	-	3,667,507	23 Aug 07 to 22 Aug 18	HK\$11.987
	9 September 2008	1,621,384	-	-	-	1,621,384	9 Sep 09 to 8 Sep 19	HK\$3.311
	11 September 2008	1,156,279	-	-	-	1,156,279	11 Sep 08 to 10 Sep 18	HK\$3.710
	16 December 2008	1,156,279	-	-	-	1,156,279	16 Dec 08 to 15 Dec 18	HK\$1.450
	17 February 2009	630,698	-	-	-	630,698	17 Feb 09 to 16 Feb 17	HK\$1.884
	29 May 2009	630,698	-	-	-	630,698	29 May 09 to 28 May 19	HK\$1.674
	31 December 2009	359,734	-	-	-	359,734	31 Dec 09 to 30 Dec 19	HK\$0.856
	15 January 2010	3,153,488	-	-	-	3,153,488	15 Jan 10 to 14 Jan 20	HK\$1.389
Total		12,429,177	-	-	-	12,429,177		

DISCLOSURE OF INTEREST

(i) Directors' and chief executives' interest in the Company

As at 31 March 2011, none of the Directors and chief executive of the Company have any interests or short position in the shares, underlying shares and debentures of the Company or any of its 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.

(ii) Substantial Shareholders' interests in the Company

As at 31 March 2011, 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.

COMPETING INTERESTS

As at 31 March 2011, 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DIRECTORS' SECURITIES TRANSACTIONS

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

CONTINGENT LIABILITIES

On 31 August 2010, a Writ of Summons was issued by Mr. Lim Yi Shenn as the plaintiff (the "Plaintiff") against Ms. Wong Yuen Yee and Mr. Wong Yao Wing, Robert, before of whom are former director of the Company and the Company (collectively, the "Defendants"). The Plaintiff claimed against each of the Defendants for damages for various misrepresentations made in relation to certain investment agreement and placing agreement of April and June 2008. The Plaintiff has filed a statement of claim setting out the particulars of his claims against the Defendants and claiming damages in the amount of approximately HK\$15 million. The parties have agreed to attempt mediation during a 42-day period of interim stay commencing from 13 April 2011, to settle the dispute.

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

CORPORATE GOVERNANCE PRACTICES

The Company recognizes that establishment and implementation of good corporate governance standards helps the group to achieve its corporate objectives and fulfill the expectations of shareholders and stakeholders effectively. Therefore, the Board of Directors ("the Board") of the Company, with effect from 1 April 2005 has fully applied

the principles and compiled with the requirements of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 15 to the GEM Listing Rules:-

- 1) Due to practical reasons, 14 days advance notifications have not been given to all meetings of the board. Reasonable notifications have been given in respect of those meetings of the board where it is not practicable to give 14 days advance notification. The board will use its best endeavours to give 14 days advance notifications of board meeting to the extent practicable (Code Provisions A.1.1 and A.1.3);
- 2) As at the date of this report, we have no formal guidelines for employees dealings in securities (Code Provision A.5.4) although a formal guideline has been adopted for directors. Actions will be taken by the board to formalize the circumstances under which employees can deal in the shares of the Company before end of the current financial year;
- 3) Actions have yet taken to review the internal control systems of the Group. The Board plans to engage an external auditor to undertake the review before the end of the current financial year and to take appropriate course of action in this regard based on the recommendation of the external auditor (Code Provision C.2.1); and
- 4) No formal schedule of matters reserved to the Board and those delegated to the management has been adopted by the Group although there are guidelines for the responsibilities and duties to members of the board and members of the managements taking up different position. The Board has delegated its Human Resources Department to prepare the formal schedule for the approval of the board before the end of the current financial year (Code Provision D.1.2).

AUDIT COMMITTEE

The Company established an audit committee on 5 July 2002 with terms of reference in compliance with Rule 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee currently comprises Ms. Wong On Yee, Ms. Au Yuk Kit and Ms. Lu Di who are the independent non-executive Directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The Group's unaudited results for the nine months ended 31 March 2011 have been reviewed by the audit committee, which is of the opinion that the unaudited

consolidated financial statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements in Hong Kong and that adequate disclosures have been made.

By order of the Board

Chen Chuan

Chairman

Hong Kong, 12 May 2011

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

Executive Directors:

Mr. Chen Chuan (*Chairman*)

Mr. Ang Wing Fung

Independent Non-Executive Directors:

Ms. Wong On Yee

Ms. Au Yuk Kit

Ms. Lu Di