THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of Inno-Tech Holdings Limited.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold all your shares in Inno-Tech Holdings Limited, you should at once hand this circular and the accompanied proxy form to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

INNO-TECH HOLDINGS LIMITED

匯創控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 8202)

(1) VERY SUBSTANTIAL ACQUISITION – ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN A COMPANY ENGAGING IN TELEVISION AND OUTDOOR ADVERTISING BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA, (2) CONNECTED TRANSACTION – ENTERING INTO A PLACING AGREEMENT WITH A CONNECTED PERSON, (3) PLACING OF CONVERTIBLE BONDS

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

天行聯合證券有限公司
United Simsen Securities Limited

A notice convening the special general meeting of the Company to be held at Room 606, 6/F., MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong on 16 May 2012 at 11:00 a.m., is set out on pages 611 to 614 of this circular. Whether or not you propose to attend the meeting, you are advised to complete the form of proxy attached to the notice of the special general meeting in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

24 April 2012

* *For identification purpose only*

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Acquisition"	the acquisition of the entire issued share capital of Redgate Ventures and Redgate Conversion Shares by the Company from the Vendors and the Redgate CB Holders as contemplated under the Sale and Purchase Agreement;
"Active Link"	Active Link Investments Limited, a company incorporated with limited liability in the British Virgin Islands, a directly wholly owned subsidiary of the Company;
"Announcement"	the announcement of the Company dated 21 July 2011 in relation to the Acquisition and the Placing;
"Beijing Langrui"	北京朗瑞廣告傳媒有限公司 (Beijing Langrui Advertising Co. Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of Beijing Yanhuang;
"Beijing Shenzhou"	北京神州盛世廣告有限公司 (Beijing Shenzhou Advertising Co. Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of Beijing Yanhuang;
"Beijing Yanhuang"	北京炎黃盛世廣告有限公司 (Beijing Yanhuang Shengshi Advertising Co. Ltd.*), a company established in the PRC and owned as to 51% by Redgate Interactive as at the Latest Practicable Date;
"Board"	the board of Directors;
"Bondholder(s)"	holder(s) of the Placing CB;
"Business Day"	a day (other than Saturday or Sunday) on which banks are generally open in Hong Kong for normal business;
"BVI"	the British Virgin Islands;
"CB Conversion Shares"	new Shares to be issued upon the exercise by the Bondholders of the conversion rights attached to the Placing CB;

"CB Conversion Price"	HK$0.38 per Share, being the initial price per Share (subject to adjustment) at which the Placing CB may be converted and is the same as the Conversion Price;
"CCTV"	China Central Television;
"CNM"	China New Media (HK) Company Limited, indirectly owned as to 19% by the Company;
"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 Acquisition pursuant to the Sale and Purchase Agreement, or where applicable, completion of the Placing pursuant to the Placing Agreement;
"Completion Date"	date of Completion;
"Compliance Adviser"	Grand Vinco Capital Limited;
"connected person(s)"	has the meaning ascribed thereto under the GEM Listing Rules;
"Consideration"	the consideration of HK$1,750,704,206 for acquisition of the Sale Shares and the Redgate Conversion Shares under the Sale and Purchase Agreement;
"Conversion Price"	HK$0.38 per Share, being the initial price per Share (subject to adjustment) at which the Convertible Notes may be converted;
"Conversion Share(s)"	new Shares to be issued upon the exercise by the holders of the conversion rights attached to the Convertible Notes;
"Convertible Notes"	the convertible notes in the aggregate principal amount of HK$1,300,704,206 to be issued by the Company to the Vendors and the Redgate CB Holders as settlement of part of the Consideration;
"Deposit"	the amount of HK$80,000,000 paid to the Second Vendor on the date of the Sale and Purchase Agreement;

"Director(s)"	the director(s) of the Company;
"Dragon Emperor"	Dragon Emperor International Limited, a company incorporated in the BVI;
"Enlarged Group"	the Group and the Redgate Ventures Group;
"First Convertible Notes"	the Convertible Notes in the principal amount of HK$800,000,000 to be issued by the Company to the First Vendor;
"First Supplemental Sale and Purchase Agreement"	the supplemental sale and purchase agreement dated 30 December 2011 entered into between the Company and the Vendors;
"First Supplemental Placing Agreement"	the first supplemental placing agreement dated 30 December 2011 entered into between the Company and the Placing Agent;
"First Vendor"	Media Chief Limited, a company incorporated in the BVI with limited liability;
"GEM"	the Growth Enterprise Market of the Stock Exchange;
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM;
"Grand Vinco Capital Limited"	Grand Vinco Capital Limited, a wholly-owned subsidiary of Vinco Financial Group Limited (stock code: 8340) and a licensed corporation for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the Compliance Adviser in respect of the Acquisition;
"GCM"	Great China Media Holdings Limited, a company incorporated in the BVI;
"Group"	the Company and its subsidiaries;
"Hangzhou Yibao"	杭州藝寶廣告有限公司 (Hangzhou Yibao Advertising Co. Ltd.*), a limited liability company established in the PRC and owned as to 80% by Beijing Yanhuang;

"Heibei Langshen"	河北朗盛廣告傳媒有限公司 (Heibei Langshen Advertising Co. Ltd.*), a limited liability company established in the PRC and owned as to 70% by Beijing Yanhuang;
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	the independent board committee comprising Ms. Wong On Yee, Ms. Lu Di and Mrs. Kwan Leung Anna all committee members are independent non-executive Directors, to be constituted to advise the Shareholders, other than those who are interested in the Placing Agreement, on the Placing Agreement;
"Independent Financial Adviser"	United Simsen Securities Limited, a licensed corporation under the SFO to carry on types 1 (dealing in securities), 2 (dealing in future contracts), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Placing;
"Independent Shareholders"	all Shareholders excluding any Shareholder with a material interest in the Placing Agreement;
"Independent Third Party(ies)"	third party(ies) who is/are, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, independent of and not connected with the Company and connected persons of the Company;
"Inno Gold Mine"	Inno Gold Mining Limited, a company incorporated in the BVI;
"Last Trading Day"	8 July 2011, being the last day on which the Shares were traded on the Stock Exchange immediately preceding the publication of this Announcement and the date of the Sale and Purchase Agreement and the Placing Agreement, respectively;
"Latest Practicable Date"	20 April 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
"Local Bus Company"	石家莊市公共交通總公司 (Shijiazhuang City General Public Transportation Company Limited*);

"Long Stop Date"	30 June 2012;
"MIIT"	the Ministry of Industry and Information Technology of the PRC;
"MOFCOM"	the Ministry of Commerce of the PRC;
"NDRC"	the National Development and Reform Commission of the PRC;
"Pacific Asia Mode"	Pacific Asia Mode Cube Limited (太平洋傳媒有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of Redgate Global;
"PRC" or "China"	The People's Republic of China, which for the sole purpose of this circular excludes Hong Kong, Macau Special Administrative Region and Taiwan;
"PRC Entities"	Redgate Interactive, Shanghai Dianguang, Beijing Yanhuang and its subsidiaries and each a "PRC Entity";
"Placee(s)"	the placee(s) of the Placing CB;
"Placing"	the placing of the Placing CB pursuant to the Placing Agreement;
"Placing Agent"	Cheong Lee Securities Limited, a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Placing Agreement"	the placing agreement dated 8 July 2011 (as supplemented by the First Supplemental Placing Agreement dated 30 December 2011 and the Second Supplemental Placing Agreement) entered into between the Company and the Placing Agent in relation to the Placing;
"Placing CB"	the convertible bonds in the aggregate principal amount of HK$200,000,000 to be placed by the Company pursuant to the Placing Agreement;

"Promissory Notes"	the promissory notes to be executed by the Company to satisfy part of the Consideration;
"Redgate CB"	convertible bonds in the principal amount of US$9,747,633.10 convertible into shares of Redgate Ventures;
"Redgate CB Holder(s)"	holder(s) of the Redgate CB;
"Redgate Conversion Shares"	new shares of US$0.01 each in the capital of Redgate Ventures to be allotted and issued upon the automatic conversion of the Redgate CB immediately before Completion;
"Redgate Global"	Redgate Global Limited, a limited liability company incorporated the BVI and a wholly-owned subsidiary of Redgate Ventures;
"Redgate Interactive"	展鵬互動廣告(北京)有限責任公司 (Redgate Interactive Advertising (Beijing) Co. Ltd.*), a wholly foreign owned enterprise established in the PRC by Pacific Asia Mode;
"Redgate Ventures"	Redgate Ventures Limited, a company incorporated in the BVI with limited liability and owned as to 55% by the First Vendor and as to 45% by the Second Vendor, as at the Latest Practicable Date;
"Redgate Ventures Group"	Redgate Ventures and its subsidiaries from time to time;
"SAIC"	the State Administration Bureau of Industry and Commerce;
"Sale and Purchase Agreement"	the sale and purchase agreement dated 8 July 2011 (as supplemented by the First Supplemental Sale and Purchase Agreement, the Second Supplemental Sale and Purchase Agreement and the Third Supplemental Sale and Purchase Agreement) entered into between the Company and the Vendors in relation to the Acquisition;
"Sale Shares"	10,000,000 shares of US$0.01 each in the share capital of Redgate Ventures, the entire issued and fully paid-up share capital thereof as at the date Latest Practicable Date;
"SARFT"	the State Administration of Radio, Film and Television;
"Second Convertible Notes"	the Convertible Notes in the principal amount of HK$360,000,000 to be issued by the Company to the Second Vendor;

"Second Supplemental Placing Agreement"	the second supplemental placing agreement dated 31 March 2012 entered into between the Company and the Placing Agent;
"Second Supplemental Sale and Purchase Agreement"	the second supplemental sale and purchase agreement dated 21 February 2012 entered into between the Company and the Vendors;
"Second Vendor"	Carraway Holdings Limited, a company incorporated in the BVI with limited liability;
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
"Shandong Xunhua"	山東迅華傳媒廣告有限公司 (Shandong Xun Hua Media Advertising Company Limited), a company incorporated with limited liability in PRC;
"Shanghai Dianguang"	上海電廣媒體傳播有限公司 (Shanghai Dianguang Media Broadcasting Company Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of Redgate Interactive;
"Shanghai FLOG"	上海孚朗格文化傳播有限公司 (Shanghai FLOG Media Culture Co. Ltd.*), a limited liability company established in the PRC and owned as to 10.71% by Redgate Interactive;
"Shanghai Hongmen"	上海宏門廣告有限公司 (Shanghai Hongmen Advertising Co. Ltd.*), a limited liability company established in the PRC and owned as to 18.354% by Redgate Interactive;
"Shanghai Langli"	上海朗立廣告傳媒有限公司 (Shanghai Langli Advertising Co. Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of Beijing Yanhuang;
"Shijiazhuang En jian"	石家莊市恩健傳媒有限公司 (Shijiazhuang Municipal En Jian Media Company Limited*), a wholly owned subsidiary of the Company;
"Shijiazhuang Xunhua"	石家莊市迅華德高公交廣告有限公司 (Shijiazhuang Municipal Xun Hua De Gao Bus Advertising Company Limited*), a 80% indirectly owned subsidiary of the Company;

"Share(s)"	ordinary share(s) of HK$0.001 each in the issued share capital of the Company;
"Shareholder(s)"	holder(s) of Share(s);
"Special General Meeting"	the special general meeting of the Company to be convened for approving, among others, the Acquisition as contemplated under the Sale and Purchase Agreement, the Placing Agreement, the issue and allotment of the Conversion Shares and the CB Conversion Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Third Supplemental Sale and Purchase Agreement"	the third supplemental sale and purchase agreement dated 31 March 2012 entered into between the Company and the Vendors;
"Vendors"	the First Vendor and the Second Vendor;
"Wuhan Langxin"	武漢朗信廣告有限公司 (Wuhan Langxin Advertising Co. Ltd.*), a limited liability company established in the PRC and owned as to 80% by Beijing Yanhuang;
"Zhang Jia Fan Gold Mine"	德興市張家畈金礦 (Dexing (or De Xing) City Zhang Jia Fan Gold Mine*), a company established in the PRC;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"RMB"	Renminbi, the lawful currency of the PRC;
"US"	the United States of America;
"US$"	United States dollars, the lawful currency of the US; and
"%"	per cent.

In this circular, for reference only, the translation of Renminbi into Hong Kong dollars is based on the exchange rate of RMB1.00 = HK$1.23; and the translation of United States dollars into Hong Kong dollars is based on the exchange rate of US$1.00 = HK$7.80.

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. If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese names shall prevail.*

INNO-TECH HOLDINGS LIMITED
匯創控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 8202)

Executive Directors:
Mr. Chen Chuan *(Chairman)*
Mr. Ang Wing Fung

Independent non-executive Directors:
Ms. Wong On Yee
Ms. Lu Di
Mrs. Kwan Leung, Anna

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal place of business in Hong Kong:
Room 606, 6/F.,
MassMutual Tower,
38 Gloucester Road,
Wanchai,
Hong Kong

24 April 2012

To Shareholders of the Company

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION – ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN A COMPANY ENGAGING IN TELEVISION AND OUTDOOR ADVERTISING BUSINESS IN THE PRC, (2) CONNECTED TRANSACTION – ENTERING INTO A PLACING AGREEMENT WITH A CONNECTED PERSON, (3) PLACING OF CONVERTIBLE BONDS

INTRODUCTION

On 21 July 2011, the Board announced that the Company and the Vendors entered into the Sale and Purchase Agreement on 8 July 2011 (after trading hours), pursuant to which the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares, and to procure the Redgate CB Holders to sell the Redgate Conversion Shares, for a total consideration of HK$1,940,704,206, which will be satisfied (i) as to HK$290,000,000 in cash; (ii) as to HK$160,000,000 by way of issue of the Promissory Notes; and (iii) as to HK$1,490,704,206 by way of issue of the convertible notes. The total Consideration was subsequently revised to HK$1,750,704,206 pursuant to the Second Supplemental Sale and Purchase Agreement. Please refer to the section headed “The Sale and Purchase Agreement” for further details on the said revision to the total Consideration.

* *For identification purpose only*

On 21 July 2011, the Board also announced that the Company and the Placing entered into the Placing Agreement on 8 July 2011 in relation to the placing of convertible bonds in the principal amount of up to HK$200,000,000 convertible into Shares at HK$0.38 each CB Conversion Share, on a best effort basis, to not less than six independent Placees.

On 30 December 2011, each of the Sale and Purchase Agreement and the Placing Agreement was supplemented by the First Supplemental Sale and Purchase Agreement and the First Supplemental Placing Agreement; on 21 February 2012 (after trading hours), the Sale and Purchase Agreement was supplemented by the Second Supplemental Sale and Purchase Agreement and on 31 March 2012, each of the Sale and Purchase Agreement and the Placing Agreement was further supplemented by the Third Supplemental Sale and Purchase Agreement and the Second Supplemental Placing Agreement.

The entering into of the Sale and Purchase Agreement and the Placing Agreement constitute a very substantial acquisition and a connected transaction, respectively, for the Company.

The purpose of this circular is to provide you with, among other things, (i) information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) information on the Placing and the Placing CB; (iii) information of the Redgate Ventures Group; (iv) financial information of the Group; (v) financial information of the Redgate Ventures Group; (vi) pro forma financial information of the Enlarged Group; (vii) letter from the Independent Board Committee; (viii) letter from the Independent Financial Adviser in relation to the entering into of the Placing Agreement with the Placing Agent; and (ix) notice of the Special General Meeting.

THE SALE AND PURCHASE AGREEMENT

Date

8 July 2011 (after trading hours)

Parties

Purchaser	:	the Company
First Vendor	:	Media Chief Limited
Second Vendor	:	Carraway Holdings Limited

Each of the Vendors is an investment holding company. The First Vendor is engaged in the media business through its subsidiaries and its beneficial owners are Independent Third Parties comprising various funds and individuals. The Second Vendor is a special purpose vehicle incorporated for the purpose of acquiring the interest in Redgate Ventures and became a shareholder of Redgate Ventures on 5 July 2011. The Second Vendor is beneficially owned as to 51% by the First Vendor and as to 49% by Mr. Xiong Da（熊達）, an individual, who is an Independent Third Party.

Pursuant to the Sale and Purchase Agreement, the First Vendor has agreed to procure the Redgate CB Holders to sell the Redgate Conversion Shares to the Company upon automatic conversion of the Redgate CB immediately before Completion. The Redgate CB was issued to raise working capital for the Redgate Ventures Group and for new business development. The funds are being used for both of these purposes. The Redgate CB Holders comprise funds and individuals, who became shareholders of the First Vendor from 2003 to 2009. Save for being shareholders of the First Vendor, which in turn holds 55% of Redgate Ventures, and the Redgate CB Holders, there is no business relationship between the Redgate CB Holders and the Vendors and Redgate Ventures. Except for one Redgate CB Holder who has swapped its equity interest in the First Vendor for the Redgate CB, all Redgate CB Holders remain shareholders of the First Vendor. They became Redgate CB Holders on 6 July 2011, before which, they had certain account receivables due from Redgate Ventures with high interest rate and/or with security. Such Redgate CB Holders have "settled" their account receivables and will release their security in consideration for the Redgate CB, as induced by the potential return on investment in the event the Acquisition is completed. The Redgate CB Holders elected to hold Redgate CB as opposed to shares in Redgate Ventures in order to hedge against the risks involved in injecting fresh capital into Redgate Ventures. Reason being that, in the event that the Acquisition does not complete, the Redgate CB Holders will still possess the debt owing to them by holding the Redgate CB, as opposed to holding shares in a private company which are illiquid in nature.

The automatic conversion of the Redgate CB provides the Redgate CB Holders with some certainty in hedging the risks involved in injecting fresh capital into Redgate Ventures and the conversion price of the Redgate CB. In receiving such capital injection from the Redgate CB Holders, Redgate Ventures has also required an automatic conversion mechanism of the Redgate CB to be in place, to ensure that the debt owed to the Redgate CB Holders will be capitalized at a specified time, so that its debt liability to the Redgate CB Holders can be eliminated.

Upon the automatic conversion of the Redgate CB in full immediately before Completion, the percentage of interest to be held by each of the First Vendor, Second Vendor and the Redgate CB Holders in the enlarged issued share capital of Redgate Ventures are 51.01%, 41.74% and 7.25%, respectively.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, each of the Vendors, the Redgate CB Holders and their respective ultimate beneficial owners is an Independent Third Party.

On 30 December 2011, the Vendors and the Company entered into the First Supplemental Sale and Purchase Agreement, pursuant to which the parties agreed to extend the latest time for fulfillment of the conditions precedent to Completion from 31 December 2011 to 31 March 2012 or such later date as the parties may agree in writing.

On 21 February 2012 (after trading hours), the Vendors and the Company entered into the Second Supplemental Sale and Purchase Agreement, pursuant to which the parties agreed to revise the total Consideration for the Sale Shares from HK$1,940,704,206, as stated in the Announcement, to HK$1,750,704,206. Please refer to the section headed "The Sale and Purchase Agreement – Consideration" for further information on the Consideration. The Consideration was revised to reflect the latest business plan of Redgate Ventures Group to place more focus on the organic growth of its television advertising business than its outdoor advertising business. Please refer to the section headed "Business of the Redgate Ventures Group – Overview" for further information on Redgate Ventures Group's current business in advertising.

On 31 March 2012, the Vendors and the Company entered into the Third Supplemental Sale and Purchase Agreement, pursuant to which the parties agreed to extend the latest time for fulfillment of the conditions precedent to Completion from 31 March 2012 to 30 June 2012 or such later date as the parties may agree in writing.

Subject Matter

The Sale Shares and the Redgate Conversion Shares represent the entire issued share capital of Redgate Ventures as enlarged by the Redgate Conversion Shares at Completion.

The Sale Shares will be sold as to 5,500,000 Sale Shares by the First Vendor and as to 4,500,000 Sale Shares by the Second Vendor.

The principal amount of the Redgate CB is US$9,747,633.10 (equivalent to approximately HK$76,031,538.18). The Redgate CB will be automatically converted into shares of Redgate Ventures immediately before Completion.

Consideration

The aggregate consideration for the sale and purchase of the Sale Shares and the Redgate Conversion Shares is HK$1,750,704,206, which will be satisfied in the following manner:

1. as to a sum of HK$80,000,000 in cash by way of a refundable deposit paid to the Second Vendor on the date of the signing of the Sale and Purchase Agreement;

2. as to a sum of HK$210,000,000 in cash payable to the Second Vendor at Completion;

3. as to a sum of HK$160,000,000 by way of issue of the Promissory Notes to the Vendors at Completion; and

4. as to a sum of HK$1,300,704,206 by way of issue of the Convertible Notes to the Vendors and the Redgate CB Holders at Completion.

The cash, the Promissory Notes and the Convertible Notes will be allocated amongst the Vendors and the Redgate CB Holders in the following manner:

	Cash	**Principal amount of Promissory Notes**	**Principal amount of Convertible Notes**
	HK$	*HK$*	*HK$*
First Vendor	–	80,000,000	800,000,000
Second Vendor	290,000,000	80,000,000	360,000,000
Redgate CB Holders	–	–	140,704,206
Total	290,000,000	160,000,000	1,300,704,206

The Consideration has been arrived at after arm's length negotiations between the parties and was determined with reference to, a draft valuation report of the Redgate Ventures Group as at 31 December 2011 for HK$1,770,000,000, a reduction of approximately 10.8% from the sum of HK$1,984,000,000 in the draft valuation report as stated in the Announcement, by Roma Appraisals Limited, an independent valuer.

As at the date of entering into the Sale and Purchase Agreement, the total consideration for the Sale Shares of HK$1,940,704,206, as stated in the Announcement, was made with reference to the draft valuation report of Redgate Ventures Group as at 30 June 2011 for HK$1,984,000,000 by Roma Appraisals Limited, which included Shanghai Yarun Culture Communications Company Limited ("**Yarun**"). However, as at 31 December 2011, as the conditions for acquiring the equity interests in Yarun have not been met, the acquisition of Yarun has not be completed, Yarun was not included in the financial forecasts or the valuation report of Redgate Ventures Group. The draft valuation report of the Redgate Ventures Group as at 31 December 2011 for HK$1,770,000,000 does not include Yarun. Accordingly, the draft valuation report of Redgate Ventures Group as at 30 June 2011 was revised to reflect the latest business plan of Redgate Ventures Group to place more focus on the organic growth of its television advertising business than its outdoor advertising business, while it is the intention to continue negotiating amendments of some agreements regarding the acquisition of certain target in the television advertising business. Please refer to the sections headed "The Business Enterprise", page 562 for further details relating to Yarun. In line with Redgate Ventures' acquisition plans, it is Redgate Ventures Group's intention to complete the acquisition of Yarun and Redgate Ventures Group will use its best endeavours to fulfill the said conditions for acquiring the equity interests in Yarun. Please refer to the sections headed "Business of the Redgate Ventures Group – Future Development", pages 76 to 78 for further details relating to Yarun. The Acquisition will not result in a change of control of the Company.

The Deposit was financed by internal resources and the remaining balance of the cash portion of the Consideration will be funded from net proceeds of the Placing, internal resources of the Group or external bank borrowings.

Conditions Precedent

Completion shall be conditional upon satisfaction of each of the following conditions precedent:

(a) the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to the granting of the specific mandate to issue and allot the Conversion Shares, by the Shareholders permitted to vote on the relevant resolutions under the GEM Listing Rules and such approval not having been proposed to be revoked;

(b) completion of the legal, tax and financial due diligence review of the business, affairs, operation and financial position of the Redgate Ventures Group and the due incorporation of, the valid existence of and the power and capacity to carry on the business by the Redgate Ventures Group to the satisfaction of the Company;

(c) the granting by the Listing Committee of the Stock Exchange of a listing of and permission to deal in the Conversion Shares to be issued upon exercise of the conversion rights attaching to the Convertible Notes;

(d) the obtaining of all necessary approvals, authorisations or consents in Hong Kong, the BVI, Bermuda, the PRC or elsewhere in relation to the transactions contemplated under the Sale and Purchase Agreement (if necessary);

(e) the delivery of one or more BVI legal opinion(s) in respect of (i) the due incorporation of the Vendors under the BVI laws and that the Vendors have obtained all necessary approvals and consent for entering into the Sale and Purchase Agreement and that their obligations thereunder constitute legal and valid obligations and are enforceable against them; and (ii) the due incorporation of Redgate Ventures, in a form satisfactory to the Company;

(f) the delivery of one or more PRC legal opinion(s) in respect of the due establishment and valid existence of each of the PRC Entities; the operation of, the power and capacity of each of the PRC Entities to carry on the business in a form satisfactory to the Company;

(g) the warranties given by the Vendors as set out in the Sale and Purchase Agreement remaining true and accurate in all respects and not misleading in any respect as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date; and

(h) the fulfillment of the conditions precedent to which the Placing is subject (as set out in the paragraph headed “The Placing – Conditions precedent” below).

The Company may at any time before Completion waive the conditions precedent (b), (e), (f) and (g) above at its sole discretion. The intention is that if immaterial issues which do not affect the value or operation of the Redgate Ventures Group or its assets or businesses, are noted in the course of the due diligence review or in the PRC legal opinion, the Company can exercise its discretion to waive the relevant conditions precedent (b) or (f) so that the parties can still proceed to Completion.

If any of the conditions precedent has not been satisfied (or, as the case may be, waived by the Company) by the Long Stop Date, or where the Placing does not complete, the Sale and Purchase Agreement and everything contained therein shall, subject to the liability of any party to the others in respect of any breaches antecedent thereto and the immediate refund of the Deposit, automatically terminate and be null and void and of no effect and the parties shall be released from all obligations thereunder. As at the Latest Practicable Date, the conditions precedent have not been completed.

Completion

Completion shall take place on or before 5:00 p.m. on the date falling on the fifth Business Day after fulfillment or waiver of all the conditions precedent of the Sale and Purchase Agreement and on the same day as completion of the Placing.

There will not be any change to the composition of the Board or the board of the Company's major subsidiaries as a result of the Acquisition.

Major Terms of the Promissory Note(s)

The major terms of the Promissory Note(s) are as follows:

Principal amount	:	The aggregate amount of HK$160,000,000
Maturity date	:	The second anniversary of the date of issue of the Promissory Note(s) (the "**PN Maturity Date**")
Interest	:	The Promissory Notes do not bear any interest
Redemption	:	The Company may at any time from the date of issue of the Promissory Note(s) up to the date immediately prior to the PN Maturity Date, repay the entire Promissory Note(s) or any part of it by payment to the holder of the Promissory Note(s) of the outstanding principal amount thereof, without penalty
Transferability	:	The Promissory Note(s) is freely transferable and assignable by the holder to any person whether in whole or in part

Major Terms of the Convertible Note(s)

The major terms of the Convertible Note(s) are as follows:

Principal amount	:	HK$1,300,704,206
Maturity date	:	The third anniversary of the date of issue of the Convertible Note(s) (the "**CN Maturity Date**")
Interest	:	The Convertible Notes do not bear any interest
Conversion right	:	The holder(s) shall be entitled to convert the principal amount of the Convertible Note(s) into Conversion Shares at the Conversion Price
Conversion price	:	HK$0.38 each Conversion Share, subject to the occurrence of the adjustment events set out below.
Adjustment events	:	In respect of the Convertible Notes in the principal amount of HK$140,704,206 (the "**Third Convertible Notes**") to be issued to the Redgate CB Holders, the Conversion Price for the Third Convertible Notes will be subject to the following adjustment events (the "**Third Convertible Notes Adjustment Events**"):

(a) if at any time during the three-month period commencing on the Completion Date (the "**Relevant Period**"), the Company completes a placing of new Shares to Independent Third Parties at a placing price (the "**Relevant Placing Price**") which is below the then Conversion Price (the "**Applicable Conversion Price**") and the gross amount to be raised from such placing is not less than HK$10,000,000 (the "**Post-Completion Placing**"), then the Conversion Price in respect of the Third Convertible Notes shall be adjusted to the Relevant Placing Price, provided that the Conversion Price after such adjustment shall not be less than 20% of the Applicable Conversion Price;

(b) if the Company has not completed any Post-Completion Placing during the Relevant Period, then the Conversion Price shall be adjusted to the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the Relevant Period (including the trading days on which the Shares can be traded but no trading has occurred) provided that the Conversion Price after such adjustment shall not be less than 20% of the Applicable Conversion Price before such adjustment.

Taking into account the Third Convertible Notes Adjustment Events, the minimum conversion price applicable to the Third Convertible Notes is HK$0.076 each Conversion Share (the "**Adjusted Conversion Price**"), based on the Applicable Conversion Price of HK$0.38.

The Third Convertible Notes Adjustment Events are one-off adjustment events to the Conversion Price only and were the result of arm's length commercial negotiations between the relevant parties as an inducement for the Redgate CB Holders (who have provided additional capital investment to Redgate Ventures before the entering into of the Sale and Purchase Agreement) to agree to the terms of the Acquisition, taking into account the following principal difference in terms of the commercial risk assumed by (1) the Redgate CB Holders and (2) the First Vendor and Second Vendor:

(i) the First Vendor and Second Vendor are pre-existing shareholders of Redgate Ventures before the creation of the Redgate CB and have not assumed any new or additional risk;

(ii) for some of the Redgate CB Holders, they have assumed the risk by injecting fresh capital into Redgate Ventures in consideration for the Redgate CB as induced by the potential return on investment in the event the Acquisition is completed. As the Acquisition may or may not complete, such Redgate CB Holders thus bear the risk of having injected fresh capital in Redgate Ventures and holding the Redgate CB (or holding unlisted shares of Redgate Ventures);

(iii) for the rest of the Redgate CB Holders, before their subscription for the Redgate CB, they had certain account receivables due from Redgate Ventures with higher interest rate and/or with security. Such Redgate CB Holders have "settled" their account receivables and will release their security in consideration for the Redgate CB, as induced by the potential return on investment in the event the Acquisition is completed. The risk they assumed is similar to the other Redgate CB Holders as explained in (ii) above.

In light that the Redgate CB Holders have assumed genuine commercial risks different from the First Vendor and the Second Vendor, and the Directors therefore consider it commercially justifiable that the Redgate CB Holders should have a conversion price adjustment mechanism which is different from the adjustment mechanism available to the First Vendor and the Second Vendor.

The Third Convertible Notes Adjustment Events were negotiated to ensure that the Adjusted Conversion Price will best reflect the fair market price of the Shares at the relevant time. If the Company completes a placing of new Shares as set out in scenario (a) above, then the Adjusted Conversion Price will be such placing price which is believed to reflect the fair market price of the Shares. If the Company does not complete a placing of new Shares as in scenario (b) above, then the Adjusted Conversion Price will be calculated with reference to the average closing price of the Shares over a prescribed period. Essentially, the lower such placing price or average closing price, the greater number of Shares will be issued due to the decrease in the Adjusted Conversion Price.

The Adjusted Conversion Price may be higher than HK$0.38 in the event that the average closing price of the Shares over the Relevant Period is higher than HK$0.38, and there is no ceiling under the terms of the Third Convertible Notes. The 20% threshold was determined based on arm's length commercial negotiations between the relevant parties with a view to setting a cap on the maximum number of "increased" Conversion Shares which may be issued pursuant to the Third Convertible Notes Adjustment Events. The purpose of setting a cap is to provide certainty to the maximum number of Shares that may be issued based on the Adjusted Conversion Price and thus the maximum dilution effect (and to ensure that a definite figure, in terms of the number of Conversion Shares that may be issued, is available for Shareholders to consider and vote on at the Special General Meeting). The 20% threshold is not per se a conversion price, but rather, a measure to set a floor to the conversion price which can go as low as the Relevant Placing Price/average closing price (as the case may be) can possibly go.

The Conversion Price of the Third Convertible Notes, as adjusted in accordance with the Third Convertible Notes Adjustment Events, will be subject to the following additional adjustment events, which are also applicable to the First Convertible Notes and the Second Convertible Notes, and shall from time to time be further adjusted:

(i) alteration to the nominal amount of each of the Shares by reason of any consolidation or subdivision of Shares; or

(ii) issue of Shares by way of capitalisation of profit or reserves; or

(iii) capital distribution to Shareholders; or

(iv) issue Shares to all or substantially all Shareholders as a class by way of rights or shall issue or grant to all or substantially all Shareholders as a class, by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at a price which is less than 80% of the current market price, as calculated in accordance with the terms and conditions of the Convertible Note(s); or

(v) issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights of any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares); or

(vi) issue (otherwise than as mentioned in paragraph (iv) above) for cash any Shares (other than Shares issued on the exercise of conversion rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or on the issue or grant of (otherwise than as mentioned in paragraph (iv) above) options, warrants or other rights to subscribe for or purchase Shares in each case at a price which is less than 80% of the current market price, as calculated in accordance with the terms and conditions of the Convertible Note(s); or

(vii) issue for cash any securities (other than the Convertible Notes) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares (or grant any such rights in respect of any existing securities so issued) to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than 80% of the current market price, as calculated in accordance with the terms and conditions of the Convertible Note(s); or

(viii) modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in paragraph (vii) above (other than in accordance with the terms applicable to such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 80% of the current market price, as calculated in accordance with the terms and conditions of the Convertible Note(s); or

(ix) issues, sells or distributes any securities in connection with an offer by or on behalf of the Company or any of its subsidiaries or such other person pursuant to which offer the Shareholders generally (meaning for these purposes the holders of at least 60% of the Shares outstanding at the time such offer is made) are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under paragraphs (iv) to (vii) above).

If more than one of the above adjustment events (i) to (ix) occurs, the first of the applicable adjustment event shall apply to the exclusion of the remaining applicable adjustment event(s).

At present, the Company intends to undertake a share placement. Such share placement may occur during the Relevant Period. However, the timing and terms of such share placement have yet to be further considered and determined and there is no concrete plan in this regard. The share placement, if proceed, would be for the purpose of raising further funds to finance the working capital of the Enlarged Group.

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 third Business Day immediately before the CN Maturity Date except 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.
Redemption	:	The Company shall be entitled to redeem at par the Convertible Notes prior to the CN Maturity Date.
Events of default	:	Upon the occurrence of an event of default, the Company shall within 10 days upon the occurring of such event give notice to the holders of the Convertible Notes. Within 10 days after the Company issues such notice, a holder of the Convertible Notes may give notice to the Company that the Convertible Notes are due and payable on the seventh Business Day of the date of the notice. A event of default includes: (a) default in the payment of the principal of the Convertible Notes for more than seven days; (b) sufficient number of authorised but unissued Shares is not available for fulfillment of the obligations of the Company upon exercise of the conversion rights attached to the Convertible Notes; (c) a default is made by the Company in the performance or observance of any condition or provision of the Convertible Notes and such default continues for a period of 30 days after the services of a notice of remedy by the holders holding at least 51% of the then outstanding principal amount of the Convertible Notes;

(d) a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved;

(e) an encumbrancer takes possession or a receiver is appointed over the whole or a material part of the assets or undertakings of the Company or a "major subsidiary" within the meaning of the GEM Listing Rules;

(f) action is levied or enforced upon or against the whole or a part of the property of the Company or any subsidiary which is of a value material to the Group as a whole and is not discharged within 40 days thereof;

(g) the Company or any subsidiary is unable to pay its debts which are material to the Group as and when they fall due;

(h) proceedings shall have been initiated against the Company or any "major subsidiary" of the Company (within the meaning of the GEM Listing Rules) under any applicable bankruptcy, reorganization or insolvency law and such proceedings shall not have been discharged or stayed within a period of 40 days;

(i) any financial indebtedness of the Company or any subsidiary is declared to be due or payable prior to its specific maturity date or security become enforceable or realizable in respect of such financial indebtedness; or

(j) any event which has an analogous effect to any of the events referred to in paragraphs (a) to (i) above.

Settlement on maturity	:	On the CN Maturity Date, the Company shall repay to the holders of the Convertible Notes at 100% of the outstanding principal amount of the Convertible Notes. Notwithstanding the above, the holder may by giving a notice to the Company not less than six months before the CN Maturity Date request for settlement of the Convertible Notes 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: (a) a conversion notice has been served by the holder on the Company; or (b) a settlement notice has been served by the holder on the Company.
Ranking of Conversion Shares	:	The Conversion 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 of the Convertible Notes shall not be entitled to vote at general meeting of the Company. However, the holder is entitled to receive all reports and circulars to be issued by the Company from time to time.
Undertaking	:	The holder of the Convertible Notes shall undertake to the Company that: (a) it shall fully comply with all applicable laws, rules and regulations, including but not limited to the GEM Listing Rules and the Hong Kong Code on Takeovers and Mergers in respect of, among other things, the exercise of its conversion rights under the Convertible Notes and acceptance of the Shares to be issued to it upon exercise of such conversion rights; and

(b) it shall not exercise the conversion rights to the extent that following such conversion, the holder of the Convertible Notes and parties acting in concert with it, will directly or indirectly, control or be interested in more than 29% of the then issued share capital of the Company; or that the Company's minimum public float requirements under the GEM Listing Rules could not be maintained.

It is also a term of the Convertible Notes that the Company will refuse to accept a conversion notice if the proposed conversion will result in a breach of the aforementioned undertakings.

Conversion Shares

A maximum of 4,904,002,710 Conversion Shares (comprising 3,052,631,579 Conversion Shares to be allotted and issued upon full exercise of the conversion rights attached to the Convertible Notes to be issued to the Vendors at the initial conversion price of HK$0.38 each Conversion Share, and 1,851,371,131 Conversion Shares to be allotted and issued upon full exercise of the conversion rights attached to the Third Convertible Notes at the conversion price of HK$0.076 each Conversion Share (taking into account the Third Convertible Notes Adjustment Events)) shall be allotted and issued upon full exercise of the conversion rights attached to the Convertible Notes.

The 4,904,002,710 Conversion Shares represent (i) approximately 5,158.73% of the existing issued share capital, (ii) approximately 98.10% of the issued share capital as enlarged by the Conversion Shares, and (iii) approximately 88.76% of the issued share capital as enlarged by the Conversion Shares and the CB Conversion Shares.

Assuming the conversion price for the Third Convertible Notes remains at HK$0.38, a maximum of 3,422,905,805 Conversion Shares shall be allotted and issued upon full exercise of the conversion rights attached to the Convertible Note(s). The 3,422,905,805 Conversion Shares represent (i) approximately 3,600.70% of the existing issued share capital, (ii) approximately 97.30% of the issued share capital as enlarged by the Conversion Shares, and (iii) approximately 84.64% of the issued share capital as enlarged by the Conversion Shares and the CB Conversion Shares.

The initial Conversion Price of HK$0.38 each Conversion Share represents:

(i) a premium of approximately 8.57% to the closing price of HK$0.35 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 4.11% to the closing price of HK$0.365 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 14.03% to the average of the closing prices of approximately HK$0.442 per Share for the 10 consecutive trading days up to and including the Last Trading Day; and

(iv) a discount of approximately 34.14% to the average of the closing prices of approximately HK$0.577 per Share for the 30 consecutive trading days up to and including the Last Trading Day.

The Adjusted Conversion Price of HK$0.076 each Conversion Share represents:

(i) a discount of approximately 78.29% to the closing price of HK$0.35 per Share as quoted on the Stock Exchange at the Latest Practicable Date;

(ii) a discount of approximately 79.18% to the closing price of HK$0.365 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 82.81% to the average of the closing prices of approximately HK$0.442 per Share for the 10 consecutive trading days up to and including the Last Trading Day; and

(iv) a discount of approximately 86.83% to the average of the closing prices of approximately HK$0.577 per Share for the 30 consecutive trading days up to and including the Last Trading Day.

Specific Mandate to Issue Conversion Shares

The Conversion Shares are to be issued by the Company under specific mandate to be granted by the Shareholders at the Special General Meeting. The Conversion Shares, when issued and allotted, will rank *pari passu* in all respects with all the Shares then in issue.

THE PLACING

Date

8 July 2011 (after trading hours)

Parties

Issuer	:	the Company
Placing Agent	:	Cheong Lee Securities Limited

The ultimate beneficial owner of the Placing Agent, Ms. Au Suet Ming Clarea, is an associate of Ms. Au Yuk Kit, an independent non-executive Director who has resigned with effect from 2 April 2012. Hence the Placing Agent is a connected person of the Company and the entering into of the Placing Agreement constitutes a connected transaction for the Company.

On 30 December 2011, the Company and the Placing Agent entered into the First Supplemental Placing Agreement pursuant to which the parties agreed to (i) amend the conditions of the Placing CB so that the Company may not allow conversion of the Placing CB, where as a result of such conversion, the Company's minimum public float requirements under the GEM Listing Rules could not be maintained; and (ii) extend the latest time for fulfillment of the conditions precedent to completion of the Placing Agreement from 31 December 2011 to 31 March 2012 or such later date as the parties may agree in writing.

On 31 March 2012, the Company and the Placing Agent entered into a Second Supplemental Placing Agreement pursuant to which the parties agreed to extend the latest time for fulfillment of the conditions precedent to completion of the Placing Agreement from 31 March 2012 to 30 June 2012 or such later date as the parties may agree in writing.

Subject Matter

Pursuant to the Placing Agreement, the Company has conditionally agreed to issue, and the Placing Agent has conditionally agreed to act as placing agent, on a best effort basis, for the purpose of arranging subscribers who are professional and institutional investors and are Independent Third Parties, to subscribe for the Placing CB with an aggregate principal amount of up to HK$200,000,000. It is expected that the Placing CB will be placed to more than six Placees and that none of the Placees will become a substantial shareholder of the Company by virtue of the exercise of the conversion rights attached to the Placing CB to be subscribed pursuant to the Placing.

The Placing Agent will be paid a placing commission of 3% of the principal amount of the Placing CB successfully placed by the Placing Agent. The placing commission is determined after arm's length discussion between the parties taking into account the size of the Placing.

Conditions Precedent

Completion of the Placing Agreement is conditional upon the satisfaction of the following conditions:

(a) the approval of the Placing Agreement and the granting of the specific mandate to issue and allot the CB Conversion Shares by the Shareholders permitted to vote on the relevant resolutions under the GEM Listing Rules and such approval not having been proposed to be revoked;

(b) the fulfillment of the conditions precedent set out in the Sale and Purchase Agreement (as set out in the paragraph headed "The Acquisition – Conditions precedent" above);

(c) the granting by the Listing Committee of the Stock Exchange of a listing of and permission to deal in the CB Conversion Shares upon exercise of the conversion rights attaching to the Placing CB; and

(d) the obligation of the Placing Agent becoming unconditional and not being terminated in accordance with the terms of the Placing Agreement, including provisions regarding force majeure event.

None of the conditions precedent set out above can be waived.

Completion

Subject to the fulfillment of the conditions precedent above, Completion shall take place on or before the fifth Business Day after the above conditions have been fulfilled (or such other day as the parties under the Placing Agreement may agree in writing) and on the same day as completion of the Acquisition. The subscription monies shall be payable by the Placing Agent at Completion.

In the event that the conditions precedent set out above have not been fulfilled on or before 30 June 2012 (or such later time or date as may be agreed between the parties under the Placing Agreement in writing), the Placing Agent may, at any time thereafter, terminate its obligations under the Placing Agreement by notice in writing to the Company, whereupon the obligations of the Placing Agent under the Placing Agreement shall forthwith cease and terminate and neither the Company nor the Placing Agent shall have any claim against any of the others, save for any antecedent breach thereof.

In accordance with the Sale and Purchase Agreement, the completion of the Placing is one of the conditions to be fulfilled before the completion of the Acquisition takes place. As such, if the amount placed is less than HK$200,000,000, both the Placing and the Acquisition will not proceed.

Termination

The Placing Agent may, by notice to the Company given at any time prior to 10:00 a.m. on the Completion Date, terminate the Placing Agreement if there occurs:

(a) the introduction of any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Company; or

(b) the 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 before and/or after the date of the Placing Agreement) of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Company or adversely prejudices the success of the Placing to potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Placing; or

(c) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities) occurs which affect the success of the Placing (such success being the completion of the Placing to potential investor(s)) or otherwise in the sole and absolute opinion of the Placing Agent make it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the Placing; or

(d) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed or assumed under the Placing Agreement; or

(e) the Placing Agent shall become aware of the fact that any of the representations or warranties contained in the Placing Agreement was, when given, untrue or inaccurate in any respect or would in any respect be untrue or inaccurate, or if repeated the Placing Agent shall determine in its reasonable opinion that any such untrue representation or warranty represents or is likely to represent a material adverse change in the financial or trading position or prospects of the Company or will otherwise likely to have a material prejudicial effect on the Placing.

If at any time prior to 10:00 a.m. on the Completion Date, any such notice as is referred to above is given by the Placing Agent, the obligations of all parties under the Placing Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

Termination of the Placing Agreement shall be without prejudice to any rights of any party in respect of any breach by the other prior to such termination.

PRINCIPAL TERMS OF THE PLACING CB

Principal amount	:	Up to HK$200,000,000 (in multiples of HK$1,000,000)
Status	:	The Placing CB constitute direct, unconditional, unsubordinated and (subject to the terms of the Placing CB) unsecured obligations of the Company and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Placing CB shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
Maturity Date	:	The second anniversary from the date of issue (the "**Maturity Date**")
Interest	:	The Placing CB does not bear any interest
Conversion period	:	Subject to the conditions below, the Bondholder shall have the right to convert the whole or part (in an amount not less than HK$1,000,000, save that if at any time the principal outstanding amount of the Placing CB shall be less than HK$1,000,000, the whole (but not part only) of the principal amount of the Placing CB may be converted) of the principal amount of the Placing CB into CB Conversion Shares from the day immediately following the date of issue of the Placing CB up to five Business Days before the Maturity Date, provided that the Company may not allow conversion of the Placing CB, where as a result of such conversion, the Company's minimum public float requirements under the GEM Listing Rules could not be maintained.

Conversion Price : The initial CB Conversion Price is HK$0.38 each CB Conversion Share, which is subject to the occurrence of the adjustment events set out below.

The initial CB Conversion Price represents approximately:

(i) a premium of approximately 4.11% to the closing Share price of HK$0.365 on the Last Trading Day;

(ii) a discount of approximately 3.55% to the average of the closing Share price of approximately HK$0.394 for the 5 consecutive trading days up to and including the Last Trading Day; and

(iii) a discount of approximately 14.03% to the average of the closing Share price of approximately HK$0.442 for the 10 consecutive trading days up to and including the Last Trading Day.

The CB Conversion Price is determined after arm's length negotiations between the Company and the Placing Agent with reference to the recent market price of the Shares and is the same as the Conversion Price.

Adjustment events : The CB Conversion Price will be subject to the following adjustment events:

(i) alteration to the nominal amount of each of the Shares by reason of any consolidation or subdivision of Shares; or

(ii) issue of Shares by way of capitalisation of profit or reserves; or

(ii) capital distribution to Shareholders or grant to Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries; or

(iv) offer to the Shareholders new Shares for subscription by way of rights; or grant of any options or warrants to Shareholders to subscribe for new Shares, at a price which is less than 80% of the market price; or

(v) issue for cash any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares and the total effective consideration receivable for such securities is less than 80% of the market price; or

(vi) issue for cash any Shares at a price which is less than 80% of the market price; or

(vii) offer or invitation to Shareholders to tender for sale to the Company any Shares or the repurchase of any Shares or securities convertible into Shares or any rights to acquire Shares by the Company, details terms of and arrangements under such adjustment events are set out in the instrument constituting the Placing CB.

If more than one of the above adjustment events (i) to (vii) occurs, the first of the applicable adjustment event shall apply to the exclusion of the remaining applicable adjustment event(s).

CB Conversion Shares	:	Upon full conversion of the maximum principal amount of the Placing CB of HK$200,000,000, 526,315,789 CB Conversion Shares will fall to be issued, representing approximately 553.65% of the issued share capital of the Company as at the date of the Placing Agreement; approximately 84.70% of the issued share capital of the Company as enlarged by the issue of the CB Conversion Shares; and approximately 9.52% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares and the CB Conversion Shares. The CB Conversion Shares will be issued and allotted under the specific mandate to be granted to the Directors at the Special General Meeting. The maximum total nominal value of the CB Conversion Shares is approximately HK$526,315.79.
Listing	:	No application will be made for a listing of, or permission to deal in, the Placing CB on the Stock Exchange or any other stock exchange. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the CB Conversion Shares.
Ranking	:	The CB Conversion Shares shall rank pari passu in all respects with the fully paid Shares in issue on the relevant date of conversion and shall accordingly entitle the Bondholders to participate in full in all dividends or other distributions paid or made on the Shares after the relevant date of conversion other than any dividend or other distribution previously declared, or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant date of conversion and notice of the amount and record date for which shall have been given to the Stock Exchange and the Bondholder prior to the relevant date of conversion and, for this purpose, the notice to the Bondholder may take the form of sending a copy of the relevant announcement to them.
Redemption	:	The Company may at any time prior to the Maturity Date redeem all or part of the Placing CB at par by serving at least 30 Business Days' written notice on the Bondholders.

Events of default : Upon the occurrence of an event of default, Bondholders holding not less than 66% of the then outstanding principal amount of the Placing CB may give notice to the Company that the outstanding principal amount of the Placing CB become immediately due and payable.

An event of default includes:

(a) default in the payment of the principal of the Placing CB for more than 14 days;

(b) a default is made by the Company in the performance or observance of any condition or provision of the Placing CB and such default continues for a period of 30 days after the services of a notice of remedy by the Bondholders holding at least 66% of the then outstanding principal amount of the Placing CB;

(c) any financial indebtedness of the Company or any major subsidiary (within the meaning of the GEM Listing Rules) is declared to be due or payable prior to its specific maturity date, or any such financial indebtedness is not paid when due;

(d) action is levied or enforced upon or against the whole or a part of the property of the Company or a major subsidiary which would have a material adverse effect on the Company or the major subsidiary and is not discharged within 40 days thereof;

(e) the Company or a major subsidiary is insolvent or bankrupt;

(f) an order of a court of competent jurisdiction is made or a resolution is passed that the Company or a major subsidiary be wound up or dissolved; or

(g) an administrative or other receiver or any manager is duly appointed of the Company or any major subsidiary over either of them or any of their assets or properties, or such action having been commenced by a creditor of the Company or any major subsidiary and such proceedings shall not have been discharged within a period of 40 days.

Settlement on maturity	:	Unless previously converted or redeemed, or purchased and cancelled in accordance with the terms of the Placing CB, the Company will redeem the Placing CB on the Maturity Date at 100% of the principal amount then outstanding (together with all interest accrued thereon).
Transferability	:	The Placing CB are freely transferable in whole multiples of HK$1,000,000 (or such lesser amount as may represent the entire principal amount thereof) to any person, save that none of the Placing CB may be transferred to a connected person of the Company without the prior approval of the Stock Exchange and the Company.
Voting	:	The Bondholder shall not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the Bondholder.

APPLICATION FOR LISTING

The Company will apply to the Stock Exchange for the listing of, and permission to deal in: (i) the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Notes, and (ii) the CB Conversion Shares. No application will be made for a listing of, or permission to deal in, the Conversion Notes or the Placing CB on the Stock Exchange or any other stock exchange.

GEM LISTING RULES IMPLICATIONS

Based on the relevant percentage ratios calculations under the GEM Listing Rules, the entering into of the Sale and Purchase Agreement constitutes a very substantial acquisition for the Company and is therefore subject to reporting, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

The ultimate controlling shareholder of the Placing Agent, Ms. Au Suet Ming Clarea, is an associate of Ms. Au Yuk Kit, an independent non-executive Director who has resigned with effect from 2 April 2012. Hence, the Placing Agent is a connected person of the Company and the entering into of the Placing Agreement constitutes a connected transaction for the Company. As the aggregate amount of commission paid to the Placing Agent in the 12 months preceding the date of the Placing Agreement and to be paid under the Placing Agreement amounts to HK$15,071,637.75, the entering into of the Placing Agreement with the Placing Agent is subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 20.17 of the GEM Listing Rules. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Placing Agreement. Therefore, no Shareholder is required to abstain from voting in respect of the resolution(s) for approving the Placing Agreement at the Special General Meeting.

EFFECT ON THE SHAREHOLDING STRUCTURE

Set out below are the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately upon Completion and the full conversion of the Placing CB (assuming no conversion of the Convertible Notes); (iii) after Completion, the full conversion of the Placing CB and the conversion of the Convertible Notes up to 29.00% of the enlarged issued share capital of the Company; (iv) after Completion, the full conversion of the Placing CB and the conversion of the Convertible Notes (without restrictions); and (v) after Completion, the full conversion of the Placing CB and the conversion of the Convertible Notes (without restrictions and assuming the Redgate CB Holders convert the Third Convertible Notes at HK$0.38).

	(i) As at the Latest Practicable Date		**(ii) Immediately upon Completion and full conversion of the Placing CB (assuming no conversion of the Convertible Notes)**		**(iii) After Completion, the full conversion of the Placing CB and the conversion of the Convertible Notes up to 29.00% of the enlarged issued share capital of the Company** *(Note 3)*		**(iv) After Completion, the full conversion of the Placing CB and the conversion of the Convertible Notes (without restrictions)** *(Note 5)*		**(v) After Completion, the full conversion of the Placing CB and the conversion of the Convertible Notes (without restrictions and assuming the Redgate CB Holders convert the Third Convertible Notes at HK$0.38)** *(Note 5)*	
	Number of Shares	*Percentage*	*Number of Shares*	*Percentage*	*Number of Shares*	*Percentage*	*Number of Shares*	*Percentage*	*Number of Shares*	*Percentage*
First Vendor	–	–	–	–	–	–	2,105,263,158	38.10%	2,105,263,158	52.06%
Second Vendor	–	–	–	–	–	–	947,368,421	17.15%	947,368,421	23.42%
Redgate CB Holders	–	–	–	–	253,802,245 *(Note 6)*	29.00% *(Note 4)*	1,851,371,131 *(Note 6)*	33.51%	370,274,226	9.16%
Sub-total	–	–	–	–	253,802,245	29.00%	4,904,002,710	88.76%	526,315,789	84.64%
Public										
Placees *(Note 2)*	–	–	526,315,789	84.70%	526,315,789	60.14%	526,315,789	9.52%	526,315,789	13.01%
Existing public Shareholders	95,062,123	100%	95,062,123	15.30%	95,062,123	10.86%	95,062,123	1.72%	95,062,123	2.35%
Sub-total	95,062,123	100%	621,377,912	100%	621,377,912	71.00%	621,377,912	11.24%	621,377,912	15.36%
Total	95,062,123	100%	621,377,912	100%	875,180,157	100%	5,525,380,622	100%	4,044,283,717	100%

Notes:

1. As at the Latest Practicable Date, there are 634,073 options outstanding to subscribe for Shares. The table above assumes that there is no exercise of the outstanding options.

2. The Placing CB will be placed to more than six Placees and that none of the Placees will become a substantial shareholder of the Company by virtue of the exercise of the conversion rights attached to the Placing CB to be subscribed pursuant to the Placing.

3. The terms of the Convertible Notes contain restrictions on conversion, including among others, (i) if the exercise of the conversion rights to the extent that following such conversion, the holder of the Convertible Notes and parties acting in concert with it, will directly or indirectly, control or be interested in more than 29% of the then issued share capital of the Company; or (ii) that the Company's minimum public float requirements under the GEM Listing Rules could not be maintained. Particulars are set out in the sub-paragraph headed "Major Terms of the Convertible Note(s) – Undertaking" above.

4. This is based on the assumption that the Redgate CB Holders will convert the Convertible Notes first.

5. The information set out in this column is solely for illustration purposes.

6. Based on the assumption that the conversion price of the Third Convertible Note is HK$0.076.

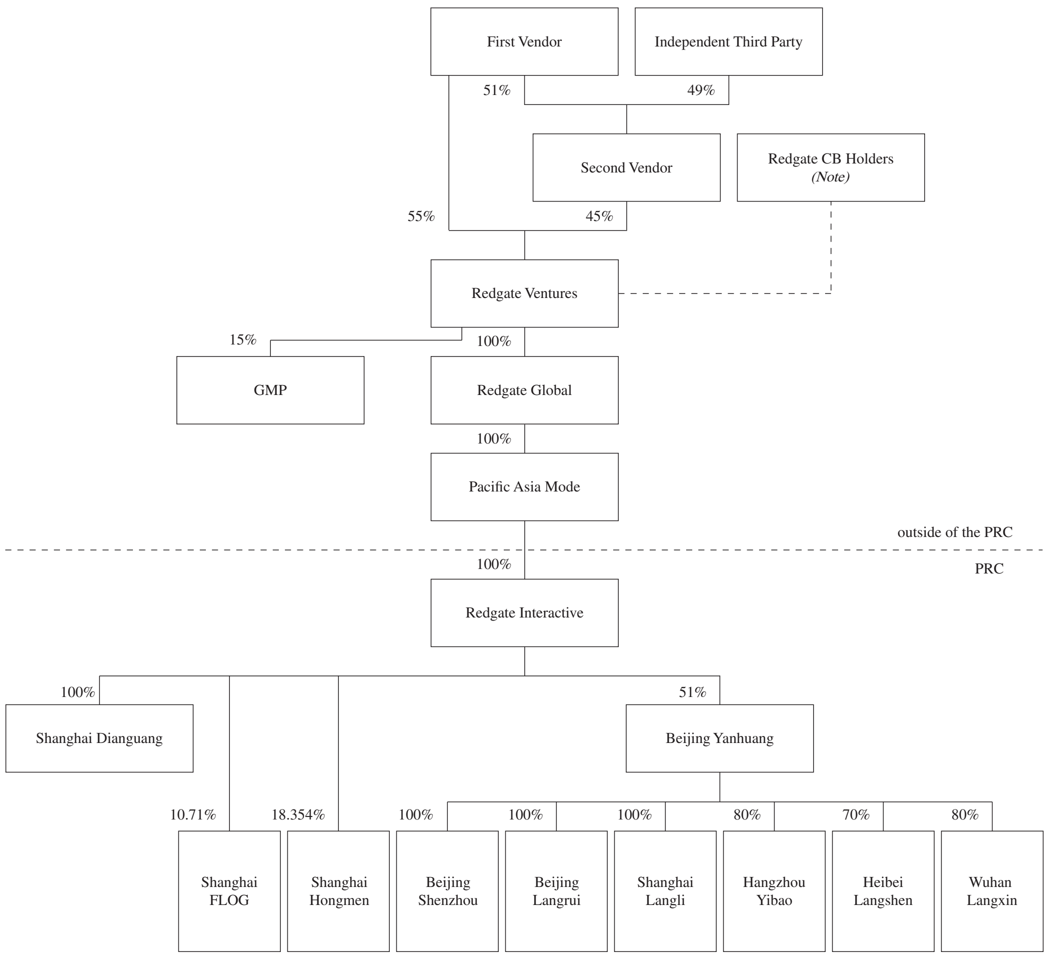
INFORMATION ON THE REDGATE VENTURES GROUP AND THE VENDORS

Executive Summary

The Redgate Ventures is a media investment holding company built by a team of career media professionals from some of the world's largest media companies. Redgate Ventures Group was conceived in 2007 and built upon two key acquisitions in 2008 in the outdoor and television industries of Beijing Yanhuang and Shanghai Dianguang, respectively. Redgate Ventures has grown more quickly through both acquisition and organic expansion, and believes that the high level of fragmentation in the Chinese media market, combined with the sheer scale of the market opportunity, presents a compelling platform for consolidation. Through the Acquisition, Redgate Ventures believes that it can accelerate the growth of its national advertising platform in China and substantially increase its market share.

Corporate Structure of the Redgate Ventures Group

The following is the structure chart of the Redgate Ventures Group immediately before Completion and prior to the automatic conversion of the outstanding Redgate CB in the principal amount of US$9,747,633.10:



Note:

The outstanding Redgate CB in the principal amount of US$9,747,633.10 (equivalent to approximately HK$76,031,538.18) will automatically be converted into Redgate Conversion Shares immediately before Completion. The percentage of interest to be held by each of the First Vendor, Second Vendor and the Redgate CB Holders in the issued share capital of Redgate Ventures as enlarged by the conversion of Redgate CB in full are 51.01%, 41.74% and 7.25% respectively.

History of the Redgate Ventures Group

Redgate Ventures is a limited liability company incorporated in the BVI on 14 October 2010 and owned as to 55% by the First Vendor and as to 45% by the Second Vendor. The Redgate Ventures Group underwent a restructuring which was completed on 31 December 2010, pursuant to which Redgate Ventures became the sole shareholder of Redgate Global, which in turn wholly owns Pacific Asia Mode. Redgate Global is a limited liability company incorporated in the BVI and its principal business is investment holding. Pacific Asia Mode is a limited liability company incorporated in Hong Kong and its principal business is investment holding. Pacific Asia Mode is the sole shareholder of Redgate Interactive.

Based on information provided by the Vendors, set out below is the history of the Redgate Ventures Group, which includes the following companies:

- Redgate Global was spun out from Redgate (HK) Limited in 2010, when its shareholders decided to separate the directly-owned businesses of Redgate Interactive from the other businesses under Redgate (HK) Limited owned through variable interest entities. The shareholders of Redgate Global executed a share exchange agreement on 31 December 2010, pursuant to which Redgate Global was spun-off and became a 100% subsidiary of Redgate Ventures, the then newly-formed holding company.

- Global Media Productions Limited ("**GMP**") is a limited liability company incorporated in Hong Kong on 15 November 2010. In February 2011, Redgate Ventures acquired a 15% shareholding in GMP. As at the Latest Practicable Date, Redgate Ventures Group and GMP have entered into a co-production agreement with CCTV-IMG, a subsidiary of CCTV and an Independent Third Party, for the purpose of co-producing a sports entertainment television series. Please refer to the section headed "Business of The Redgate Ventures Group – Future Development" for further information on the said co-production.

- Redgate Interactive was established by Pacific Asia Mode as a wholly foreign owned enterprise in the PRC on 21 December 2006. Its scope of business is design, production, agency, broadcasting of advertisements from mainland and overseas investors. It has a registered capital of US$11,000,000 and is wholly owned by Pacific Asia Mode.

- Shanghai Dianguang is a limited liability company established in the PRC on 27 November 2001. In July 2008, Redgate Interactive acquired 100% of the equity interest in Shanghai Dianguang from its then shareholders for a cash consideration of RMB5,000,000 and certain contingent consideration (see Appendix II – Financial Information of Redgate Ventures Group, section C, note 26 for more information). As at the Latest Practicable Date, Redgate Ventures Group has fulfilled the payment of the cash consideration of RMB5,000,000 and intends to pay for the remaining contingent consideration payables in accordance with the contracts in the future. If Redgate Ventures Group fails to settle the outstanding amount of the consideration payable, the legal consequence is only limited to payment of the amount due to be payable to Shanghai Dianguang's then shareholders. Its scope of business is design, production, agency, broadcasting of all kinds of advertisements, wholesaling of advertising gifts, arts and crafts (except gold and silver). It has a registered capital of RMB5,000,000 and is wholly owned by Redgate Interactive.

  On 14 July 2008 and 12 August 2009, Redgate Ventures Group, Redgate Media Group and the former equity owners of Shanghai Dianguang entered into three supplemental agreements in respect of the settlement arrangement, supplemental to the acquisition agreements entered into for the aforesaid acquisition of the 100% of the equity interest in Shanghai Dianguang in July 2008. At the date of acquisition of Shanghai Dianguang, the best estimate of the undiscounted amount of the contingent consideration is amounted to HK$192,165,000. As the contingent consideration is based on the net income of Shanghai Dianguang for the years ended 31 December 2008, 2009 and 2010, the potential undiscounted amount of the contingent consideration adjustment that Redgate Ventures Group could be required to make under this arrangement is unlimited. The said contingent consideration is payable by Redgate Media Group on behalf of Redgate Ventures Group. Pursuant to the said supplemental agreement dated 12 August 2009, contingent consideration weights for years 2008, 2009 and 2010 were changed. Additionally, Redgate Ventures Group agreed to make a contingent bonus payment upon Shanghai Dianguang achieving the predetermined performance target, which will be determined based on the incremental net income amount from the audited financial statements of Shanghai Dianguang from 2008 to 2009 and the incremental net income amount as reported in the audited financial statements of Shanghai Dianguang from 2009 to 2010. The above contingent amounts are considered as the revised contingent consideration payable by Redgate Media Group on behalf of Redgate Ventures Group, which is settled through Redgate Ventures Group's amount due to Redgate Media Group as at 31 December 2008, 2009 and 2010. The aforesaid amounts due by Redgate Ventures Group to Redgate Media Group will be settled in cash, and are unsecured, interest-free and have no terms of fixed repayment. Pursuant to the letter of support signed by Redgate Media

Group, Redgate Media Group confirmed that they will not demand repayment of the amounts due to them until Redgate Ventures Group is in a position to repay. Please refer to Appendix III – Management Discussion and the Analysis of the Group and Redgate Ventures Group on page 527 under the paragraph headed "Amounts due to ultimate holding company, immediate holding company, fellow subsidiaries and related parties" for further details. As at 31 December 2011, Redgate Media Group waived a portion of the amounts due from Redgate Ventures Group, of approximately HK$80,800,000. As at the Latest Practicable Date, the contingent consideration payable amounts to approximately HK$48,749,000, which according to the relevant agreements, is required to be settled in cash. The contingent consideration due to be settled by Redgate Media Group on behalf of Redgate Ventures Group to the then shareholders of Shanghai Dianguang is being finalised. It is expected that the outstanding contingent consideration will be settled soon after Completion. Please refer to Appendix II – Financial Information of Redgate Ventures Group, section C, notes 26, 32(b) and 33(a)(i) for further details of the settlement arrangement and contingent consideration.

- Shanghai FLOG is a limited liability company established in the PRC on 16 January 2007. In January 2008, Redgate Interactive acquired 10.71% of the equity interest in Shanghai FLOG through a capital contribution of RMB5,000,000. Its scope of business is cultural and arts activities planning and consultation, business consultation (excluding brokerage), design, production, agency, broadcasting of all kinds of advertisements, and exhibition services (involving the administrative approval of the licence to operate). It has a registered capital of RMB765,035 and is owned as to 10.71% by Redgate Interactive.

- Shanghai Hongmen is a limited liability company established in the PRC on 9 June 2004. In May 2008, Redgate Interactive acquired 18.354% of the equity interest in Shanghai Hongmen through a capital contribution of RMB8,832,540. Its scope of business is design, production, agency, broadcasting of all kinds of advertisements, graphic production, corporate image planning and design. It has a registered capital of RMB7,850,964 and is owned as to 18.354% by Redgate Interactive.

- Beijing Yanhuang is a limited liability company established in the PRC on 19 April 2000. In September 2008, Redgate Interactive acquired 51% of the equity interest in Beijing Yanhuang from its then shareholders for a cash consideration of RMB61,960,000. Redgate Interactive is entitled to the remaining 49% equity interest in Beijing Yanhuang at nil consideration. As at the Latest Practicable Date, the outstanding payment of consideration for Beijing Yanhuang, in the amount of approximately RMB10.55 million plus interests on the said outstanding payment of consideration in the amount of approximately RMB622,000, remains to be paid by Redgate Interactive. The then shareholders of Beijing Yanhuang have agreed to Pacific Asia Mode and the First Vendor's guarantee of payment by Redgate Interactive of the said amount outstanding. As at July 2011, Pacific Asia Mode and the First Vendor have remitted an aggregate amount equivalent to the amount outstanding to the then shareholders of Beijing Yanhuang as guarantee for the payment of the said amount outstanding. The said amount outstanding will be considered fully paid and settled by Redgate Interactive when either Redgate Interactive pays the then shareholders of Beijing Yanhuang the said amount outstanding or if not, the application of the said guarantee provided by Pacific Asia Mode and the First Vendor to settle the amount outstanding. The payment of the said amount outstanding is not subject to a payment schedule. The payment of the said amount outstanding is permitted to be made from either Redgate Interactive's revenue earned in the PRC in RMB or a RMB loan obtained in the PRC under the laws and regulations of the PRC. Our PRC legal advisers, Zhong Lun Law Firm, has advised that according to the confirmation from Redgate Interactive and their appropriate inspection, the time for performance of fulfillment of the said remaining amount of consideration has not expired and the relevant parties do not have any dispute in respect of Redgate Interactive's equity holding in Beijing Yanhuang. Our PRC legal advisers have also opined that the transfer of 51% equity interests in Beijing Yanhuang is legally valid as the relevant department of the Administration of Industry and Commerce of the PRC has already authorized the registration of the said equity transfer and all necessary legal procedures have been conducted.

  Beijing Yanhuang's scope of business is design, productions, agency, broadcasting of advertisements from mainland and oversea investors; undertaking of exhibition and demonstration activities; organizing cultural and arts exchange activities (excluding performance). It has a registered capital of RMB5,000,000 and is owned as to 51% by Redgate Interactive. As the procedures to register the change in equity interest in Beijing Yanhuang have not been performed in respect of the remaining 49% equity interest, the directors of Redgate Ventures consider the equity interest in Beijing Yanhuang to be 51% as at 30 June 2011. As of the end of each of the Relevant Periods and the date of the circular, the 49% equity interest in Beijing Yanhuang has not been transferred to Redgate Ventures Group.

  Beijing Yanhuang is interested in 100%, 100%, 100%, 80%, 70% and 80% of Beijing Shenzhou, Beijing Langrui, Shanghai Langli, Hangzhou Yibao, Heibei Langshen and Wuhan Langxin respectively.

- Beijing Shenzhou is a limited liability company established in the PRC on 1 March 2001. In August 2008, Beijing Yanhuang acquired 100% of the equity interest in Beijing Shenzhou from its then shareholders for an aggregate cash consideration of RMB500,000. Its scope of business is design, production, agency, broadcasting is advertisements from mainland and overseas investors. It has a registered capital of RMB500,000 and is wholly owned by Beijing Yanhuang.

- Beijing Langrui is a limited liability company established in the PRC on 16 March 2006. In August 2008, Beijing Yanhuang acquired 100% of the equity interest in Beijing Langrui from its then shareholders for an aggregate cash consideration of RMB500,000. Its scope of business is agency, broadcasting of advertisements, design of pictures and articles by computer, undertaking exhibition and demonstrating activities, conference services, organizing cultural and arts exchange activities, television and video planning, public relation services. It has a registered capital of RMB500,000 and is wholly owned by Beijing Yanhuang.

- Shanghai Langli is a limited liability company established in the PRC on 8 March 2005. In September 2008, Beijing Yanhuang acquired 100% of the equity interest in Shanghai Langli from its then shareholders for an aggregate cash consideration of RMB500,000. Its scope of business is design, production, agency, broadcasting of all kinds of advertisements, business information consultation, corporate image planning, market and sales planning, exhibition services, public relations consultation, corporate culture consultation, cultural and arts exchange planning (except agent), internet design, production of pictures and articles, photo shooting service, computer network engineering (except special approval), research and development of computer softwares and hardwares, sale of office and cultural items, arts and crafts, advertising materials. It has a registered capital of RMB500,000 and is wholly owned by Beijing Yanhuang.

- Hangzhou Yibao is a limited liability company established in the PRC on 30 June 2008. In August 2008, Beijing Yanhuang acquired 80% of the equity interest in Hangzhou Yibao from its then shareholder for a cash consideration of RMB800,000. Its scope of business is services; design, production, agency, broadcasting of mainland advertisements, undertaking exhibitions, consultation of economic information (exception securities and futures); wholesaling and retailing; department store. It has a registered capital of RMB1,000,000 and is owned as to 80% by Beijing Yanhuang.

- Heibei Langshen is a limited liability company established in the PRC on 3 December 2008. Its scope of business is design, production, agency of mainland advertisements; broadcasting of mainland outdoor advertisements. It has a registered capital of RMB1,000,000 and is owned as to 70% by Beijing Yanhuang.

- Wuhan Langxin is a limited liability company established in the PRC on 16 January 2009. Its scope of business is design, production, agency and broadcasting of mainland advertisements; undertaking exhibitions and demonstration activities, organizing cultural and arts exchange activities (excluding performance). It has a registered capital of RMB2,000,000 and is owned as to 80% by Beijing Yanhuang.

In 2010, Redgate Ventures' assets (i.e. Redgate Global Limited and its subsidiaries), which formed part of the assets held under a different corporate holding entity, Redgate Media Group, sought listing in the US. Redgate Media Group filed an F-1 with the US Securities and Exchange Commission, which was approved in February 2010 and effective in March 2010. Due to market conditions, Redgate Media Group made a commercial decision to withdraw the prospectus in respect of the said application for listing at the end of April 2010.

In September 2011, 航美城市（北京）戶外廣告有限公司 (Hangmei City (Beijing) Outdoor Advertising Limited Company*) ("**Hangmei**") sued Beijing Yanhuang with regards to a contract dispute in relation to the contract dated 31 December 2009 entered into between Hangmei and Beijing Yanhuang ("**Hangmei Contract**"), and the Second Intermediate People's Court of Beijing delivered the following Civil Judgment (2011) Er Zhong Min Zhong Zi No. 14553:

(i) upheld the first item of the Civil Judgment Huai Min Chu Zi No. 00242 delivered by the Beijing Huairou District People's Court (i.e. the Hangmei Contract to be rescinded);

(ii) repealed the second and third items of the Civil Judgment Huai Min Chu Zi No. 00242 delivered by the Beijing Huairou District People's Court;

(iii) Beijing Yanhuang shall refund the advertising fee in the amount of RMB1 million to Hangmei within 10 days from the effective date of the said judgment; and

(iv) rejected other proceedings request of Hangmei.

Beijing Yanhuang bears the first and second trial hearing fees for the said case in the aggregate amount of RMB22,243.

The aforesaid Civil Judgment (2011) Er Zhong Min Zhong Zi No. 14553 has come into legal effect. The results of the above judgment shall be carried out by Beijing Yanhuang in accordance with the said judgment and additional payment of interest for the period of late performance outside of the stipulated time shall be made in accordance with the provisions of the Civil Procedure Law of the PRC.

As at 22 November 2011, Beijing Yanhuang has already made payment of the above mentioned hearing fees in the amount of RMB22,243, and has refunded the advertising fee in the amount of RMB500,000 to Hangmei.

Management Expertise

Redgate Ventures Group believes that one factor which can clearly differentiate it from the majority of its competitors is that Redgate Ventures Group is managed by senior media executives who all have years of experience running international media businesses in China. This allows them to bring the best practices of international media management to a local Chinese setting, one in which they have been operating for over a combined 65 years amongst the top five executives. In the Chinese media industry, particularly amongst the private companies, this level of experience is rare. The background of Redgate Ventures Group's individual executives is as follows:

Peter B. Brack, Redgate Ventures' co-founder, joined Redgate Ventures Group in 2003. Mr. Brack is the chairman of Redgate Ventures and he oversees the overall direction of the company. Mr. Brack was an executive director of One Media Group Limited whose shares are listed on the main board of the Stock Exchange (Stock Code: 426) and the chief executive officer of One Media Group from 2005 to 2008 and a non-executive director of One Media Group Limited from 2008 to 2010. Previously, he was a senior executive at Time Warner, Inc. (NYSE: TWX) for 9.5 years. Mr. Brack's latest role at Time Warner, Inc. was senior vice president of Time Inc., Asia Advertising Sales. Prior to this, Mr. Brack held positions as president of Asiaweek magazine, and vice president of Advertising Sales at Turner Broadcasting System Inc., Asia Pacific, Inc.. Mr. Brack received his Bachelor of Arts degree from Tulane University.

Ying Zhu, Redgate Ventures' co-founder, joined Redgate Ventures Group in 2003. Ms. Zhu is the president and general manager and a director of Redgate Ventures, and she oversees the day-to-day management of the business as well as the business development function. From 2003 to 2008, she was president of business development of Redgate Media Group, the former indirect holding company of Redgate Global. From 2000 to 2003, Ms. Zhu worked at STAR Group Limited, a subsidiary of News Corporation (NASDAQ: NWSA), where she was most recently director of business development, overseeing strategic alliances and investment in the television, print, internet and mobile media space in China. While at STAR Group Limited, Ms. Zhu took the lead in the establishment of a foreign-invested value-added telecommunications enterprise ("**FITE**"), for ESPN STAR Sports, which is one of China's first approved FITEs, following its accession to the World Trade Organization. Ms. Zhu brings to Redgate Ventures Group combined experiences in law and investment banking, having worked in the media and telecom group at Chase Securities in New York and Hong Kong and Sullivan & Cromwell LLP in New York and Hong Kong. Ms. Zhu holds a Master's degree in Public and Private Management from the Yale School of Management and a Bachelor of Arts degree from Wesleyan University.

Robert W.H.S. Yung, Redgate Ventures's co-founder, joined Redgate Ventures Group in 2003. Mr. Yung is the chief financial officer and a director of Redgate Ventures and he oversees the financial functions of Redgate Ventures Group. From 2003 to 2007, he was chief financial officer and in 2008 the chief marketing officer of Redgate Media Group. Mr. Yung served as an executive director and chief strategy officer of One Media Group Limited from 2005 to 2008, (Stock Code: 426). Previously, Mr. Yung was the founder and chief executive officer of One Studio Limited, a venture capital-backed Chinese software development and consulting company with operations in China, Japan and the United States. Mr. Yung worked at One Studio Limited from 1999 to 2002. Before One Studio Limited, Mr. Yung founded OSMEDIA Limited, an advertising supported cable television business in Guangdong Province, at which he worked from 1997 to 1998. Mr. Yung was also general manager of Metromedia Asia Ltd., a subsidiary of Metromedia International Group Ltd. (AMEX: MMG), a company that focused on sourcing and executing wireless telecom acquisitions in China and Indonesia, from 1995 to 1997. Mr. Yung holds a Master of Arts degree from New York University and a Bachelor of Arts degree in public policy studies with honors from the University of Chicago.

Qingchun Wang, the chief operating officer of Redgate Ventures, joined Redgate Ventures Group in 2008. Mr. Wang oversees the subsidiaries and sales function of the business. From 2006 to 2008, Mr. Wang was in charge of advertising at Beijing Boda Continent Advertising Company (Ray Li magazines), a subsidiary of Bertelsmann AG and one of China's largest magazine companies. From 2005 to 2006, Mr. Wang was vice president of Sales and Marketing at Shanghai Holdfast Technology, an online gaming subsidiary of Shanda Interactive Entertainment Limited (NASDAQ: SNDA). From 2000 to 2004, Mr. Wang worked for Yahoo! China (NASDAQ: YHOO), where he became sales director and general manager of the media business and oversaw media production and advertising sales. Mr. Wang began his career as an account executive at the international advertising agency Bridge/J. Walter Thompson, Beijing. Mr. Wang received his Bachelor's degree in Industry Trade and Social Science from Beijing Science & Technology University.

Yiping Zhang, the vice-president of Redgate Ventures and was previously the director of human resources & administration, joined Redgate Ventures Group in 2008. Ms. Zhang oversees the human resources and administrative functions of the business. Previously, She was the director of human resources & administration of Guangyuan Media Co., Ltd. from 2007 to 2008. Guangyuan Media Co., Ltd. is one of China's largest media operator on China railway trains. Ms. Zhang served as a senior human resource senior specialist during 2001 and 2004 at the Beijing representative office of NCR (China) Limited. (NYSE: NCR), a leading global technology company that helps businesses build stronger relationships with their customers. Ms. Zhang received her Master of Business Administration degree from Newport University U.S.A. in Beijing, and received a certificate of completion of English course at the Training Centre, Beijing Foreign Studies University.

Information on the Vendors

Each of the Vendors is an investment holding company. The First Vendor was incorporated on 6 July 2010 in the BVI and is engaged in the media business through its subsidiaries and its beneficial owners are Independent Third Parties comprising various funds and individuals. The First Vendor acquired 100 shares of Redgate Ventures, a shelf company, representing 100% interest in Redgate Ventures, from a BVI agent on 18 October 2010 at a nominal value of US$100. On 4 July 2011, the said 100 shares of Redgate Ventures held by the First Vendor was re-designated into 10,000 shares with a par value of US$0.01. Subsequently, on 5 July 2011, the First Vendor subscribed for an additional 9,990,000 shares at nominal value of US$99,900. On 5 July 2011, the First Vendor sold 4,500,000 shares in Redgate Ventures to the Second Vendor at a consideration of US$1.00. The Second Vendor was incorporated on 5 July 2010 in the BVI and is a special purpose vehicle incorporated for the purpose of acquiring the interest in Redgate Ventures and became a shareholder of Redgate Ventures on 5 July 2011. The Second Vendor is 51% beneficially owned by the First Vendor and 49% by Mr. Xiong Da, an individual, who is an Independent Third Party. Mr. Xiong Da was a senior officer in several state owned enterprises in the PRC for over 30 years in the areas which included light and heavy industry in the Guangdong Province prior to his retirement and has been investing in properties and different businesses after his retirement. Throughout Mr. Xiong's career, he has developed wide business connections and network in the PRC, which has and will continue to benefit Redgate Ventures Group expansion of its businesses, as Mr. Xiong has been instrumental in introducing various business opportunities to Redgate Ventures Group, including the introduction of China Alliance Commercial Post Ltd ("**China Alliance**") to Redgate Ventures Group. With respect to the media cooperation with China Alliance, Mr. Xiong Da only introduced China Alliance to Redgate Ventures Group and had no involvement in the discussion of or performance of the media cooperation agreement. The business relationship is between the management of Redgate Ventures Group and China Alliance. Please refer to page 71 under the section headed "Business of the Redgate Ventures Group – Future Development" for details of the cooperation with China Alliance. The media assets acquired through the cooperation with China Alliance are, to date, the only media assets that Mr. Xiong has assisted in securing and negotiating. Mr. Xiong was introduced to Redgate Ventures Group and the Second Vendor through mutual business associates. Mr. Xiong has never assumed and has no intention to assume any role in Redgate Ventures Group and is not the key person for the development of the business of Redgate Ventures Group. It is understood that Mr. Xiong will continue to introduce business opportunities to Redgate Ventures Group if and when business opportunities arise. As confirmed by the management of Redgate Ventures Group, the co-operation between Redgate Ventures Group and China Alliance will be a long term one and the current contract will be renewed upon expiry after the five-year term. Such practice is common in contractual arrangements and Roma Appraisals Limited considers that there is reasonable basis to assume that Redgate Ventures Group will carry on this line of business on a perpetual basis in the valuation report. As such, Redgate Ventures Group considered it beneficial to its further development to invite Mr. Xiong Da to become a shareholder of Redgate Ventures Group, and it is intended that Mr. Xiong Da will be a strategic partner of Redgate Ventures. Mr. Xiong Da had been in discussion with Redgate Ventures for a partnership since mid 2010, at which time, neither the First Vendor nor Mr. Xiong Da was a shareholder of the Second Vendor. As Mr. Xiong Da intends to be a passive investor and has no intention to take control of Redgate Ventures, it was agreed between the parties that the First Vendor should become holder of 51% interest in the Second Vendor. Mr. Xiong acquired 49% interest in the Second Vendor at nominal value at an aggregate amount of US$49 in July 2011. The Vendors and Mr. Xiong Da do not have any shareholding in or business relationship with the Company or its connected persons prior to Completion.

BUSINESS OF THE REDGATE VENTURES GROUP

Overview

Redgate Ventures is a major media investment holding company that operates primarily in China. Through its subsidiaries, Redgate Ventures operates its current business in advertising across a wide array of billboards, television airtime, and other mass media, which are all positioned to reach China's fast-growing class of increasingly-affluent domestic consumers. The management of Redgate Ventures Group has experience in operating media that Redgate Ventures Group currently operates its advertising business in, as set out in the section headed "Information on the Redgate Ventures Group and the Vendors – Management Expertise". Redgate Ventures Group provides advertising and advertising agency services to clients who advertise across a wide range of media. Redgate Ventures Group is also engaged in other advertising-related media activities such as product-placement, film consulting, and television program production. Redgate Ventures Group's latest business plan is to place more focus on the organic growth of its television advertising business than its outdoor advertising business and Redgate Ventures Group intends to continue negotiating amendments of some agreements regarding the acquisition of certain target in the television advertising business. The management of Redgate Ventures Group will continue to manage and evaluate the advertising business of Redgate Ventures Group and review its business plan to maximize its opportunities across the a wide range of media, including billboards, television airtime and other mass media. Please refer to the section headed "Business of the Redgate Ventures Group – Development Strategies".

Redgate Ventures Group operates advertising-related media nationwide in China, covering 53 cities, representing a population of over 361 million people. The majority of those media are leased under contract from state-owned or private media owners, and a minority of them is self-owned via Shanghai Hongmen. In addition, Redgate Ventures Group acts as an advertising agent, placing clients' advertisements and products into other company's media and programming. Redgate Ventures Group also acts as a producer of television programmes, assists in the creation and ownership of content, and sells advertising or product placement opportunities into that program as well. Shanghai Hongmen operates the residential light box network in Shanghai. However, as Redgate Ventures Group owns 18.354% of equity interest in Shanghai Hongmen, the revenue of Shanghai Hongmen is not consolidated into Redgate Ventures Group's revenue.

Specifically, as at 31 December 2011, Redgate Ventures Group's outdoor inventory includes over sixty large-format billboards, such as those seen at the side of highways or on top of buildings. The large format billboards are concentrated in Beijing, Wuhan, Shanghai, Hangzhou, Xuchang and Chengdu, amongst other cities. In addition to outdoor billboards, Redgate Ventures Group is also a leader in other out-of-home advertising media such as auto exhibitions and the Beijing International Airport. For example, one of Redgate Ventures' subsidiaries, Beijing Yanhuang, is a media vendor in the Beijing Auto Show in 2010 and the Shanghai and Guangzhou Auto Show in 2011, the three major auto exhibitions in China in those two years, and the designated operator of advertising in the VIP terminal of the Beijing International Airport from 22 August 2009 to 31 December 2014. Redgate Ventures Group's television inventory consists of 10.5 minutes nightly of prime-time advertising space on Shanghai Media Group's Dragon TV surrounding and during the "Select Theater" program, one of the highest-rated shows in Shanghai, from January to December 2011. Based on the 2010 ratecard, the program was rated, on average, 8.7 to 9.2. This means that 8.7 people out of 100 surveyed watched the show, and this is considered a highly-rated program. The most watched television period is from 17:30-23:30, and 19:00-22:30 (prime time) accounts for over 50% of the total viewership in a given day. The "Select Theater" program begins at 22:40 every day and targets business men, white-collars and the middle class. Redgate Ventures Group believes that the target audiences of this program have strong purchasing power and always come home late from work. It is also believed that, as the evening news begins at 22:30, the "Selected Theater" which follows on is the best time for the target audiences to receive information and entertainment, as the news leads into the so-called "prime time" viewing hours from 22:00 to 23:30.

Redgate Ventures Group's operation in respect of its outdoor advertising can generally be classified into four steps:

Step 1: identification of customers' requirements and advertising market analysis

Redgate Ventures Group's sales team, which consisted of 40 people in 2011, has regular meetings with advertisers and their advertising agencies to get briefed by them. Such briefings normally include, but not limited to, information such as the following:

- advertising campaign background;
- purpose of advertising;
- target market;

- target audience profile;
- creative work or content and the format of such work;
- advertising campaign period;
- budget allocation; and
- timeline for the project.

During this stage, the client and Redgate Ventures Group's sales team are jointly working together to further define the client's needs, and Redgate Ventures Group's sales team is also able to provide market analysis, such as competition, outdoor media environment, new regulations, and new advertising formats to allow the client to consider and make informed decisions.

Step 2: based customers' needs and budget to source media assets

Based on agreed requirements with the client, Redgate Ventures Group will start to source media assets and prepare a proposal for the client. Since the China outdoor media market is very fragmented, Redgate Ventures Group is not only sourcing the media assets alone, but working with local partners as well. Redgate Ventures Group's management and sales staff will also need to evaluate the media assets as to whether they fulfill the client's needs, both in serving the advertising objective and staying within the budget. Sometimes Redgate Ventures Group will also need to work with partners to establish new billboards in specific geographic locations.

Step 3: package media assets and propose to client

In this stage, Redgate Ventures Group will help the client come up with their outdoor media plan. Normally, the recommendation will cover various parameters of their campaign, including location, size of billboard, format, traffic, and cost, all with an aim to help the client optimize their budget and maximize their advertising impact.

Step 4: close deal and execution

Once Redgate Ventures Group has consummated a deal with its client, it will proceed with execution. Redgate Ventures Group will help the client procure the printing their advertising materials and supervise the quality of the print production. At the same time, Redgate Ventures Group also needs to co-ordinate with the local execution team in the geography where the campaign is to be run to make sure advertisements will be put up based on the schedule.

Redgate Ventures Group's operation in respect of its television advertising can generally be classified into five steps:

Step 1: identification of customers' requirements and advertising market analysis

This step is mainly preparation work for television time-slot acquisition. Redgate Ventures Group needs to collect market information and doing analysis, particularly on advertising spending in the television market, the changes in the average cost per thousand viewers (CPM), inflation, and regulations. Redgate Ventures Group also needs to learn about the customer in terms of: overall budget, target market and target audience.

Step 2: based customers' needs and budget to source media assets

Based on Redgate Ventures Group's analysis and the customer's needs, Redgate Ventures Group will start to source media assets, including talking to television stations to understand the available time-slot for leasing and more information such as rough cost structure, payment terms, and policies. In the event that the campaign is to be run on one of Redgate Ventures Group's existing time slots, then the client would proceed directly to the execution phase, where Redgate Ventures Group would agree on pricing and air the advertisement directly. Where Redgate Ventures Group acts as the agent for other time slots on other channels not under Redgate Ventures Group's management, it would then move to step 3 below.

Step 3: television time slot evaluations (return on investment analysis)

In this evaluation process, Redgate Ventures Group will analyze ratings, gross rating points, cost per rating point, the program content, and together with Redgate Ventures Group's know-how about the client, identify potential time-slot of interest. At this point, Redgate Ventures Group will either secure a few particular slots if the client's campaign is small, or potentially move on to secure a large block of advertising time if the client's campaign is large.

Step 4: participate in television station time slot bidding

Based on Redgate Ventures Group's bidding strategy, it may participate in television station time-slot bidding, and the bidding offer will take into consideration:

- time-slot;
- cost;
- rating;
- coverage;
- programs around the desired time-slot (the "environment");
- client affordability;
- forecast sell-through rate; and
- future sales price.

Step 5: sell airtime to direct clients and agencies

Redgate Ventures Group's sales team will work very closely with clients and agencies to develop a media plan based on given requirements from the client side. At the same time, Redgate Ventures Group also needs to coordinate with the local execution team in the geography where the campaign is to be run to make sure advertisements will air based on the schedule. Redgate Ventures Group will also provide post buy analysis to the client.

Redgate Ventures Group's clients comprise of advertising agencies who represent advertisers in a diverse array of industries, including automotive, technology, telecommunications, and others. These advertisers, through their agencies, buy advertising space on Redgate Ventures Group's billboards, television airtime, and other advertising media, to advertise their products. In particular, Redgate Ventures Group helps these advertisers targeting consumers in China's rapidly-growing middle class in first-tier and second-tier cities.

The distribution of billboards and other outdoor display spaces operated by Redgate Ventures Group by first, second and third-tier cities is as follows:

	As at 31 December			
	2011	**2010**	**2009**	**2008**
Billboards	69	67	63	62
Beijing	0	2	10	24
Wuhan & Hangzhou	26	30	21	6
Other Cities	43	35	32	32
Other display spaces (including Light-boxes)*	42	282	1,644	84
Beijing	1	1	1,506	11
Wuhan & Hangzhou	13	3	109	69
Other Cities	28	278	29	4

Note: A single advertisement placed on more than one billboard is counted as one billboard for the purposes of the above table.

* *Other display spaces, in 2009, included networks of 910 KTV screens, 167 rolling lightboxes in restaurants, and 296 flags on lampposts. These three networks were discontinued in 2010 because, as we are always striving to match our inventory to client's demands, these network's formats were no longer in demand by our clients after 2009. Traditional billboards generally command greater client interest than these kinds of more specialized display spaces, and so after experimenting with adding these specialized display spaces for a year, Redgate Ventures Group elected not to renew the leases when they proved less attractive to clients than had been originally hoped.*

Redgate Ventures Group's aim is to consolidate advertising media across China under one roof, allowing itself to provide an array of advertising solutions and a national footprint to its multinational clientele. In particular, Redgate Ventures Group believes that the high level of fragmentation in the media industry in China lends itself to this consolidation strategy. Redgate Ventures' subsidiaries, Beijing Yanhuang and Shanghai Dianguang both became part of the Redgate Ventures Group through acquisition, and Redgate Ventures Group believes that it can continue to make accretive acquisitions of fast-growing advertising supported media companies in China's fragmented media market. In order to integrate companies into the Redgate Ventures Group that it has acquired, the Redgate Ventures Group has an integration handbook setting out the procedural matters, including the requirement for periodic reporting on financial and operational matters, and subsidiaries of Redgate Ventures have a common accounting system. In addition, Redgate Ventures believes it has the capability to grow organically through acquiring new media concessions, as opposed to operating companies. In this way, Redgate Ventures Group can acquire new media inventory which can be sold to their existing broad base of advertising clients.

Competitive Strengths

In the highly-fragmented landscape of Chinese media companies, Redgate Ventures Group has positioned itself as a consolidator and a multi-media operator. However, due to the sheer size of the market and level of fragmentation, Redgate Ventures Group competes with other local advertising media for advertising clients. Occasionally, Redgate Ventures Group will compete with other investors for acquisitions of small to medium-sized private media companies in China.

Redgate Ventures Group has many competitive advantages, both in selling its advertising inventory and in acquiring new media resources and media companies. First, Redgate Ventures Group's key competitors in selling its inventory are primarily small, local companies. Such small local companies often only have a presence in one city or location, whereas Redgate Ventures Group has a turnover in excess of HK$250 million and inventory in 53 cities, nationwide, sold through sales offices in 5 cities. Therefore, by comparison, such small local companies are likely to have limited inventory due to limitation on locations. This is the profile of the vast majority of the thousands of private Chinese media companies. Larger local media and advertising companies with more than HK$250 million in revenues tend also to be local in scope, with a presence in several cities or locations, with the noted exception of those mentioned on page 113 under the section headed "Industry Overview – Competition". Redgate Ventures Group believes its national coverage allows it to effectively compete against these local players, regardless of their size. For the companies mentioned in the section headed "Industry Overview – Competition", they tend to specialize in other niche media types, such as LCD screens in office buildings or buses, and Redgate Ventures Group does not compete directly with them there. Advertisers are increasingly seeking national audiences for their products, and as such they desire national advertising campaigns to attract those national audiences to buy their products. Redgate Ventures Group believes it is one of few media and advertising companies in China that can effectively offer a national advertising platform to advertisers. This is a strong and compelling competitive advantage, both for the advertiser and the advertiser's advertising agency, which typically makes them directly on behalf of their client. Sometimes, clients will want to run their advertisements on media that is not part of Redgate Ventures Group's network, and in those cases, Redgate Ventures Group can act as an agency, and will procure that inventory on behalf of the client. In this way, Redgate Ventures Group can offer a blended solution, comprising its own inventory and that of others, to offer a complete package to its advertising clients.

When Redgate Ventures Group competes for media resources, it generally competes against other local players, and these can be other media companies, agencies, representatives, or even companies that are not generally in the business of advertising and media. Typically, Redgate Ventures Group's strongest competitive advantage in this case is its solid client base of multinational advertising agencies and advertising clients which are sought after by other media owners.

Major Business Partners

Redgate Ventures Group works with a variety of business partners, from media companies that provide advertising inventory to advertising agencies to whom Redgate Ventures Group sells that inventory, to advertisers who place their advertisements on Redgate Ventures Group's outdoor billboards and television airtime. Redgate Ventures Group has confirmed to the Company that there is currently no arrangement or alliance formed with its suppliers.

Redgate Ventures Group's key suppliers, the media companies from whom Redgate Ventures Group leases advertising space, include very large state-owned companies, from whom Redgate Ventures Group leases television advertising time. Currently, Redgate Ventures has one television operation via its subsidiary, Shanghai Dianguang. Shanghai Dianguang purchases its advertising airtime from Shanghai Media Group through an auction process. Shanghai Media Group has been auctioning its key airtime slots for the past two years and is believed to continue to employ this model in the future. In the outdoor division, through Beijing Yanhuang and its subsidiaries, Redgate Ventures Group leases billboard and display space from a wide variety of state-owned and private companies, including toll road operators, the Ministry of Railways of the PRC, private landlords who own the buildings on which billboards Redgate Ventures Group leases are placed, and the Beijing Airport Authority. In some cases, Redgate Ventures Group will sub-lease advertising space from other advertising agencies when there is a specific piece of inventory demanded by a client. The leasing terms of Redgate Ventures Group's outdoor advertising inventory varies according to different outdoor media formats, with the term generally ranging from several months to three years or longer.

The following tables set out the five largest suppliers of Redgate Ventures Group, the length of their business relationship with Redgate Ventures Group and the purchases made from those suppliers, for each of the year ended 31 December 2011, 31 December 2010, 31 December 2009 and 31 December 2008:

Year ended 31 December 2011

Name of Supplier	**Subsidiary**	**Length of Relationship**	**Purchases made**	**Percentage of total purchase**
			HK$'000	*(%)*
Shanghai Media Group (上海東方傳媒集團)	Shanghai Dianguang	Over 3 years	70,544	27
Saatchi & Saatchi Worldwide (盛世長城國際廣告有限公司)	Shanghai Dianguang	Over 3 years	33,873	13
Shanghai Xinyun Media Co.,Ltd. (上海新雲傳媒有限公司)	Beijing Yanhuang	1 year	30,911	12
Beijing Tianyihang Advertisng Co.,Ltd. (北京天翼航廣告有限公司)	Beijing Yanhuang	1 year	9,652	4
Shanghai Prodigy Media Town (上海人傑廣告有限公司)	Beijing Yanhuang	1 year	7,725	3
		Subtotal	152,705	59

Year ended 31 December 2010

Supplier Name	**Subsidiary**	**Length of Relationship**	**Purchases made** *HK$'000*	**Percentage of total purchases from all suppliers** *(%)*
Shanghai Media Group (上海東方傳媒集團)	Shanghai Dianguang	Over 3 years	45,402	27
Saatchi & Saatchi Worldwide (盛世長城國際廣告有限公司)	Shanghai Dianguang	Over 3 years	10,243	6
Dingxiang Century Cultural Media (Beijing) Co., Ltd. (世紀鼎翔文化傳媒(北京)有限公司)	Beijing Yanhuang	Over 3 years	7,307	4
China Business Network (財經傳媒)	Shanghai Dianguang	1 year	4,857	3
Hangzhou Shiyou Advertising Co., Ltd. (杭州世友廣告策劃有限公司)	Beijing Yanhuang	Over 3 years	3,865	2
		Subtotal	71,674	42

Year ended 31 December 2009

Supplier Name	**Subsidiary**	**Length of Relationship**	**Purchases made** *HK$'000*	**Percentage of total purchases from all suppliers** *(%)*
Shanghai Media Group (上海東方傳媒集團)	Shanghai Dianguang	Over 3 years	39,777	38
Hangzhou Shiyou Advertising Co., Ltd. (杭州世友廣告策劃有限公司)	Beijing Yanhuang	Over 3 years	4,360	4
Shanghai Yuanbo Advertising Communication Co., Ltd. (上海遠博廣告傳播有限公司)	Beijing Yanhuang	2 years	2,820	3
Shanghai Yashiwei Advertising Communication Co.,Ltd. (上海雅仕維廣告傳播有限公司)	Beijing Yanhuang	Over 3 years	2,137	2
Dingxiang Century Cultural Media (Beijing) Co., Ltd. (世紀鼎翔文化傳媒(北京)有限公司)	Beijing Yanhuang	Over 3 years	2,003	2
		Subtotal	51,097	49

Year ended 31 December 2008

Supplier Name	**Subsidiary**	**Length of Relationship**	**Purchases made** *HK$'000*	**Percentage of total purchases from all suppliers** *(%)*
Shanghai Media Group (上海東方傳媒集團)	Shanghai Dianguang	Over 3 years	14,966	44
Shanghai Yashiwei Advertising Communication Co., Ltd. (上海雅仕維廣告傳播有限公司)	Beijing Yanhuang	Over 3 years	1,688	5
Beijing Gonglian Highway Network Co., Ltd. (北京市公聯公路聯絡線有限責任公司)	Beijing Yanhuang	1 year	1,103	3
Hangzhou Shiyou Advertising Co., Ltd. (杭州世友廣告策劃有限公司)	Beijing Yanhuang	Over 3 years	1,002	3
Beijing Derun Shengshi Co., Ltd (北京德潤盛世有限公司)	Beijing Yanhuang	1 year	842	2
		Subtotal	19,601	57

Redgate Ventures Group's clients are substantially all advertising agencies, who buy advertising space, time slots, and product placements from Redgate Ventures and its subsidiaries. For the year ended 31 December 2011, Redgate Ventures Group's top advertising client categories, based on revenues derived from those categories, were automotive, information technologies, electronics, and consumer products. The ten top advertising clients from each of those categories, measured by contribution to its revenues for the year ended 31 December 2011, included leading brand names in their respective industries, such as Mercedes-Benz, Intel, Volvo, Acer and Hyundai. Redgate Ventures Group's clients generally purchase their advertising through advertising agencies, and such advertising agencies include Kinetic Advertising Co. Ltd., DDB Advertising Co. Ltd., Saatchi & Saatchi, Century BAC Advertising Co. Ltd., and Leo Burnett Co., Ltd.

Targets: Customers & Audience

Redgate Ventures Group's existing advertising clients are primarily international and domestic corporations, including leading brand names in their respective industries, such as Mercedes-Benz, Ford, SAP and Lenovo. They often purchase advertising through advertising agencies. Redgate Ventures Group has long-term relationships with advertising agencies, including Saatchi & Saatchi Worldwide, DDB Advertising Co. Ltd., Shanghai Firstell Communications Co., Ltd., Shanghai CBB Branding Co., Ltd. and Guangdong Carat Advertising Co., Ltd. Redgate Ventures Group has confirmed to the Company that there is currently no arrangement with domestic advertising agencies and advertisers, and no strategic alliance, cooperation or joint venture formed with its customers.

The following tables set out the five largest customers of the Redgate Ventures Group, the length of their business relationship with the Redgate Ventures Group and the sales contributed from those customers, for each of the year ended 31 December 2011, 31 December 2010, 31 December 2009 and 31 December 2008:

Year ended 31 December 2011

Customer Name	Subsidiary	Length of Relationship	Sales contributed	Percentage of total sales from all customers
			HK$'000	*(%)*
Kinetic Advertising (Shanghai) Co. Ltd.* (凱帝珂廣告(上海)有限公司)	Beijing Yanhuang	Over 3 years	33,661	12
DDB Advertising Co. Ltd. (北京恒美廣告有限公司)	Shanghai Dianguang and Beijing Yanhuang	Over 3 years	29,426	11
Saatchi & Saatchi Worldwide (盛世長城國際廣告有限公司)	Shanghai Dianguang and Beijing Yanhuang	Over 3 years	17,077	6
CENTURY BAC Advertising Co., Ltd (北京世紀北廣廣告有限公司)	Shanghai Dianguang and Beijing Yanhuang	Over 3 years	16,555	6
Shanghai Yangtze Advertising Co., Ltd (上海先河文化傳播有限公司)	Shanghai Dianguang	1 year	13,354	5
		Subtotal	110,073	40

Year ended 31 December 2010

Customer Name	**Subsidiary**	**Length of Relationship**	**Sales contributed** *HK$'000*	**Percentage of total sales from all customers** *(%)*
DDB Advertising Co. Ltd. (北京恒美廣告有限公司)	Shanghai Dianguang and Beijing Yanhuang	Over 3 years	33,038	13
Kinetic Advertising (Shanghai) Co. Ltd.* (凱帝珂廣告(上海)有限公司)	Beijing Yanhuang	Over 3 years	23,861	10
Firstell Communications (上海斐思態廣告有限公司)	Shanghai Dianguang	Over 3 years	16,239	7
Saatchi & Saatchi Worldwide (盛世長城國際廣告有限公司)	Shanghai Dianguang	Over 3 years	14,509	6
Leo Burnett Advertising Co.,Ltd (上海李奧貝納廣告有限公司)	Shanghai Dianguang	Over 3 years	13,650	6
		Subtotal	101,297	42

Year ended 31 December 2009

Customer Name	**Subsidiary**	**Length of Relationship**	**Sales contributed**	**Percentage of total sales from all customers**
			HK$'000	*(%)*
Leo Burnett Advertising Co.,Ltd (上海李奧貝納廣告有限公司)	Shanghai Dianguang	Over 3 years	17,904	10
DDB Advertising Co. Ltd. (北京恒美廣告有限公司)	Shanghai Dianguang and Beijing Yanhuang	Over 3 years	17,427	9
CBB Branding Group (上海映雪堂廣告有限公司)	Shanghai Dianguang	Over 3 years	11,666	6
Beijing Shoushantang Advertising Ltd. (北京首善堂廣告有限公司)	Beijing Yanhuang	Over 3 years	11,024	6
Mercedes-Benz (梅賽德斯－賓士(中國)汽車銷售有限公司)	Beijing Yanhuang	Over 3 years	9,960	5
		Subtotal	67,981	36

Year ended 31 December 2008

Customer Name	**Subsidiary**	**Length of Relationship**	**Sales contributed**	**Percentage of total sales from all customers**
			HK$'000	*(%)*
Mercedes-Benz (梅賽德斯－賓士(中國)汽車銷售有限公司)	Beijing Yanhuang	Over 3 years	4,646	9
Portland Outdoor (寶林廣告(上海)有限公司)	Shanghai Dianguang and Beijing Yanhuang	Over 3 years	4,550	9
CBB Branding Group (上海映雪堂廣告有限公司)	Shanghai Dianguang	Over 3 years	3,380	7
Guangdong Carat Advertising Co., Ltd. (廣東凱絡廣告有限公司)	Shanghai Dianguang	Over 3 years	2,971	6
J.Walter Thompson/Bridge Advertising Co., Ltd (智威湯遜中喬廣告)	Shanghai Dianguang	Over 3 years	2,742	6
		Subtotal	18,289	37

Redgate Ventures Group's target customers exist on two levels. Firstly, there are the advertising agencies: both the multinational agencies (the "**4A's**") and the domestic agencies. These comprise the majority of the customers of Redgate Ventures and its subsidiaries. The second level of customer is the advertiser, and the advertiser usually hires an advertising agency to both create their advertisement and also to plan and buy the media on which that advertisement will be shown. Typical advertisers are large corporations, either Chinese or multinational, with national business interests in China targeting China's rising middle class of consumers.

For Redgate Ventures Group's agency business, the customer base consists of the same two levels mentioned above. In the production business, the customer base is divided between those who buy advertising and those who buy the program. The advertising is bought by the 4A's and the domestic agencies, and the programs are generally bought by the state-owned broadcast networks for airing on their channels. The Board believes that these programs and program formats can also be exported to other Chinese-speaking and non-Chinese speaking markets in the future.

Core Team

Redgate Ventures Group's core team for providing its outdoor advertising services comprises of:

- Mr. Yigang Zhao, aged 40, the general manager of Beijing Yanhuang. Mr. Yigang Zhao joined Redgate Ventures Group in 2008 and is responsible for the outdoor advertising business of Redgate Ventures Group as the general manager of Beijing Yanhuang. Mr. Yigang Zhao has worked as the general manager of Beijing Yanhuang since 2000. Mr. Yigang Zhao has over 16 years of experience in the media industry and had previously worked at the China International Trust and Investment Corporation as the project manager from 1995 to 1998, Beijing YiRen Advertising Company as account director from 1998 to 1999, and the 北京博泰隆廣告公司 (Beijing Botai Long Advertising Company*) as general manager from 1999 to 2000. Mr. Yigang Zhao graduated from the School of Textile Engineering of Beijing Union University in industrial management and engineering;

- Mr. Youyi Wang, aged 38, the vice general manager of Beijing Yanhuang. Mr. Youyi Wang joined Redgate Ventures Group in 2008 and is responsible for the outdoor advertising business of the Redgate Ventures Group as the vice general manager of Beijing Yanhuang. Mr. Youyi Wang has worked as the vice general manager of Beijing Yanhuang since 2000. Mr. Youyi Wang has over 16 years of experience in marketing and sales in the media industry and had previously worked at 北京四達科技發展有限公司 (Beijing Sida Technology Development Co., Ltd.*) as the sales specialist from February to July 1995, IBM (China) Corporation as senior administrator from 1995 to 2001, and 北京大唐盛世廣告中國有限公司 (Beijing Datang Shengshi Advertising Company Limited*) as vice general manager from March to August 2001. Mr. Youyi Wang holds an Executive Master of Business Administration degree from the School of Economics and Management of Tsinghua University; and

- Mr. Ting Li, aged 38, the vice general manager of Beijing Yanhuang, Mr. Ting Li joined Redgate Ventures Group in 2008 and is responsible for the outdoor advertising business of Redgate Ventures Group as the vice general manager of Beijing Yanhuang. Mr. Ting Li has worked as the vice general manager of Beijing Yanhuang since 2000. Mr. Ting Li has over 12 years of experience in the media industry and had previously worked at Publicis Advertising Co., Ltd. as account manager from 1998 to 2000, and RSC (Radio Spares) Components Group as the North China marketing manager from August 2000 to July 2001. Mr. Ting Li holds a Bachelor of Arts degree specialising in advertising from the Peking University.

Redgate Ventures Group's core team for outdoor advertising services is experienced in the operation of outdoor media that Redgate Ventures Group provides, including the operation of light-boxes and pillar billboards in the city and along freeways. The team is also experienced in working with the 4A's, who have long-term business relationship with Beijing Yanhuang.

Redgate Ventures Group's core team for providing its television advertising services comprises of Mr. Fan Jinyu, the general manager of Shanghai Dianguang, who has over 20 years of experience in television advertising and in the media industry. Mr. Fan Jinyu, aged 53, joined Redgate Ventures Group in 2008 and is responsible for the television advertising business of Redgate Ventures Group as the general manager of Shanghai Dianguang. Mr. Fan Jinyu has worked as the general manager of Shanghai Dianguang since 2000, and had previously worked at the Shanghai Television Station in the social education department as the vice manager of the advertising department, division II from 1978 to 1999. Mr. Fan Jinyu graduated from 上海房地產高級技術培訓中心 (Shanghai Real Estate Advanced Skill Training Centre*) and 上海市志長中學 (Shanghai Zhichang High School*). Redgate Ventures Group's core team for television advertising services is experienced in the operation of television media that Redgate Ventures Group provides, including selling of advertising time of television programmes and daytime advertising times. The team is also experienced in working with the 4A's, including J. Walter Thompson, Beijing, Guangdong Carat Advertising Co., Ltd., DDB Advertising Co., Ltd., McCann – Erickson and the Guangzhou branch of Beijing Dentsu Advertising Co., Ltd.

Pricing Strategy

The Redgate Ventures Group's pricing strategy for outdoor advertising depends on the cost of media assets, expenses and competition. When considering the following factors of Redgate Ventures Group's pricing strategy:

- **cost of media assets**, the location of the media asset, the volume of the media asset and the market for the media asset will be taken into consideration;

- **expenses**, the cost of sale, selling expenses and administrative expenses will be taken into account; and

- **competition**, the location of the media asset, the quality of the media asset, the scope of geographic network coverage, and the type of customers will be taken into consideration.

The Redgate Ventures Group's pricing strategy for television advertising depends on the rating, coverage, cost per rating point and competition. When considering the following factors of Redgate Ventures Group's television advertising pricing strategy:

- **rating**, the commercial broadcasting time slot and the rating of the program where the time slot will be positioned will be taken into consideration;

- **coverage**, the geographic coverage of the television program, the commercial broadcasting time slot (whether during prime time), and the targeted audience will be taken into account;

- **cost per rating point**, the targeted audience, the commercial broadcasting time slot and the rating of the program where the time slot will be positioned, the cost for the commercial time slot, selling expenses and administrative expenses will be taken into consideration; and

- **competition**, the scope of geographic coverage of the television program, the rating of the program where the time slot will be positioned, and the type of customers will be taken into consideration.

Since Redgate Ventures Group secures its inventory, its media assets, via long term contracts, which range from one to 25 years, but typically one to three years, this enables it to negotiate favourable pricing due to its time and volume commitment. As a result, Redgate Ventures Group has strong pricing power in the market. As media becomes more widely used in China, as multinational and domestic companies are increasing their efforts to attract Chinese consumers, the cost of media increases as well. It has been the experience of Redgate Ventures Group, over nearly a decade of operations, that media cost increases can, in most cases, be passed on directly to clients, thereby leaving profit margins intact.

Lastly, when Redgate Ventures Group bids on new media inventory, it believes that its brand reputation in the market can often allow it to not have to be the highest bidder in a competitive situation, thereby allowing the company to keep costs down and margins intact.

Development Strategies

Redgate Ventures Group has identified the following strategies in line with its goal of becoming the leading consolidated media holding company in China:

Organic Expansion of Existing Media Assets

Redgate Ventures Group's existing portfolio of media assets has in itself substantial organic growth prospects:

Television Advertising Platform. Redgate Ventures Group continues to evaluate further opportunities to enter into contracts with additional television stations to broaden the range of television channels, programs and geographies for which it sells advertising time as the exclusive advertising agent. In addition, it strives to increase the utilization of the advertising time slots on those channels. The management of Redgate Ventures Group plans to use its existing business model to make a transition in its television business from the first-tier cities to second-tier cities.

Commercial Billboard and Display Network. While continuing to seek opportunities to expand Redgate Ventures Group's inventory in the key metropolitan areas, it will also branch out into other selected cities with high growth potential that may offer opportunities to establish or strengthen its local market leadership. Redgate Ventures Group may also explore expanding its network to include other types of complementary advertising displays.

Residential Light-box Network. Redgate Ventures Group continues to increase the number of its residential light boxes in Shanghai, and it is also exploring the possibility of introducing this type of media format to other major cities in the future.

Broadening of In-House Content Production

Redgate Ventures Group believes that popular content has significant scalability and constitutes an important attraction for its advertising clients. In light of the aforesaid, Redgate Ventures Group intends to further expand its content production capabilities, working with partners like CCTV and others in generating more television programming and potentially investing in other television production companies. Redgate Ventures Group believes that building a library of attractive content may also help to reduce its media assets acquisition costs in transactions such as exchange of content for advertising time slots. In addition, Redgate Ventures Group has its own central sales team and will continue to apply its in-house media buying and placement and advertising consulting expertise to assist clients in other media, including the internet.

Opportunistic Acquisitions to Strengthen Position in Fragmented Markets

The media and advertising market in China remains highly fragmented, and the Redgate Ventures Group has observed that the majority of media and advertising companies are regionally focused with relatively few attaining national level. Redgate Ventures Group believes it is well positioned to continue creating value through the assimilation of additional high-quality acquisitions within the television, outdoor, internet and other media services sectors. Redgate Ventures Group plans to identify, execute and integrate acquisitions to build further scale and enhance its reach. Towards this end, Redgate Ventures Group continually evaluates strategic acquisition opportunities that Redgate Ventures Group believes will enhance its market position. When evaluating potential acquisition targets, Redgate Ventures Group will consider factors such as market position, growth potential and earnings prospects and strength and experience of management.

Product Extension into Internet Media

Redgate Ventures Group has operated internet-related media in the past, and all members of Redgate Ventures' senior management have experience in running internet businesses in China in the past. The internet is fast becoming a key media outlet, and Redgate Ventures Group intends to utilize this medium to its fullest extent. A key strategy for Redgate Ventures Group is to extend the reach of its existing advertisers and content through the internet, and an example of this is television production. Redgate Ventures Group is currently engaged in a co-production with CCTV, that will not only be shown on national television, but is also earmarked for distribution through streaming video websites and mobile smartphone devices. In addition, Redgate Ventures Group will be producing custom smartphone "apps" for advertisers and content partners to cross-promote the advertisers and the program that they are sponsoring. Redgate Ventures Group will continue to identify these kinds of brand extensions, and does not rule out the possibility of making strategic acquisitions of internet companies where the opportunity arises.

Further Building Our Brand Recognition

Redgate Ventures plans to continue to promote its brands to advertisers and consumers. Redgate Ventures' goal is to further establish the perception of "Redgate" as synonymous with a national media platform that reaches higher-income demographics in China. Redgate Ventures believes that enhancing its brand name will help raise market awareness of its services, which will in turn help it to strengthen and broaden its client base and increase its advertising revenues. In addition, being a strong brand name may also give it a competitive advantage in the acquisition of desirable media assets.

Our PRC legal advisers, Zhong Lun Law Firm, have advised that the development strategies of Redgate Ventures Group as set out above, do not conflict with the laws and regulations of the PRC that are currently in force as at the Latest Practicable Date, and that Redgate Ventures Group can implement its aforesaid strategies in accordance with the procedures stipulated and the manner permitted under the laws and regulations of the PRC.

Cost Components of Redgate Ventures Group's Business

As a servicing business, Redgate Ventures does not invest large amounts in fixed assets, so the biggest component of the cost side of the business is inventory (Please refer to the sub-section "Future Developments" below for further details on the media inventory kept). Redgate Ventures Group generally makes pre-payments to media suppliers for the inventory that it contracts. Depending upon the type of inventory, those prepayments can be anywhere from a month to a quarter to a year in advance. Quarterly and semi-annual prepayments would generally be the norm in Redgate Ventures Group's industry, with the exception of large media providers such as CCTV and Shanghai Media Group requiring a full year in advance. For the year ended 31 December 2011, inventory costs represented 92% of total expenses of Redgate Ventures Group. The second-largest cost is human resources, but for the year ended 31 December 2011, human resources expenses only represented 3% of total expenses of Redgate Ventures Group.

Future Development

Redgate Ventures plans to continue growing organically and continue making accretive acquisitions.

Organic growth will include:

1. increasing the amount of inventory under the management of the existing subsidiaries, such as increasing the number of billboards or the number of minutes of advertising time on television;

2. increasing the rates that Redgate Ventures Group charges advertisers to advertise on its media inventory as well as the rate of sell-through, or the occupancy of that inventory;

3. increasing the amount of inventory under the management of the corporate advertising sales team, as opposed to the subsidiaries' advertising sales teams. Typically this central sales team not only assists subsidiaries to sell or cross-sell their inventory, but also represents clients on special projects, such as product placement opportunities or sponsorship that is not necessarily the primary product of one of its subsidiaries; and

4. acquiring new concessions. This is a key organic growth strategy, by which Redgate Ventures can increase the assets under management without having to acquire a company, as Redgate Ventures Group can bid on new concessions that become available and then utilize either its central sales team or its subsidiaries' sales teams to sell the inventory.

In line with Redgate Ventures' organic growth plans, Redgate Ventures Group is engaged in a television program co-production with CCTV-IMG, a subsidiary of CCTV, invested in by GMP, supported by the China Football Association and the British Football Association, and whose exclusive advertising agency is Redgate Interactive. The said co-production is for a term of 10 years, commencing from November 2011 to November 2021, and for the purpose of co-producing a sports entertainment television series (the "**Program**"). GMP is responsible for funding all the costs (including production fees, promotion, and broadcast fees), CCTV-IMG is responsible for production of the Program, and Redgate Interactive is responsible for and has the right to sell all advertising time-slots and space relating to the Program.

The Program is targeted at Chinese viewers who enjoy watching football, as well as those interested in British and Chinese culture. The target advertisers include all the major international companies that are already active in football sponsorship in the United Kingdom and China, as well as those active in advertising on television in China, such as fast moving consumer goods (FMCG) companies. The Program will be marketed to viewers through online and traditional media, with the latter being focused on CCTV-IMG. Redgate Ventures Group will market the Program to advertisers and sponsors through its existing advertising sales teams, as well as on a senior level from Redgate Ventures' executives directly to advertising agency executives. As Redgate Ventures Group has an existing advertising sales team who will market the Program, Redgate Ventures Group has no current plan to expand its operation team. Redgate Ventures Group is currently in negotiations with clients in the airline, automotive, electronics, and fast moving consumer goods sectors regarding sponsorship opportunities.

The Program will consist of 17 weekly episodes of approximately one hour in length, for a total initial series of 960 minutes. The net income from advertising will be divided between GMP and CCTV-IMG as to 60% and 40%, respectively. Redgate Interactive will receive a 15% commission on any advertising revenue it generates for the Program. All revenue generated from short message service (SMS) or online voting will belong to GMP, and Redgate Interactive will receive a 10% management fee on the said total revenue. Any fees from the online downloading of content relating to the Program will be jointly borne by Redgate Interactive and GMP.

The Redgate Ventures Group has also signed a media cooperation agreement with China Alliance, pursuant to which, the said parties will cooperate to operate the liquid crystal display ("**LCD**") screens located in post offices in Guangdong Province for a term of five years. China Alliance has the exclusive right from the Guangdong Post Office for LCD advertising in their post offices. China Alliance designated Redgate Ventures Group as the exclusive distributor under the said agreement to operate the advertisements and source advertisers in respect of the post office media network in Guangdong Province that are owned by China Alliance. Redgate Ventures Group has agreed to a 50% share on the advertising revenue with China Alliance based on the actual advertising revenue from this business. One programming "loop" consists of 15 minutes, and it is divided into 3 minutes for the Guangdong Post, 2 minutes for the subsidiaries of the Guangdong Post, and 10 minutes for China Alliance. There are no commercial competitors in the Guangdong Post offices. The typical traffic volume in the post offices where the LCD screens are installed is 33 million customers per month, according to data provided by China Post. The target customers include major advertising agencies and corporate advertisers, with a particular emphasis on those with a large presence in Guangdong Province, such as Guangzhou Honda, TCL, Fuli Real Estate, and Hengda Real Estate. The advertising clients and their agencies are responsible for the production of their advertisements. Redgate Ventures Group is currently in discussions with advertising agencies in respect of the LCD screens.

The distribution of the said LCD screens in post offices is as follows:

	No. of post offices at which the LCD screens are installed	**No. of LCD screens**
Guangzhou	263	364
Shenzhen	694	798
Dongguan	290	460
Zhongshan	80	92
Zhuhai	77	128
Qingyuan	96	158
Total	1,500	2,000

Redgate Ventures' plan to acquire additional billboards is not governed by a fixed long term plan, but by client demand. In line with Redgate Ventures Group's four steps of operation of its outdoor advertising as set out on pages 49 to 50 under the section headed "Business of the Redgate Ventures Group – Overview", Redgate Ventures grows its inventory in a conservative, organic manner by working with clients to find out where they are expanding their businesses on a periodic basis, and how they plan to spend their marketing and advertising budgets. Once Redgate Ventures is able to ascertain where billboards will be demanded, Redgate Ventures will then look to that area to acquire more inventory. Since client demand is driven by their own business performance, Redgate Ventures cannot predict where its new inventory will be a year or more from now. This is a process that generally evolves on a continuous basis, and Redgate Ventures is constantly responding to client needs as they arise.

As part of Redgate Ventures' organic growth plans, it intends to acquire new airtime slots. These slots will be on provincial television stations in Central and Eastern China, and the purchase costs will range from RMB6 million to RMB30 million per year, as noted below. Based on Redgate Ventures' experience, their proposed timetable of such development plans is set out in the following tables:

Plan No.	Television Channel Category	Mode of Acquisition	Advertising minutes per day/ broadcasting time	Average Rating *(%)*	Approximate Population Coverage *(million)*
1.	Life and education programmes	Acquisition of programme advertising time from a television channel of a provincial television station *(Note 1)*	47 minutes/17:00 to 21:00 (prime time)	0.2	8
2.	Sports, or literature and art programmes	Acquisition of an exclusive advertising agency of the entire television channel of a provincial television station *(Note 2)*	228 minutes/06:00 to 01:00 (next day) *(Note 6)*	0.1 to 0.2	9
3.	Sports, or literature and art programmes	Acquisition of an exclusive advertising agency of the entire television channel of a provincial television station *(Note 3)*	204 minutes/07:00 to 24:00 *(Note 6)*	0.1	8
4.	Science and education programmes	Acquisition of programme advertising time from a television channel of a provincial television station *(Note 4)*	45 minutes/17:00 to 19:00 or 21:30 to 24:00 (inferior prime time)	0.1	11
5.	Science and education programmes	Acquisition of programme advertising time from a television channel of a provincial television station *(Note 5)*	36 minutes/17:00 to 19:00 or 21:30 to 24:00 (inferior prime time)	0.1	30

Notes:

1. The purchase cost is expected to be RMB6 million for year 2012 and will increase with sales.
2. The purchase cost is expected to be RMB30 million for year 2012 and will increase with sales.
3. The purchase cost is expected to be RMB20 million for year 2013 and will increase with sales.
4. The purchase cost is expected to be RMB6 million for year 2014 and will increase with sales.
5. The purchase cost is expected to be RMB8 million for year 2015 and will increase with sales.

6. During the broadcasting hours, Redgate Ventures Group should have rights to structure its advertising time based on their needs. According to the PRC regulations, the total advertising time shall not exceed 20% of broadcasting hours.

Plan No.			Proposed Agency Period			
	2011	2012	2013	2014	2015	2016
1.	0	9 months *(Note 1)*	12 months	12 months	12 months	12 months
2.	0	6 months *(Note 2)*	12 months	12 months	12 months	12 months
3.	0	0	9 months *(Note 3)*	12 months	12 months	12 months
4.	0	0	0	6 months *(Note 4)*	12 months	12 months
5.	0	0	0	0	12 months *(Note 5)*	12 months

Notes:

1. The agency period should start from April in 2012 and will last 5 years. During the agency period, the contract will be renewed and reviewed annually.

2. The agency period should start from July in 2012 and will last 5 years. During the agency period, the contract will be renewed and reviewed annually.

3. The agency period should start from April in 2013 and will last 3 to 5 years. During the agency period, the contract will be renewed and reviewed annually.

4. The agency period should start from July in 2014 and will last at least 3 years. During the agency period, the contract will be renewed and reviewed annually.

5. The agency period should start from January in 2015 and will last at least 3 years. During the agency period, the contract will be renewed and reviewed annually.

Manpower

TV Channel	2011	2012	2013	2014	2015	2016
			(Headcount)			
Shanghai TV Drama Channel	12.0	12.0	12.0	13.0	13.0	13.0
Plan No. 1	N/A	2.0	3.0	3.0	3.0	3.0
Plan No. 2	N/A	11.0	23.0	23.0	23.0	23.0
Plan No. 3	N/A	–	7.0	8.0	8.0	8.0
Plan No. 4	N/A	–	–	1.0	3.0	3.0
Plan No. 5	N/A	–	–	–	2.0	2.0

Office expansion

TV Channel	2011	2012	2013	2014	2015	2016
			(m^2)			
Shanghai TV Drama Channel	107.41	107.41	107.41	107.41	107.41	107.41
Plan No. 1	N/A	62.45 *(Note)*	62.45	62.45	62.45	62.45
Plan No. 2	N/A	302.95 *(Note)*	591.91	591.91	591.91	591.91
Plan No. 3	N/A	–	176.53 *(Note)*	176.53	176.53	176.53
Plan No. 4	N/A	–	–	34.58 *(Note)*	64.50 *(Note)*	64.50
Plan No. 5	N/A	–	–	–	51.60 *(Note)*	51.60

Note: New office areas.

Redgate Ventures Group's key milestones for the years 2012 to 2016 are as follows:

	2012	2013	2014	2015	2016
Outdoor Segment	• Slowly increase billboard inventory • Renew Autoshow inventory • Increase LCD screen inventory in Post Offices • Increase LCD screen occupancy by 1%	• Slowly increase billboard inventory • Renew Autoshow inventory • Increase LCD screen inventory in Post Offices • Increase LCD screen occupancy by 1%	• Slowly increase billboard inventory • Renew Autoshow inventory • Increase LCD screen inventory in Post Offices • Increase LCD screen occupancy by 1%	• Slowly increase billboard inventory • Renew Autoshow inventory • Renew Airport VIP Lounge inventory • Increase LCD screen inventory in Post Offices • Increase LCD screen occupancy by 1%	• Slowly increase billboard inventory • Renew Autoshow inventory • Increase LCD screen inventory in Post Offices • Increase LCD screen occupancy by 1%
Television Segment	• Continue growing TV ad agency business by 3% per annum • Secure airtime inventory on two provincial channels	• Continue growing TV ad agency business by 3% per annum • Secure airtime inventory on one additional provincial channel	• Continue growing TV ad agency business by 3% per annum • Secure airtime inventory on one additional provincial channel	• Continue growing TV ad agency business by 3% per annum • Secure airtime inventory on one additional provincial channel	• Continue growing TV ad agency business by 3% per annum

Acquisitions may include:

1. acquiring additional outdoor billboard and display companies in similar or complementary locations as those operated through its subsidiary, Beijing Yanhuang;

2. acquiring additional television advertising time slots, similar to the ones operated through its subsidiary, Shanghai Dianguang but in different cities around the country;

3. acquiring other advertising related businesses, such as advertising sales organisations, or media operators with high-value inventory or concession rights; and

4. acquiring internet media or internet advertising related businesses, which tend to be complementary to existing so-called traditional media businesses such as the ones already under Redgate Ventures Group's operation.

Redgate Ventures Group will generally take into account the following criteria when making any acquisitions of companies:

1. they must be accretive;

2. they must be profitable;

3. they must have strong leadership;

4. they must have a demonstrable track record; and

5. they must have a defensible niche for the media property or service.

Redgate Ventures Group believes that the financial crisis of 2008 to 2009, as well as the difficult market conditions in the United States for many listed Chinese small-cap companies has helped to rationalize the market in China for making acquisitions of private media companies. This means that the prices sought by those companies has come down substantially, and Redgate Ventures' management believes that now is one of the best times that they have seen since the severe acute respiratory syndrome crisis for making quality, accretive acquisitions.

In line with Redgate Ventures' acquisition plan and criteria as mentioned above, prior to the restructuring of Redgate Ventures Group, Redgate Ventures Group and Redgate Media Group, the former indirect holding company of Redgate Global, entered into an equity transfer agreement and a subscription agreement to acquire 100% equity interests in Yarun, an independent television advertising sales company, from Weidong Zhu, Zhenhui Wang and Wenhua Cao, who are all founders of Yarun an independent third parties, on 12 June 2009. Please refer to page 39 for details of the restructuring of Redgate Ventures Group. Yarun is an advertising sales company, based in Shanghai, which sells advertising time slots to advertisers and/or their agencies, which are primarily large multinational advertising agencies. Yarun sources these time slots from provincial and local television stations in China for which it prepays and owns the inventory under contract. Yarun then resells that inventory to its clients. The business model of Yarun is similar to that of Shanghai Dianguang (see "Business of the Redgate Ventures Group – Overview", pages 48 to 53 and "Business of the Redgate Ventures Group – Major Business Partners", page 55). The unaudited pre-tax income based on PRC accounting standard of Yarun in 2009, 2010 and the six months ended 30 June 2011 were RMB23 million, RMB38 million, and RMB21 million, respectively, and the unaudited net profit based on PRC accounting standard during that period were RMB17 million and RMB29 million respectively. The unaudited net asset value based on PRC accounting standard of Yarun in 2009, 2010 and the six months ended 30 June 2011 were RMB36 million, RMB64 million and RMB85.7 million, respectively. The said equity transfer agreement and subscription agreement are not subject to any long stop date. The aggregate consideration consisted of (i) cash payment of approximately HK$3,613,000 (equivalent to RMB3,000,000); and (ii) contingent consideration calculated primarily using the net income to be reported in Yarun's audited financial statements for each of the three consecutive years from the year of public listing of Redgate Media Group's or Redgate Ventures Group's shares ("**Contingent Periods**") with the weights at 40%, 40%, and 20% respectively and a specified price-to-earnings multiple range of 6 to 8 depending on the annual increase in Yarun's net income during the Contingent Periods, provided that Yarun's annual net income during the Contingent Periods meet the pre-determined profit performance targets as stipulated in the subscription agreement. Those profit targets for the years ending 31 December 2011, 2012, and 2013 are RMB19.77 million, RMB22.74 million, and RMB26.15 million, respectively. The contingent consideration may be settled in cash or by issuing Redgate Media Group's or Redgate Ventures Group's listed common shares upon the sole discretion of Redgate Ventures Group.

As Redgate Ventures Group will be a subsidiary of the Company upon completion, Redgate Ventures Group's shares will not be considered as being listed under the equity transfer agreement and the subscription agreements signed with Yarun. It is Redgate Ventures' intention to continue negotiating amendments to these agreements following the Completion, and will after the Completion make appropriate disclosures in compliance with the GEM Listing Rules as and when necessary. Redgate Ventures Group has not negotiated amendments to the agreements prior to the Completion because Redgate Ventures Group believes that they will be able to negotiate a better deal for Redgate Ventures Group and the Company after the Completion. If Redgate Ventures Group fails to complete any of the conditions precedent under the equity transfer agreement and the subscription agreement, and also fails to renegotiate those same points, it is possible that the acquisition of Yarun may not complete. It is Redgate Ventures Group's intention to complete the acquisition of Yarun and Redgate Ventures Group will use its best endeavours to fulfill the said conditions precedent.

As the conditions for acquiring the equity interests in Yarun have not been met, the acquisition of Yarun has not been completed up to the Latest Practicable Date, and no asset or liability of Yarun has been recorded in the financial statements of Redgate Ventures Group as at end of each of the reporting periods. The conditions for the completion of the acquisition include: the public listing of Redgate Media Group or any of its wholly-owned subsidiaries on an overseas stock exchange, collection of the accounts receivable of Yarun, a complete set of audited accounts of Yarun for the year prior to the public listing of Redgate Media Group or any of its wholly-owned subsidiaries, shareholder's approval of the transaction by the listed company, board approval by the listed company, government approval, SAIC registration of the equity transfer of Yarun, an undertaking that the representations and warranties are all true and correct, no breaches of any warranties, and minimum advertising sales agency agreements with certain television channels, all of which, except for the public listing of Redgate Media Group or any of its wholly-owned subsidiaries, can be waived. As the consideration for the said acquisition consists of a contingent element, the directors of Redgate Ventures Group are not able to assess the financial impact arising from the said acquisition on Redgate Ventures Group or the Enlarged Group as at the time being. However, once the acquisition of Yarun is completed, Yarun will become a wholly-owned subsidiary of Redgate Ventures Group, and its assets, liabilities and financial results will be fully consolidated into the Enlarged Group. Please refer to Appendix II – Financial information of Redgate Ventures Group, section C, note 32(c) for details of the acquisition and contingent consideration.

As mentioned above, Redgate Ventures Group will use its best efforts to negotiate amendments the said equity transfer agreement and the subscription agreement, including revisions to certain conditions precedent referred to above. As the acquisition of Yarun is expected to take place and complete after Redgate Ventures has been acquired by the Company, the acquisition of Yarun at such time will be made by the Group instead. Accordingly, when the Group acquires Yarun, the Group will have to comply with all relevant requirements under the GEM Listing Rules and express terms requiring compliance with the GEM Listing Rules will be included in the said agreements to be negotiated.

Our PRC legal advisers, Zhong Lun Law Firm, have advised that the future development plans of Redgate Ventures Group as set out above, do not conflict with the laws and regulations of the PRC that are currently in force as at the Latest Practicable Date, and that Redgate Ventures Group can carry out its aforesaid plans in accordance with the procedures stipulated and the manner permitted under the laws and regulations of the PRC.

REASONS AND BENEFITS OF THE ACQUISITION

The Group is currently principally engaged in the development and sale of intelligent home electronic application system and development of outdoor advertising industry in the PRC.

The performance of the intelligent system business of the Group has been declining since the 2008 world economic turmoil. This is because the Group mainly provided its services to residential properties in the PRC upon completion of the construction and with the economic downturn, the number of real estates completed also decreased. 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.

The Group currently, through its subsidiaries, Shijiazhuang Xunhua and Shijiazhuang Enjian, engages in the business of design, production and publication of outdoor advertisements in the PRC, as discussed in the section headed "The Plan and Intention of the Group's Existing Business – Outdoor advertising business in the PRC". Shijiazhuang Xunhua and Shijiazhuang Enjian derive revenue from the contracts for displaying advertisements on bus bodies and bus stations, which is similar to the way Redgate Ventures Group derives revenue from contracts for displaying outdoor advertisements on billboards. Hence, there is a synergy between the present business of the Group and that of Redgate Ventures Group, in terms of business model and source of revenue.

Redgate Ventures Group entered into the advertising business in 2008. As the business nature of the new businesses, as set out in the section headed "Future Development", is similar to the existing business of Redgate Ventures Group, the management of Redgate Ventures Group plans to use its existing business model to develop new businesses, including (i) making a transition in its television business from the first-tier cities to second-tier cities; (ii) introducing several new initiatives in the outdoor advertising segment; and (iii) introducing new initiatives similar to the cooperation with CCTV-IMG and GMP.

Redgate Ventures Group had successful developments in previous years and coupled with the experience and familiarity of the management of Redgate Ventures Group in the television and outdoor advertising business in the PRC, the Company believes the business and operating risk for the new business development is remote. The Group will expand its sales team to support the development of Redgate Ventures Group.

It is one of the industry practices in assessing the performance of advertising and media business (e.g. Clear Media Limited (Stock Code: 100)), to use the earnings before interest, tax, depreciation and amortization (the "**EBITDA**"). The Directors used EBITDA before one-off transactions (the "**Adjusted EBITDA**") to assess the performance of Redgate Ventures Group, which proved to be profitable on a continuous basis and so as to avoid the results performance being affected by one-off transactions. The Directors believe that the Adjusted EBITDA is a fair indicator and it is one of the industry practices to assess the advertising and media business. In considering the Acquisition and the consideration thereof, the Company has taken into account the existing business operations of Redgate Ventures Group, its past operating track record and results, i.e. the Adjusted EBITDA of Redgate Ventures Group's PRC operating segments, the experience and strength of its management team in the advertising business, its business developments strategy and directions, the future development and growth of the advertising business in the PRC and the potential profitability of Redgate Ventures Group. During Redgate Ventures Group's past operating track record, the loss making was mainly caused by non-operation and non-cash items. Excluding these items, the principal activities of the outdoor advertising displays business and television advertisement business derived a positive cash flow from operations.

The Adjusted EBITDA of Redgate Ventures Group's outdoor advertising displays business was calculated based on the financial information set out on page 440 in Appendix II – Financial information of Redgate Ventures Group, section C, note 6(a), in accordance with the formula: Reportable segment profit/(loss) – interest income + depreciation and amortization + impairment loss – reversal of impairment loss + income tax expense. The Adjusted EBITDA of Redgate Ventures Group's outdoor advertising displays business for the years ended 2009, 2010 and 2011 amounted to HK$36,147,000, HK$11,928,000 and HK$6,495,000, respectively. The Adjusted EBITDA of Redgate Ventures Group's television advertisement business was calculated based on the financial information set out on page 441 in Appendix II – Financial information of Redgate Ventures Group, section C, note 6(a), in accordance with the formula: Reportable segment profit/(loss) – interest income + interest expense + depreciation and amortization + impairment loss - reversal of impairment loss + income tax expense – income tax credit. The Adjusted EBITDA of Redgate Ventures Group's television advertisement business for the years ended 2009, 2010 and 2011 amounted to HK$41,520,000, HK$64,716,000 and HK$1,100,000, respectively.

Furthermore, the Directors have also made reference to the appraised value of the business of the Redgate Ventures Group based on the valuation report prepared by Roma Appraisals Limited, an independent valuer, details of which are set out in Appendix V of this circular. According to the said valuation report prepared by Roma Appraisals Limited, the value of Redgate Ventures Group as at 31 December 2011 was HK$1,770,000,000, which had taken into consideration the cash out flow for the settlement of the outstanding consideration payables, which were included in the accountants' report in Appendix II, in respect of Beijing Yanhuang and Shanghai Dianguang. The Directors have taken into account the settlement of the said outstanding consideration payables in their decision making before entering into the Sale and Purchase Agreement with First Vendor and Second Vendor. As at the date of Completion, all the assets and liabilities of Redgate Ventures Group will be owned by the Company, which will include cash received from the settlement of receivables of Redgate Ventures Group and the obligation to settle the liabilities of Redgate Ventures Group, which includes the outstanding acquisition costs for both Beijing Yanhuang and Shanghai Dianguang. In light of the above, the Directors consider that the Consideration is fair and reasonable.

In respect of past acquisitions of the Company, which were made under the previous management of the Company, impairments were made by the management at the time in accordance with the Hong Kong Accounting Standard. In respect of the Acquisition, the Directors and Crowe Horwath (HK) CPA Limited have reviewed, in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"), the cash flow forecasts prepared for the purpose of impairment assessment and assessed whether there is any impairment on the intangible assets and goodwill of the Enlarged Group as at 31 December 2011. The Directors have concluded that no impairment is required for the intangible assets and goodwill as stated in the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2011 in Appendix IV. Therefore, the Directors believe the amount of goodwill is justifiable and sustainable.

The Directors (including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including but limited to the issue of the Promissory Notes and the Convertible Notes) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

It is necessary to raise funds to finance the payment of the balance of the cash portion of the Consideration. It is considered that the Placing represents a good opportunity to raise the required funds without an immediate dilution impact on the existing Shareholders. As the Company has worked with the Placing Agent on several prior fund raising activities, the Company considers that the Placing Agent is more suited to ensure the smooth proceeding of the Placing. The Directors (including the independent non-executive Directors) consider that the terms of the Placing Agreement and the Placing are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

PLAN AND INTENTION ON THE GROUP'S EXISTING BUSINESS

It is the intention of the Company to continue with its existing business after Completion. The Company has not entered into any agreement, arrangement, understanding or undertaking, whether formal or informal, express or implied, and negotiation (whether concluded or not) to dispose of or downsize its existing business. Going forward, the Company will continue to focus on the advertising business of the Group.

Software Application Solutions

The domestic sale of i-Panel and Apbus products and the provision of intranet design for residential communities remained the core business of the Group. 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.

Outdoor advertising business in the PRC

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 continue to further expand its advertising business in the advertising and display industry in the PRC.

The Group has been granted by the Local Bus Company the advertising rights on all the single-decker buses, double-decker buses and bus stations operated and owned by the Local Bus Company. The licensing agreements of single-decker buses, double-decker buses and bus stations will expire on 30 April 2019, 31 August 2015 and 30 June 2017, respectively. It is the common understanding between the Local Bus Company and the Group that the granting of such advertising rights is on an exclusive basis.

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.

Outdoor advertising business in Hong Kong

The Company owns 19% issued share capital of CNM. CNM is principally engaged in outdoor advertising in Hong Kong, specializing in advertising spaces in lifts and outer walls of buildings.

PROSPECTS

Advertising and display industry

Against the backdrop of solid macro-economic conditions, robust consumption growth, and the willingness of advertisers to invest in brand-building, we are optimistic about the growth prospects of the advertising industry in China in 2011 and beyond. On the supply side, the tightening of regulatory policies will benefit the Group as the outdoor media market becomes more rational.

In coming year, we will continue to expand our bus body and station advertising business in Shijiazhuang and in other cities with high growth potential. Beyond our existing advertising format, we are constantly looking into other advertising formats and segments to build presence and to provide high-quality, innovative channels to meet advertisers' needs.

The acquisition of CNM represents a horizontal expansion of the media platform currently provided by the Group and allows the Group to deploy a similar business model in Hong Kong. Although the Company only acquired a minority interest (19%) in CNM, the acquisition will enable the Group to tap in and participate in the media industry in Hong Kong. The acquisition is the Group's first investment in Hong Kong's outdoor media industry and the Company believes that outdoor media industry in Hong Kong will continue to enjoy substantial growth as a result of the close ties with the PRC and its accompanying robust economic growth. The economic growth of the PRC will have a general positive effect on Hong Kong's economy which directly affects the local media industry.

OUTDOOR ADVERTISING BUSINESS IN THE PRC – ACQUISITION OF REDGATE VENTURES

The Board believes that the potential within the advertising and marketing industry in both PRC and Hong Kong can be realized and strong growth will be expected in the near future. The Board is of the view that the acquisition of Redgate Ventures and CNM will enrich the earning base of the Group by introducing an additional investment platform to the Group.

The Company has no current plan to appoint its board members to become the legal representatives of Redgate Ventures Group's main subsidiaries established in the PRC. After Completion, the management of Redgate Ventures Group will continue to be responsible for the daily operations of its business. Redgate Ventures Group has entered into employment contracts with its senior management, which would not be affected by the Acquisition. Upon Completion, the Group will enter into employment contracts with the members of the senior management of Redgate Ventures Group ("**Post Completion Employment Contract(s)**"), namely Mr. Peter B. Brack, Ms. Ying Zhu and Mr. Robert W.H.S. Yung, as they are the founders and key management of Redgate Ventures Group. The Post Completion Employment Contracts will each be for a term of 3 years and the remaining terms of employment are still being discussed. The Group has the right to terminate in accordance with the Employment Ordinance of Hong Kong the Post Completion Employment Contracts at any time, should any member of the senior management be in breach of the said contracts or their duties thereunder. Notwithstanding the rights of the parties under the Employment Ordinance, in the event that either the Group or the relevant member of the senior management terminates the Post Completion Employment Contract at any time during the term of the Post Completion Employment Contract, the party so terminating will be subject to a six-month termination notice period. The Group will review and give an appraisal on the performance of the existing management of Redgate Ventures Group annually. With respect to other members of the senior management of Redgate Ventures Group, they will continue to be employed under the existing employment contracts with Redgate Ventures Group, which require three months' notice period upon termination or resignation. With respect to the core team of Redgate Ventures Group, who are employed at the PRC subsidiary level, although they are part of the core team, Redgate Ventures Group do not foresee any difficulty in employing a person of similar expertise, should it become necessary to do so. Upon Completion, the Company will review the needs of Redgate Ventures Group on a regular basis, and decide whether it will be necessary to revise the employment terms with the core team of Redgate Ventures Group or expand the team.

Based on our experience in the acquisition of Active Link in October 2010, although the Company did not appoint its board members to become legal representatives of the main operation subsidiaries of Active Link, we were and are still able to monitor and secure ownership in relation thereto through the implementation of the following internal control procedures, which we intend to implement in the Redgate Ventures Group:

1) form a branch in the PRC and employ several experienced staffs to monitor and be involved in the decision making. These staff were authorized to report to the Company's management directly and on a monthly basis. A representative of the said branch ("**Branch Representative**"), appointed by the Company shall monitor the operation and management of the PRC operations subsidiaries on a regular basis;

2) request the accounts department of the PRC subsidiaries to provide their management accounts to the Company on a monthly basis. The finance department of the Company is responsible for reviewing the said monthly management accounts and report to its management before the 20th day of every month. The finance manager of the Company will visit the PRC operations subsidiaries to review the management accounts and supporting documents on site on a regular basis;

3) the directors of the PRC subsidiaries are responsible to prepare the next year's annual budget before the current year end. They are also responsible for preparing the analysis to compare the budget and the actual results on a quarterly basis. Both the annual budget and analysis are subject to the Company's management's review and approval;

4) the company seals of each of the PRC operations subsidiaries are kept in its register office and lock in a cabinet. The keys of the said cabinet will be kept by the Branch Representative. If the respective legal representatives of each of the PRC operations subsidiaries require the use of the company seal for authorized purposes, he/she shall obtain the respective company seal from the Branch Representative. The use of the company seal is restricted to daily business agreements only. The sealing of daily business agreements will require the prior approval of the Branch Representative. A copy of the sealed agreements should be provided to the Branch Representative by the next business day after being sealed. The Branch representative shall report to the Company's management on a monthly basis. For other purposes, such as amendment of memorandum and articles, change of the company's directors or legal representative, change of shareholders etc., the legal representative of the PRC subsidiaries are required to inform the staff of the said Company's branch in the PRC and obtain the approval of the Company's management. The respective legal representatives of each of the PRC operations subsidiaries are responsible for keeping records of use of the respective company seals. The Branch Representative will cross check the said seal records with the sealed documents on a regularly basis;

5) the Branch Representative will monitor the operation and management of each of the PRC operations subsidiaries, including the performance of their respective directors, senior staff and legal representative on a regular basis to ensure observance of internal procedures implemented by the Group and compliance with instructions of the Group. Upon completion of the Acquisition, the Board can exercise its power as the holding company, to change the directors, legal representative or senior staff of the PRC operations subsidiaries as and when necessary;

6) according to the laws and regulations of the PRC, the PRC subsidiaries are required to perform the annual registration. The financial department and auditors of the Company will review these documents to ensure there is no change of beneficial owner of the PRC operations subsidiaries.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is currently engaged in the development and sale of intelligent home electronic application system and development of design, production and publication of outdoor advertisements in the PRC. In terms of the turnover contributed for the year ended 31 December 2011, the design, production and publication of outdoor advertising business is the core business of the Group. The Group currently holds licences for the advertising rights for all the single-decker buses, double-decker buses and bus station which are operated and owned by a company in Hebei Province, the PRC. Redgate Ventures is a diversified media investment holding company in China primarily providing advertising and advertising agency services through its subsidiaries via a national multi-media platform that enables advertisers to conduct multiple-channel marketing campaigns. Redgate Ventures Group provides television advertising agency services with respect to city or provincial television channels and certain programs on city or provincial television channels. The outdoor advertising network of the Redgate Ventures Group consists of a commercial billboard and display network in 53 cities with a significant presence in Beijing. The Directors consider that there is synergy between the present business of the Group and those of the Redgate Ventures Group, in terms of business model and source of revenue, and the Acquisition represents an opportunity for the Group to acquire an integrated cross-media platform and expand its presence in the television advertisement business in the PRC. The Directors believe that Redgate Ventures Group will enhance the Group's competitiveness in the PRC media and advertising industry and improve the overall financial performance.

FINANCIAL EFFECTS OF THE ACQUISITION AND PLACING ON THE GROUP

Upon Completion, Redgate Ventures will become a wholly-owned subsidiary of the Company. The assets, liabilities and the financial results of Redgate Ventures Group will be consolidated into the consolidated financial statements of the Group upon Completion.

Set out in Appendix IV to this circular is the "Unaudited Pro Forma Financial Information of the Enlarged Group" and the basis of preparation thereon.

Assets and Liabilities

As at 31 December 2011, the total assets and total liabilities of the Group were approximately HK$296.7 million and HK$59.8 million respectively. Completion of the Acquisition and the Placing is inter-conditional. The pro forma total assets and pro forma total liabilities of the Enlarged Group would amount to approximately HK$2.2 billion and HK$2.0 billion as if Completion had taken place on 31 December 2011 in accordance with "Unaudited Pro Forma Financial Information of the Enlarged Group" as set out in Appendix IV to this circular. As compared to the total assets and total liabilities of the Group as at 31 December 2011, the Group would have an increase of approximately HK$1.9 billion in total assets and approximately HK$1.9 billion in total liabilities upon Completion.

Earnings

For the year ended 30 June 2011, loss before income tax expense of the Group was approximately HK$89.7 million. As shown in the "Unaudited Pro Forma Financial Information of the Enlarged Group" as set out in Appendix IV to this circular, the unaudited pro forma loss before income tax expense of the Enlarged Group for the year ended 30 June 2011 will be approximately HK$291.8 million as if Completion had taken place on 1 July 2010. For the year ended 30 June 2011, the loss for the year of the Group attributable to owners of the Company was approximately HK$82.5 million. As set out in Appendix IV to this circular, the unaudited pro forma loss for the year of the Enlarged Group attributable to owners of the Company for the year ended 30 June 2011 will be approximately HK$263.4 million.

Gearing

Pursuant to the consolidated Statement of financial position of the Group as at 31 December 2011, the Group had a gearing ratio, calculated as total liabilities over total assets, of approximately 20.2%. Assuming Completion had taken place on 31 December 2011, the gearing ratio of the Enlarged Group would increase to approximately 100%.

SPECIAL GENERAL MEETING

The entering into of the Sale and Purchase Agreement constitutes a very substantial acquisition and the entering into of the Placing Agreement constitutes a connected transaction for the Company under the GEM Listing Rules which requires the approval of the Shareholders by way of poll at the Special General Meeting. As no Shareholder has a material interest in the Sale and Purchase Agreement or the Placing Agreement which is different from the other Shareholders, no Shareholder is required to abstain from voting on the resolutions approving the Sale and Purchase Agreement, the Placing Agreement and the transactions contemplated thereunder (including the allotment and issue of the Conversion Shares and CB Conversion Shares together with the creation and issue of the Convertible Notes) at the Special General Meeting.

A notice convening the Special General Meeting is set out on pages 611 to 614 of this circular. A form of proxy for the Special General Meeting is enclosed with this circular. Whether or not you intend to be present at the Special General Meeting, you are advised to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the Special General Meeting. The completion and delivery of a form of proxy will not preclude you from attending and voting at the meeting in person.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement and the Placing Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend that all Shareholders should vote in favour of the relevant resolutions to be proposed at the Special General Meeting to approve the Sale and Purchase Agreement and the Placing Agreement.

ADDITIONAL INFORMATION

Your attention is drawn to the Appendices of this circular, including the Business Valuation Report prepared by Roma Appraisals Limited set out in Appendix V and the letters on profit forecasts in connection with the business valuation prepared by Bridge Partners Capital Limited and BDO Limited set out in Appendix VI to this circular.

Yours faithfully,
On behalf of the Board
Chen Chuan
Chairman

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

24 April 2012

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION – ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN A COMPANY ENGAGING IN TELEVISION AND OUTDOOR ADVERTISING BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA, (2) CONNECTED TRANSACTION – ENTERING INTO A PLACING AGREEMENT WITH A CONNECTED PERSON, (3) PLACING OF CONVERTIBLE BONDS

We refer to the circular to the Shareholders dated 24 April 2012 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the Placing Agreement, details of which are set out in the "Letter From The Board" set out on pages 9 to 87 of the Circular. United Simsen Securities Limited has been appointed to advise the Independent Board Committee on the fairness and reasonableness of the terms and conditions of the Placing Agreement. Details of its advice, together with the principal factors taken into consideration by United Simsen Securities Limited in arriving at such advice, are set out on pages 89 to 96 of the Circular.

Having taken into account the advice of United Simsen Securities Limited, we consider the terms of the Placing Agreement to be fair and reasonable so far as the Independent Shareholders are concerned and that the Placing Agreement is in the best interests of the Company and the Shareholders as a whole.

Yours faithfully,
Independent Board Committee

Ms. Wong On Yee	**Ms. Lu Di**	**Mrs. Kwan Leung, Anna**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *For identification purpose only*

Set out below is the text of a letter received from United Simsen Securities Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Placing Agreement and the transactions contemplated thereunder for the purpose of inclusion in this circular.

天行聯合證券有限公司
United Simsen Securities Limited

Suites 7001-02, 70/F.
Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

24 April 2012

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

Dear Sirs/Madams,

CONNECTED TRANSACTION – ENTERING INTO A PLACING AGREEMENT WITH A CONNECTED PERSON

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the entering into the Placing Agreement with a connected person by the Company, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 24 April 2012 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 8 July 2011, the Company entered into the Placing Agreement with the Placing Agent in relation to the Placing. Pursuant to the Placing Agreement, the Placing Agent has conditionally agreed to place the Placing CB in the principal amount of up to HK$200,000,000 convertible into Shares at HK$0.38 each, on a best effort basis, to arrange subscribers who are professional and institutional investors. The Placing Agent will be paid a placing commission of 3% of the principal amount of the Placing CB successfully placed by the Placing Agent (the "**Commission**").

On 30 December 2011, the Company and the Placing Agent entered into a supplemental agreement pursuant to which the parties agreed to (i) amend the conditions of the Placing CB so that the Company may not allow conversion of the Placing CB, where as a result of such conversion, the Company's minimum public float requirements under the GEM Listing Rules could not be maintained; and (ii) extend the latest time for fulfillment of the conditions precedent set out in the Placing Agreement from 31 December 2011 to 31 March 2012 or such later date as may be agreed between the Company and the Placing Agent.

As the ultimate controlling shareholder of the Placing Agent, Ms. Au Suet Ming Clarea, is an associate of Ms. Au Yuk Kit, an independent non-executive Director who has resigned with effect from 2 April 2012. Hence, the Placing Agent is a connected person of the Company and the entering into of the Placing Agreement between the Company and the Placing Agent constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the aggregate amount of commission paid to the Placing Agent in the 12 months preceding the date of the Placing Agreement and to be paid under the Placing Agreement amounts to HK$15,071,637.75, the entering into of the Placing Agreement is subject to the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 20.17 of the GEM Listing Rules.

An Independent Board Committee comprising Ms. Wong On Yee, Ms. Lu Di and Mrs. Kwan Leung Anna (being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Placing Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the entering into of the Placing Agreement is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Placing Agreement and the transactions contemplated thereunder at the Special General Meeting. We, United Simsen Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true, complete and accurate in all material respects at the time when they were made and continue to be so as at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful considerations. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our recommendation in compliance with Rule 17.92 of the GEM Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Placing Agent, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into of the Placing Agreement. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, our sole responsibility is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Placing Agreement we have taken into consideration the following principal factors and reasons.

The Group is principally engaged in development and sale of intelligent home electronic application system and development of outdoor advertising industry in the PRC.

On 8 July 2011, the Board announced that the Company and the Vendors entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares, and to procure the Redgate CB Holders to sell the Redgate Conversion Shares, for a total consideration of HK$1,750,704,206, which will be satisfied in the following manner:

1. as to a sum of HK$80,000,000 in cash by way of a refundable deposit paid to the Second Vendor on the date of the signing of the Sale and Purchase Agreement;

2. as to a sum of HK$210,000,000 in cash payable to the Second Vendor at Completion;

3. as to a sum of HK$160,000,000 by way of issue of the Promissory Notes to the Vendors at Completion; and

4. as to a sum of HK$1,300,704,206 by way of issue of the Convertible Notes to the Vendors and the Redgate CB Holders at Completion.

The Sale Shares and the Redgate Conversion Shares represent the entire issued share capital of Redgate Ventures as enlarged by the Redgate Conversion Shares. As set out in the Board Letter, Redgate Ventures is a media investment holding company built by a team of career media professionals from some of the world's largest media companies. Redgate Ventures Group was conceived in 2007 and built upon two key acquisitions in 2008 in the outdoor and television industries of Beijing Yanhuang and Shanghai Dianguang, respectively. Redgate Ventures has grown more quickly through both acquisition and organic expansion, and believes that the high level of fragmentation in the Chinese media market, combined with the sheer scale of the market opportunity, presents a compelling platform for consolidation. Through the Acquisition, Redgate Ventures believes that it can accelerate the growth of its national advertising platform in China and substantially increase its market share.

On even date, the Company entered into the Placing Agreement (thereafter supplemented by the First Supplemental Placing Agreement date 30 December 2011 and the Second Supplemental Placing Agreement date 31 March 2012) with the Placing Agent in relation to the Placing. Pursuant to the Placing Agreement, the Placing Agent has conditionally agreed to place the Placing CB in the principal amount of up to HK$200,000,000 convertible into CB Conversion Shares at HK$0.38 each, on a best effort basis, to arrange subscribers who are professional and institutional investors. The Placing Agent will be paid a placing commission of 3% of the principal amount of the Placing CB successfully placed by the Placing Agent. The Directors confirmed that the Company intends to use the proceeds from the Placing to settle part of the cash portion of the Consideration for the Acquisition. The completion of the Placing Agreement is conditional upon, among other things, the fulfillment of the conditions precedent set out in the Sale and Purchase Agreement and the approval of the Placing Agreement and the transactions contemplated thereunder by the Independent Shareholders.

Referring to the Board Letter, in accordance with the Sale and Purchase Agreement, the completion of the Placing is one of the conditions to be fulfilled before the completion of the Acquisition takes place. As such, if the amount placed is less than HK$200,000,000, both the Placing and the Acquisition will not proceed.

The Board considered that it is necessary for the Company to raise additional funds to finance the payment of the cash portion of the Consideration and the Placing represents a good opportunity for the Company to raise the required funds without an immediate dilution impact on the existing Shareholders. The Company confirmed that it had approached several placing agents for the Placing. However, only the Placing Agent could be able to provide a proposal acceptable to the Company and meet the capital requirements of the Company. We noted from the past announcements of the Company that the Placing Agent has been appointed by the Company's placing agent/ underwriter for several fund raising exercises in the past 12 months immediately before the date of the Placing Agreement. Set out below are the principal terms of such fund raising exercises:

Date of announcement	**Fund raising exercises**	**Net proceeds** *HK$' million (Approximately)*	**Commission rate** *%*
21 June 2011	Placing of new shares	6.65	3
7 March 2011	Placing of new shares	15.01	3
29 October 2010	Rights issue	207.65	3
4 October 2010	Placing of new shares	16.3	3

Source: website of the Stock Exchange

Based on the table above, we noted that the Placing Agent has provided on-going fund raising services to the Company in the past 12 months immediately before the date of the Placing Agreement. The Placing Agent has established a stable business relationship with the Company and in each fund raising exercise, the Placing Agent successfully procured investors to fulfill the fund raising needs of the Company. The Placing Agent charged the Company a standard commission rate of 3% of the gross proceeds on each fund raising exercise. These standard commission rates are the same as the Commission rate charged by the Placing Agent under the Placing Agreement.

As part of our analyses, we have also identified the placing exercises in relation to placing of convertibles notes/bonds (the "**Comparables**") (i) announced from 1 January 2011 up to the Last Trading Day (the "**Pre-Agreement Period**"); and (ii) announced from the date of the Agreement up to the Latest Practicable Date (the "**Post-Agreement Period**"), by companies listed on both main board of the Stock Exchange and GEM. To the best of our knowledge, we have identified the following Comparables which met the said criteria. However, Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables and thus the Comparables are only used to provide a general reference for the common market practice in placing of convertible notes/bonds by Hong Kong listed companies. Summarized below is our relevant finding for the Pre-Agreement Period:

Date of announcement	**Company name**	**Stock code**	**Placing agent**	**Principal amount** *HK$' million (Approximately)*	**Commission rate** *%*
19 January 2011	Mascotte Holdings Limited	136	Deutsche Bank AG, Hong Kong Branch	1,600	3
31 January 2011	Hanny Holdings Limited	275	Kingston Securities Limited	300	1
2 February 2011	China New Energy Group Limited (formerly known as Fulbond Holdings Limited)	1041	Kingston Securities Limited	500	1
8 March 2011	Pacific Plywood Holdings Limited	767	United Simsen Securities Limited	100	2.5
15 April 2011	ITC Properties Group Limited	199	CCB International Capital Limited	408-705	2
17 May 2011	China Grand Forestry Green Resources Group Limited	910	Kingston Securities Limited	100	3
2 June 2011	Simsen International Corporation Limited	993	United Simsen Securities Limited	510	2.5
13 June 2011	Larry Jewelry International Company Limited (formerly known as Eternite International Company Limited)	8351	Kingston Securities Limited	261	3
Maximum					**3**
Minimum					**1**
Average					**2.25**
8 July 2011	**The Company**	**8202**	**The Placing Agent**	**200**	**3**

Source: website of the Stock Exchange

As presented by the table above, we noted that the placing agents of the Comparables during the Pre-Agreement Period charged a commission rate from 1% to 3% with an average of approximately 2.25%; while the Commission rate is 3%, which falls within the said market range. In addition, we noted from the table above that a company listed on GEM, Eternite International Company Limited, charged by its placing agent a commission rate of 3%.

Summarized below is our relevant finding for the Post-Agreement Period:

Date of announcement	**Company name**	**Stock code**	**Placing agent**	**Principal amount** *HK$' million (Approximately)*	**Commission rate** *%*
2 August 2011	Birmingham International Holdings Limited	2309	Kingston Securities Limited	79	2.5
18 August 2011	China Water Industry Group Limited	1129	Kingston Securities Limited	200	2.5
19 August 2011	EPI (Holdings) Limited	689	Emperor Securities Limited	62	3
22 August 2011	Smart Union Group (Holdings) Limited	2700	Asian Capital (Corporate Finance) Limited	85	3
2 September 2011	CVM Minerals Limited	705	Cheong Lee Securities Limited	80	2.5
3 October 2011	Rising Development Holdings Limited	1004	Chung Nam Securities Limited	100	1.5
6 October 2011	Asia Orient Holdings Limited	214	Get Nice Securities Limited	80	1.5
7 October 2011	China Environmental Energy Investment Limited	986	United Simsen Securities Limited	110	2.5
19 October 2011	Pacific Plywood Holdings Limited	767	United Simsen Securities Limited	89	2.5
23 November 2011	Superb Summit International Timber Company Limited	1228	ICBC International Securities Limited	241	Approximately 3.22
8 December 2011	Computech Holdings Limited	8081	Pacific Foundation Securities Limited	50	2.5

Date of announcement	Company name	Stock code	Placing agent	Principal amount	Commission rate
				HK$' million (Approximately)	*%*
13 December 2011	Interchina Holdings Company Limited	202	Kingston Securities Limited	294	2.5
20 January 2012	China Public Healthcare (Holding) Limited	8116	Cheong Lee Securities Limited	100	0.75
26 January 2012	Opes Asia Development Limited	810	Oriental Patron Securities Limited	75	2
26 February 2012	Larry Jewelry International Company Limited	8351	SBI E2-Capital Financial Services Limited	72	2.5
6 March 2012	Siberian Mining Group Company Limited	1142	Hani Securities (H.K.) Limited	546	N/A
13 March 2012	China Eco-Farming Limited	8166	FT Securities Limited	20	3
Maximum					**3.22**
Minimum					**0.75**
Average					**2.37**
8 July 2011	**The Company**	**8202**	**The Placing Agent**	**200**	**3**

Source: website of the Stock Exchange

As presented by the table above, we noted that the placing agents of the Comparables during the Post-Agreement Period, charged a commission rate from 0.75% to 3.22% with an average of approximately 2.37%; while the Commission rate is 3%, which falls within the said market range.

In view of the relatively high risk nature for companies listed on GEM, we are of the view that the Commission rate of 3% is in line with common market practice and the Commission is fair and reasonable so far as the Independent Shareholders are concerned.

Having considered the above factor and reasons we consider that (i) the terms of the Placing Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Placing Agreement is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered that

(i) the Company required the capital to settle the cash portion of the Consideration (which is subject to the fulfillment of the conditions precedent set out in the Sale and Purchase Agreement) and only the Placing Agent could be able to provide a proposal acceptable to the Company;

(ii) the Placing Agent has provided on-going fund raising services to the Company in the past 12 months immediately before the date of the Placing Agreement to fulfill the fund raising needs of the Company and has always charged the Company a standard commission rate of 3%; and

(iii) the Commission rate is in line with the common market practice as indicated in the comparison tables with the Comparables,

we consider that (i) the terms of the Placing Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Placing Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the Special General Meeting to approve the Placing Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
United Simsen Securities Limited
Chiu Ka Him
Responsible Officer

THE GROUP'S BUSINESS HISTORY

Overview

This section seeks to summarize the Company's acquisitions and disposals that have taken place in the past five years, from 2007 to 2011. The Group is currently engaged in the development and sale of intelligent home electronic application system and development of outdoor advertising industry in the PRC.

In 2007, the Group was already engaged in the provision of internet design for residential communities and e-property management software application consulting services based on i-Panel and its integrated hardware and software in the PRC. Continuing from the dual business development strategy adopted by the Group in 2006 to widen its income base and to strengthen its original business while at the same time seek opportunities to expand into woman and child medical services and to the medical industry for provision of electronic medical software application and support services, in 2007, the Group continued to explore for opportunities to expand into woman and child medical services and its ancillary services. At that time, it was the Group's intention and plan to take advantage of its existing products, technology and experience to expand into the market in applying information technology to hospitals and hotels in the PRC. The Directors at that time were of the view that the hotel industry in the PRC was experiencing tremendous growth and to effectively capture this growth, the establishment of a hotel management business was crucial in their growth strategy. The implementation of the Group's plan, included acquisition of hotel assets in the PRC, entry into joint ventures to manage and operate hotels in the PRC, etc. In 2008, the Group continued to implement its dual business development strategy, as the Directors at the time believed that the Group was able to further expand and develop in the hotel industry with their experience and that of the senior management of the Group.

In 2009, in light of the economic downturn, the Company considered that it would be more appropriate to focus its human and financial resources on the business sector with a more promising growth in the years to come. Accordingly, the Group continued to focus on its first limb of business as a software application solutions provider and disposed of its interests in the operation and management of medical institutes in the PRC to focus its resources on the hotel business sector, which in the opinion of the Directors at the time, would yield a higher profit margin with more growth potential. The Group's dual corporate strategy as stated in the 2008 annual report of the Company was to strengthen its existing business and at the same time identify and capitalize new opportunities to achieve the financial growth for the Company and to maximize Shareholders' value. The Group acquired interests in two companies engaged in the gold mining business in the PRC in 2009 as the Directors at the time were of the view that the said acquisitions will enable to Group to enjoy the synergy brought about by the application and further development of the Group's existing i-Panel and its integrated hardware and software solutions in connection with the operation of the gold mines, and the acquisition of further shareholding stake in the promising mineral business sector would help diversify the Group's business streams and improve the financial results of the Group. In mid-2009, in reviewing and evaluating its existing business streams, the Group decided to scale down is hotel operations in the PRC and focus its resources on its then existing businesses, particularly exploitation and excavation of gold mines operated by the Group and developing new software solutions in relation thereto.

In 2010, the Group continued to be principally engaged in domestic sale of i-Panel and Apbus products and the provision of internet design for residential communities remained the core business of the Group. In line with the second limb of the Group's dual corporate strategy, the Group continued to expand into industries such as outdoor advertising and display industry and gold mining industry. In the last quarter of 2010, as the Group's gold mining business had been operating at a loss and coupled with the tightening of the regulatory environment in the PRC in relation to the acquisition of gold mining business by listed companies, the Group concluded that it should consider focusing its resources on businesses which would bring stable income to the Group without having to incur significant capital investment. Accordingly, the Group decided to dispose of its gold mining business in October 2010, which resulted in a gain upon completion in May 2011.

The Directors believed that in order for the Group to broaden its source of income and expand the business operations, it is beneficial for the Group to diversity its business into the advertising and display industry in the PRC. Therefore in 2011, the Group further expanded its business in outdoor advertising and display industry through the acquisition of interests in CNM, a company principally engaged in outdoor advertising in Hong Kong. The Directors believe that they and the senior management of the Group have sufficient experience in this industry to manage and further expand the business of the Group in the outdoor advertising and display industry. The Acquisition is part of the Group's corporate strategy to further expand its business in this industry, and the Directors believe that experience of the senior management of Redgate Ventures Group in the advertising industry will boost the Group's management and expansion of its business in the advertising industry. Moving forward, mergers and acquisitions will be the way to grow in this industry, which will thus be the corporate strategy that the Group will be adopting.

Healthcare Business

As announced by the Company on 19 April 2007, the Group completed its acquisition of 56% of Autoscale Resources Limited ("**Autoscale**") for a total consideration of **HK$60,484,000**, which effectively controls 37.71% of United Premier Medical Group ("**UPMG**"). The Directors at the time believed that with UPMG's network of business contacts with authorities as well as medical institutions in China and the United States of America, the acquisition of interests in Autoscale will assist the Group in furtherance of its existing business as well as expansion into healthcare and medical services, particularly, in the management of hospitals which caters specially for women and children. Please refer to the announcements dated 6 March 2007 and 19 April 2007 and circular dated 26 March 2007 of the Company for details relating to the acquisition of Autoscale.

As announced by the Company on 16 February 2009, the Company entered into a sale and purchase agreement to dispose 56% of the equity interest of Autoscale at a total consideration of **HK$7,626,000**, which was completed in March 2009. Please refer to the announcement of the Company dated 16 February 2009 for details relating to the disposal of Autoscale. The Group recognized a loss on disposal of subsidiaries which amounted to approximately HK$84,375,000 for the year ended 30 June 2009, as disclosed in the annual report of the Company for the year ended 30 June 2009.

	For the year ended 31 March 2007 *HK$'000* *(Note 1)*	For the period from 1 April 2007 to 30 June 2008 *HK$'000* *(Note 2)*	For the year ended 30 June 2009 *HK$'000* *(Note 2)*	For the year ended 30 June 2010 *HK$'000* *(Note 1)*	For the year ended 30 June 2011 *HK$'000* *(Note 1)*
Healthcare Business					
– Impairment (losses)	N/A	–	–	N/A	N/A
– (Loss) on disposal of subsidiaries	N/A	–	(84,375)	N/A	N/A
– (Loss) before taxation	N/A	N/A	N/A	N/A	N/A

Notes:

1. As the acquisition and disposal of 56% equity interest of Autoscale was completed on 29 April 2007 and 16 February 2009. There was no financial effect on the Group's audited financial statement due to the Group have did not commence or ceased the healthcare business for the accounting period.

2. As the size of healthcare business is insignificant to the Group, there are no segmental financial information disclosed in the audited financial statement for the accounting period.

Reason for losses

With the economic downturn, the Group considered that it would be more appropriate to focus its human and financial resources on the business sector with a more promising growth in the years to come.

Economic Hotel Business

In May 2007, the Company announced that the Group entered into a joint venture to engage in the management and operation of hotels in the PRC. Please refer to the announcement of the Company dated 4 May 2007 for further details on the said joint venture. On 29 May 2007, the Company announced that the Group entered into a cooperation agreement with China Railway Investment Holdings in relation to the investment, acquisition and management of hostels and hotels in the PRC. Please refer to the announcement of the Company dated 29 May 2007 for further details on the said cooperation. On 11 October 2007, the Company announced that the Group entered into a joint venture agreement with Swiss-Belhotel International Limited ("**SBI**") to form a joint venture to engage in the management, training and operation of economy hotels in the PRC. Please refer to the announcement of the Company dated 11 October 2007 for further details on the joint venture with SBI. In June 2008, the Company announced that the Group entered into a joint venture agreement with Zhe Jiang Harmony Group ("**ZJHG**") to engage in the management and operation of economy hotels in the PRC. Please refer to the announcement dated 21 May 2008 and circular dated 11 June 2008 of the Company for further details on joint venture with ZJHG. In addition to the major joint venture agreements, the Company announced that the Group has entered into nine management contracts with Independent Third Parties on 29 October 2007 in relation to the management of nine hotels located at Kaiping City, Dongguan City, Shaoguan and Zhaoqing, Guangdong Province, the PRC. In pursuit of the second limb of our economy hotel business strategy, the Group acquired two hotel properties in the PRC, namely Sunny Team Corporation Limited ("**Sunny Team**") and Homesmart Properties Limited ("**Homesmart**"), as announced by the Company on 6 November 2007 and 5 February 2008, respectively.

As announced by the Company on 26 June 2009, the Group entered into two sale and purchase agreements to dispose of the entire issued share capital of Sunny Team and Homesmart, each for a consideration of approximately **RMB2,000,000**. Please refer to the announcement of the Company dated 26 June 2009 for further details on the said disposals. The Group recognized loss on disposal of property, plant and equipment which amounted to approximately HK$34,955,000 for the year ended 30 June 2009, as disclosed in the annual report of the Company for the year ended 30 June 2009.

	For the year ended 31 March 2007 *HK$'000* *(Note 1)*	For the period from 1 April 2007 to 30 June 2008 *HK$'000*	For the year ended 30 June 2009 *HK$'000*	For the year ended 30 June 2010 *HK$'000* *(Note 1)*	For the year ended 30 June 2011 *HK$'000* *(Note 1)*
Economic Hotel Business					
– Impairment (losses)	N/A	–	–	N/A	N/A
– (Loss) on disposal of property, plant and equipment	N/A	–	(34,955)	N/A	N/A
– (Loss) before taxation	N/A	(67,491)	(113,316)	N/A	N/A

Note 1:

As the acquisition two hotel properties on 5 November 2007 and 4 February 2008, and the corresponding disposal of two hotel properties was completed on 26 June 2009. There was no financial effect on the Group's audited financial statement due to the Group have did not commence or ceased the economic hotel business for the accounting period.

Reason for losses

The Board anticipates that the business of provision of advertising related consultation services will be subject to fierce competition and thus the disposal of hotel properties will enable the Group to preserve more management efforts and financial resources to focus on existing businesses.

Gold Mining Business

On 6 May 2009, Inno Gold Mine, an indirect wholly-owned subsidiary of the Company at the time, entered into a sale and purchase agreement to acquire the entire issued share capital of Dragon Emperor International Limited ("**DE**") which was interested in 13.6% of the issued share capital of Gaofeng Holding Co. Limited ("**GF**") at a consideration of approximately **HK$22,172,000**. On the same date, Inno Gold Mine acquired 1.8% of the issued share capital of GF at a consideration of approximately **HK$2,940,000**. The Group through Inno Gold Mine and DE, became interested in an aggregate of 15.4% shareholding interests in GF on 15 May 2009. Please refer to the announcements of the Company dated 6 May 2009 and 2 June 2009 for further details on the said acquisitions of DE and GF. As announced by the Company on 10 June 2009, DE entered into a sale and purchase agreement to which DE acquire 47.2% of the issued share capital of GF at a consideration of **HK$75,000,000**, which was completed on 27 October 2009. Please refer to the announcements of the Company dated 10 June 2009 and 27 October 2009 for further details on the said acquisitions of GF. As at 30 June 2009, GF is interested in the entire equity interests in Jiu Jiang Gaofeng. GF directly owns 100% equity interest of Jiu Jiang Gaofeng. Jiu Jiang Gaofeng is a limited liability company established in China 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. Jiu Jiang Gaofeng owns 81.5% equity interest of Zhang Jia Fan Gold Mine, which is engaged in the business of gold mining in Zhang Jia Fan, PRC.

In view of the above, the Directors at the time considered that the mining rights of the Zhang Jia Fan Gold Mine should be impaired. A valuation was performed by an independent valuer on a cash flow projections basis. The recoverable amount of the mining rights of the Zhang Jia Fan Gold Mine has been determined based on a value in use calculation. That calculation utilized the cash flow projections covering a 20-year period until the resources run out based on financial forecasts approved by management, and discounting rate of 18.69%. Key assumptions for the value used in the calculations relate to the estimation of cash inflows/outflows, which include budgeted sales and gross margin, such estimation is based on the management's expectations for the market development. The management at the time believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the mining right of the Zhang Jia Fan Gold Mine to exceed the aggregate recoverable amount of the mining right of the Zhang Jia Fan Gold Mine. Accordingly, an amount of approximately HK$174,200,000 was recognised as impairment loss in profit or loss during the year ended 30 June 2010, as disclosed in the annual report of the Company for the year ended 30 June 2010.

The Company announced in October 2010 that the Company entered into a sale and purchase agreement to dispose of, among other things, the entire issued share capital of Inno Gold Mine. The disposal of gold mining business was completed on 9 May 2011, and the Group recognized gain on disposal of subsidiaries amounted to HK$4,366,000 for the year ended 30 June 2011, as disclosed in the annual report of the Company for the year ended 30 June 2011. Please refer to the announcement dated 7 October 2010 and the circular dated 13 April 2011 of the Company for further details on the said disposal.

	For the year ended 31 March 2007	For the period from 1 April 2007 to 30 June 2008	For the year ended 30 June 2009	For the year ended 30 June 2010	For the year ended 30 June 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2)*	
Gold Mining Business					
– Impairment of mining right	N/A	N/A	N/A	(174,200)	–
– Gain on disposal of subsidiaries	N/A	N/A	N/A	–	4,366
– (Loss) before taxation	N/A	N/A	N/A	(184,429)	(3,643)

Notes:

1. As the acquisition of GF was completed on 27 October 2009. There was no financial effect on the Group's audited financial statement due to the Group have did not commence the gold mining business for the accounting period.

2. Please note that the Company held a 51% effective interest of Zhang Jia Fan Gold Mine, one of the subsidiaries of Inno Gold Mining Limited which was wholly owned by the Company, and therefore 51% of the HK$174,200,000 impairment loss on the said business amounted to approximately HK$89,000,000. The aforesaid was included in the audited financial statement for the year ended 30 June 2010.

Reason for losses

The mining right is owned by a subsidiary of the Group namely Zhang Jia Fan Gold Mine. As a result of revision of business strategy and focus due to tightening of the regulatory environment in relation to the acquisition of mining business by listed companies resulting uncertainties as to the time required to complete the acquisition, the increased cost of acquisition due to the changes in the regulations and market sentiment in respect of companies engaging in gold mining business on a small scale and delay in making progress in increasing the output of the Zhang Jia Fan Gold Mine, the Group has scaled down the expected annual production of Zhang Jia Fan Gold Mine.

In view of the above, the directors of the Company considered that the mining right of the Zhang Jia Fan Gold Mine should be impaired. A valuation was performed by an independent valuer, on a cash flow projections basis. The recoverable amount of the mining right of the Zhang Jia Fan Gold Mine has been determined based on a value in use calculation. That calculation utilizes cash flow projections covering a 20- year period until the resources run out based on financial forecasts approved by management, and discounting rate of 18.69%. Key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the mining right of the Zhang Jia Fan Gold Mine to exceed the aggregate recoverable amount of the mining right of the Zhang Jia Fan Gold Mine. Accordingly, an amount of approximately HK$174,200,000 was recognised as impairment loss in profit and loss during the year.

Outdoor Media Business in the PRC

As announced by the Company, the Group entered into a sale and purchase agreement on 10 December 2008 to acquire approximately 23% of the issued share capital of GCM at a consideration of approximately **HK$44,354,000**. The acquisition was completed on 28 February 2009. GCM is principally engaged in the business of the provision of advertising related consultation services. The acquisition was made so as to enjoy the returns and benefits of the advertising arrangements made between GCM and 深圳市泰迪亞廣告有限公司 (Shenzhen Tai Di Ya Advertising Company Limited*). Please refer to the announcement of the Company dated 12 December 2008 for further details on the said acquisition.

On 3 May 2010, the Company announced that the Group entered into a sale and purchase agreement to dispose of approximately 19.19% of the issued share capital of GCM at a consideration of **HK$43,000,000**. Please refer to the announcement of the Company dated 3 May 2010 for further details on the said disposal. The Group recognized a loss on disposal of an associate amounted to HK$6,438,000 during the year ended 30 June 2010, as disclosed in the annual report of the Company for the year ended 30 June 2010.

	For the year ended 31 March 2007	**For the period from 1 April 2007 to 30 June 2008**	**For the year ended 30 June 2009**	**For the year ended 30 June 2010**	**For the year ended 30 June 2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 1)*	*(Note 2)*	*(Note 2)*	*(Note 1)*
Outdoor Media Business in the PRC					
– Impairment (losses)	N/A	N/A	–	–	N/A
– (Loss) on disposal of associates	N/A	N/A	–	(6,438)	N/A
– (Loss) before taxation	N/A	N/A	–	–	N/A

Notes:

1. As the acquisition and disposal of GCM was completed on 10 December 2008 and 3 May 2010 respectively. There was no financial effect on the Group's audited financial statement due to the Group have did not commence or ceased the outdoor media business in PRC for the accounting period.

2. As the size of outdoor media business in PRC is insignificant to the Group, there is no segmental financial information disclosed in the audited financial statement for the accounting period.

Reason for losses

The Board at that time anticipates that the business of provision of advertising related consultation services will be subject to fierce competition and thus the disposal of GCM will enable the Group to preserve more management efforts and financial resources to focus on existing businesses.

Outdoor Advertising Business in the PRC

The Company announced on 21 July 2010 that it entered into a sale and purchase agreement to acquire the entire issued share capital of Active Link at a consideration of **HK$105,600,000**. Active Link holds 100% equity interest of Super Venus Media International Limited ("**Super Venus**"), which in turn holds 100% equity interest of Ningbo Venus Kids Furniture Company Limited ("**Ningbo Venus**"), a wholly foreign-owned enterprise incorporated in the PRC. Ningbo Venus owns 80% equity interest of Shijiazhuang Xunhua. Active Link, Super Venus and Ningbo Venus are investment holding companies. The principal activities of Shijiazhuang Xunhua are the design, production and publication of outdoor advertisements in the PRC. Please refer to the announcement dated 21 July 2010 and the circular dated 24 August 2010 of the Company for further details on the said acquisition. The turnover of the Group for the year ended 30 June 2011 was approximately HK$30,140,000, to which Active Link attributed for approximately 96% of the said turnover.

	For the year ended 31 March 2007 *HK$'000* *(Note 1)*	**For the period from 1 April 2007 to 30 June 2008** *HK$'000* *(Note 1)*	**For the year ended 30 June 2009** *HK$'000* *(Note 1)*	**For the year ended 30 June 2010** *HK$'000* *(Note 1)*	**For the year ended 30 June 2011** *HK$'000*
Outdoor Advertising Business in the PRC					
– Impairment (losses)	N/A	N/A	N/A	N/A	–
– (Loss) on disposal of subsidiaries	N/A	N/A	N/A	N/A	–
– (Loss) before taxation	N/A	N/A	N/A	N/A	(14,302)

Note 1:

As the acquisition of 100% equity interest of Active Link was completed on 5 October 2010, there was no financial effect on the Group's audited financial statement for the accounting periods.

Reason for losses

As the completion of acquisition of outdoor advertising business in the PRC was in October 2010, the loss of outdoor advertising business in the PRC was mainly caused by the depreciation, amortization and the start up cost during the initial period. For the six months ended 31 December 2011, the outdoor advertising business in the PRC as recorded approximately to HK$1.9 million operating profit before working capital changes (i.e. EBITDA).

Outdoor Advertising Business in Hong Kong

As announced by the Company, the Group entered into a sale and purchase agreement on 18 February 2011 to acquire 19% issued share capital of CNM at a consideration of **HK$78,000,000**. CNM is principal engaged in outdoor advertising in Hong Kong, specializing in lifts and outer walls of buildings. The acquisition was completed on 13 July 2011. Please refer to the announcement dated 18 February 2011 and the circular dated 16 June 2011 of the Company for further details on the said acquisition.

	For the year ended 31 March 2007	**For the period from 1 April 2007 to 30 June 2008**	**For the year ended 30 June 2009**	**For the year ended 30 June 2010**	**For the year ended 30 June 2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 1)*	*(Note 1)*
Outdoor Advertising Business in Hong Kong					
– Impairment (losses)	N/A	N/A	N/A	N/A	N/A
– (Loss) on disposal of available-for-sale investments	N/A	N/A	N/A	N/A	N/A
– Profit from operations	N/A	N/A	N/A	N/A	N/A

Notes:

1. As the acquisition of 19% equity interest of CNM was completed after 30 June 2011, and there was no financial effect on the Group's latest audited financial statement.

2. As at 31 December 2011, the total assets and total liabilities of the CNM were approximately HK$149,000 and HK$1,642,000 respectively. For the six months ended 31 December 2011, the loss before income tax expense of the Group was approximately HK$96,000. The Group recognise the investment in equity interest of CNM as available-for-sale investment in its accounting record, and should not share the loss before income tax expenses of CNM in its financial statement.

*This section contains certain information which is derived from official government publication and industry sources as well as an annual report on "Advertising Expenditure Forecasts-July 2011" (the "**Report**") published by ZenithOptimedia, an Independent Third Party, that Redgate Ventures Group purchased. ZenithOptimedia is part of the Publicis Groupe, the world's third largest communications group, the second largest media counsel and buying group (through its two media networks, ZenithOptimedia and Starcom MediaVest Group) and a global leader in digital communications. With activities spanning 104 countries on five continents, the Publicis Groupe employs approximately 44,000 people and is able to deliver local and international clients a complete range of communication services. ZenithOptimedia is one of the world's leading global media services agencies with 218 offices in 72 countries. The agency has total billings exceeding US$ 28 billion.*

METHODOLOGY

The following information derived from the Report published by ZenithOptimedia sets out the methodology adopted by ZenithOptimedia in obtaining the information set out in this "Industry Overview" section.

ZenithOptimedia is principally a media agency; with offices that plan and buy media campaigns in every country they forecast. ZenithOptimedia's offices provide it with historical ad expenditure figures from the source or sources in their country they judge to be the most reliable. ZenithOptimedia encourages its offices to supply it with figures that are as net as possible (that is, they take the discounts negotiated between agency and media owner into account, and exclude agency commission and production costs), but sometimes ZenithOptimedia has to use gross figures, which do not take discounts into account.

The net figures are generally compiled by an independent body that conducts a survey of advertisers, advertising agencies or media owners. Net figures are not available in some markets, generally the small ones. Gross figures are generally estimated by agencies that monitor the volume of advertising in sample members of each medium, and match each ad with the public 'ratecard' price of the space or time it occupies. These figures are less accurate than the net figures, but are useful because they can be broken down by advertiser, category and media owner.

ZenithOptimedia's offices then provide it with their forecasts for the next three years of growth. These are not top-down, modelled forecasts; instead, experts in each medium provide forecasts based on their knowledge of local market conditions, the spending plans of their clients, and the campaigns run by their competitors.

All figures stated in this "Industry Overview" section in relation to the period prior to 2011 are historic figures, which involve a degree of sampling and estimation in their production as described above; and in relation to the period from 2011 to 2013 are forecasted figures.

When ZenithOptimedia provides figures for top advertisers or categories in a market, these figures will always be gross. If discounts are high, then the gross expenditure from the top ten categories, and sometimes even top ten advertisers, can exceed total net ad expenditure in that market.

Figures that ZenithOptimedia quotes in current prices are unadjusted, nominal figures. Figures that are in constant prices are adjusted for consumer price inflation; this allows ZenithOptimedia to compare growth rates in countries with different rates of inflation. For those markets where expenditure is measured and supplied in US$ rather than in local currency, ZenithOptimedia has applied the United States inflation index to calculate the relevant constant price data.

ZenithOptimedia convert local-currency figures into US$ at the average exchange rate for 2010. For ZenithOptimedia's forecasts, they assume that currencies depreciate against the dollar at the rate of inflation. ZenithOptimedia does not normally apply different exchange rates to different years since currency fluctuations can obscure the underlying trends in ad expenditure.

OVERVIEW OF THE ADVERTISING INDUSTRY IN CHINA

According to ZenithOptimedia, China's advertising market is the second largest in Asia and the third largest in the world, as measured by total advertising spending. It is estimated that advertising spending in China in 2010 was approximately US$26.12 billion, accounting for 22.4% of total advertising spending in the Asia Pacific Region. Crucially, China is both the fastest-growing major advertising market as well as one of the world's largest, and yet it still spends far less, as a percentage of gross domestic product ("**GDP**"), on advertising than any other major economy.

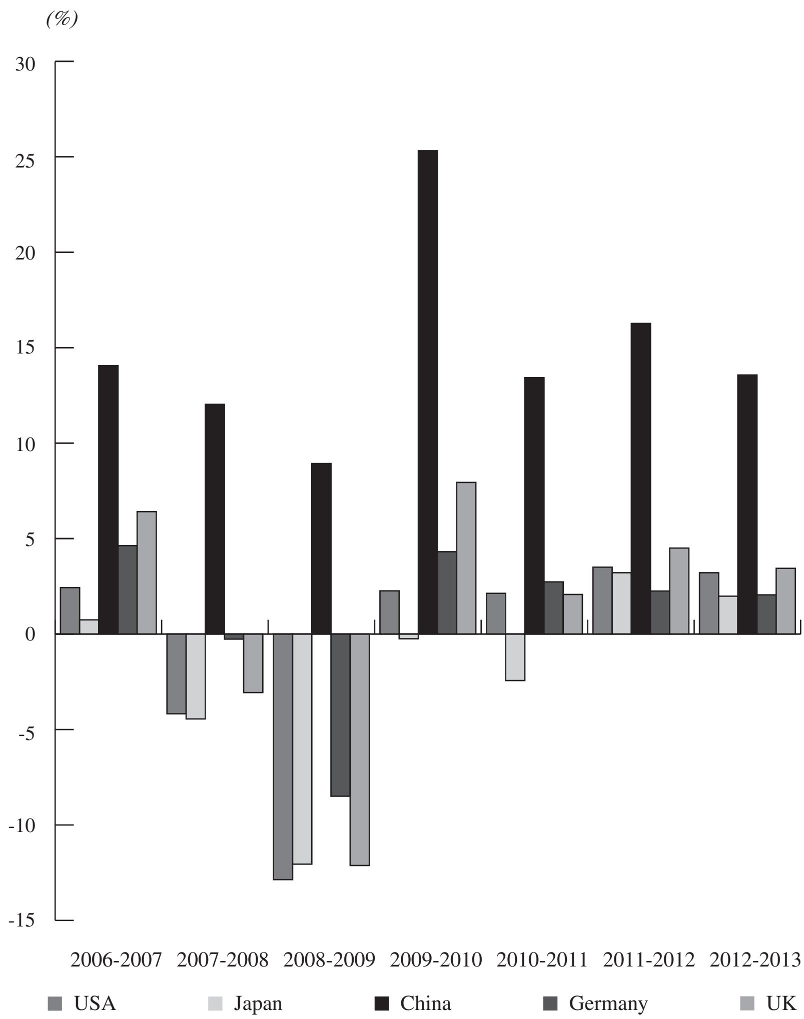
The US, as the world's largest and most-developed economy, spends the most on advertising, and it is roughly three times larger than second-place Japan. However, China is already the third-largest market for advertising expenditures in the world, ever given its relatively early stage of development.

(Millions of US$)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
USA	173,434	177,652	170,218	148,310	151,665	154,895	160,319	165,469
Japan	54,658	55,063	52,611	46,268	46,153	45,027	46,473	47,392
China	14,976	17,081	19,136	20,844	26,122	29,629	34,451	39,127
Germany	23,886	24,993	24,926	22,808	23,791	24,441	24,992	25,505
UK	18,488	19,673	19,069	16,755	18,086	18,461	19,291	19,954

Source: ZenithOptimedia estimates (July 2011)

Advertising spending in China grew at a compound annual growth rate ("**CAGR**"), of 15.69% between 1998 and 2010 and is projected to grow at a CAGR of 14.42% between 2010 and 2013, making it one of the fastest growing advertising markets, as indicated in the chart below:

Adspend Growth

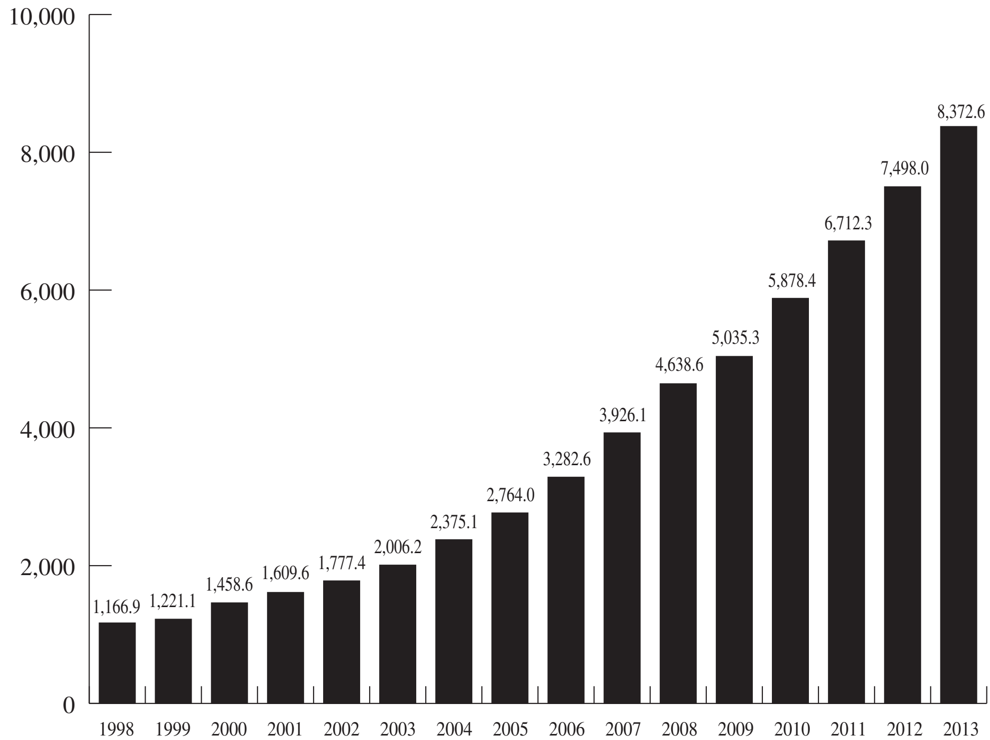


Source: ZenithOptimedia estimates (July 2011)

Key Drivers for Growth of the Advertising Industry in China

China's economic growth is driving rapid growth in disposable income. The continued rapid growth in China's advertising market has been, and is expected to be, largely driven by the rapid growth in disposable income and corresponding consumer spending of China's growing middle class. According to ZenithOptimedia, between 1998 and 2010, GDP in China grew at a CAGR of 14.42% Furthermore, this level of GDP growth is expected to continue unabated over the next three years. This growth in GDP is expected to be a key driver in supporting advertising spending growth as corporate budget decisions on advertising are expected to be largely driven by disposable income growth, not by economic cycles. The chart below sets forth the historical and forecast growth of GDP in China:

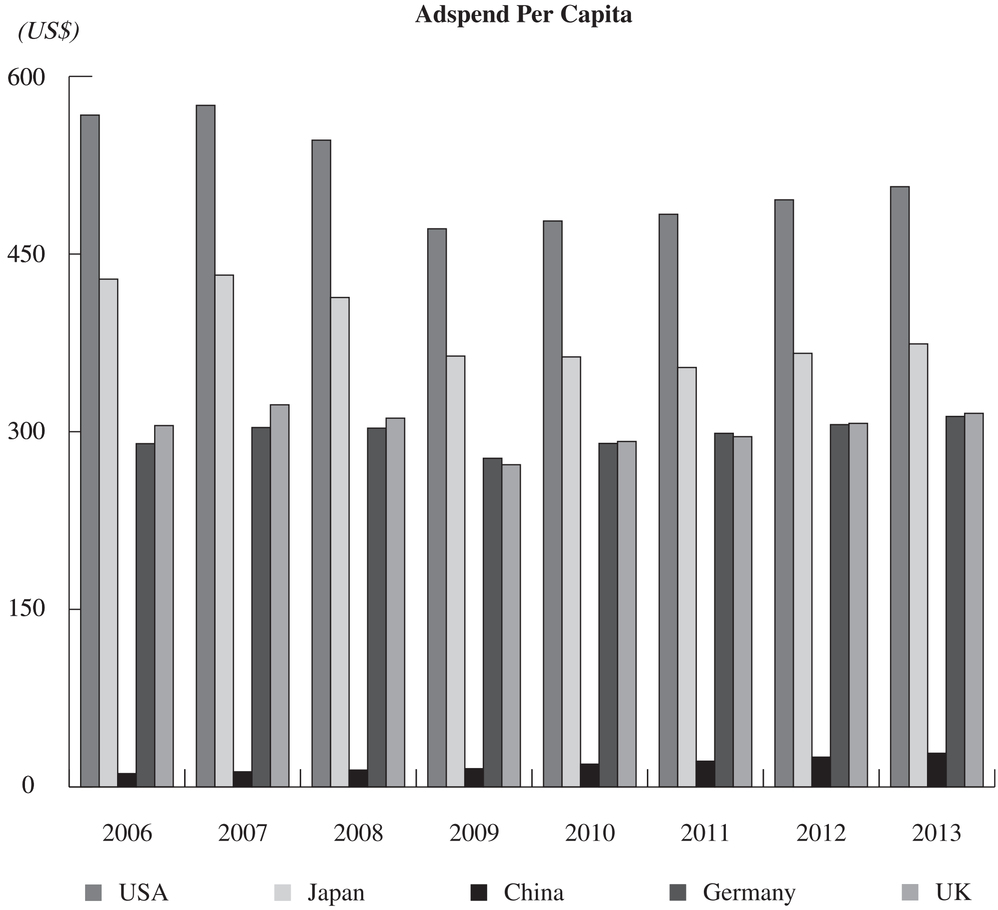
(In billions U.S. dollars)



Source: ZenithOptimedia estimates (July 2011)

In spite of the rapid growth in China's advertising market during recent years, advertising spending per capita and as a percentage of GDP in China continues to be significantly lower than a number of major economies, as shown in the following chart. We believe that there is significant growth potential in China's advertising industry as the affluent consumer class continues to develop and income levels continue to rise in China. In addition to GDP growth, it is essential to look at advertising spending as a percentage of GDP.

While most observers would not be surprised to know that advertising spending per capita in China is the lowest in the world, this can largely be attributed to the enormous population base.



Source: ZenithOptimedia estimates (July 2011)

However, we can see in the chart above that adspend per capita is growing rapidly in China, and this can be attributed to the maturing of the market, the rise in consumer spending, and correlated with GDP growth. Therefore, advertising expenditures as a percentage of GDP is a far more accurate measure of comparing the relative spending of China to other nations. What we find is that China spends far less on advertising, as a percentage of GDP, than its peers, the other "top five" nations in terms of total ad expenditures. This would imply that China, who, according to ZenithOptimedia, spent 0.44% of GDP on advertising in 2010, should be spending more like Japan (0.83%) or the UK (0.80%), if not as much as the U.S. (1.03%). If this were the case, then China should be doubling its ad expenditures in the coming years, as a percentage of GDP. When compounded with the GDP growth that we expect to see, the rate of increase in ad expenditures will make China the clear leader in advertising growth in terms of developed and developing nations.

	2010 Adspend as a % of GDP	2010 GDP Growth
USA	1.03%	3.83%
Japan	0.83%	2.89%
China	0.44%	16.7%
Germany	0.72%	4.11%
UK	0.80%	4.39%

Source: ZenithOptimedia estimates (July 2011)

ADVERTISING SEGMENTS IN WHICH WE OPERATE

We currently operate in the television and outdoor advertising segments in China which in aggregate accounted for RMB95.35 billion, or 53%, of the nation's total advertising spending in 2010, as indicated in the table below, according to estimates by ZenithOptimedia.

	Advertising spending in China						
	1999	2011	1999 to 2011 CAGR	As a Percentage of Total (2011)	2013E	2011 to 2013E CAGR	As a Percentage of Total (2013)
	(In millions of RMB)						
Television	15,615	78,180	13.19%	38.97%	104,074	15.38%	39.29%
Outdoor	5,432	31,057	14.35%	15.48%	40,855	14.69%	15.43%
Internet	0	40,795	–	20.34%	66,313	27.5%	25.03%
Others [(1)]	13,377	50,563	10.77%	25.21%	53,626	2.98%	20.24%
Total	34,424	200,595	14.52%	100.0%	264,899	14.92%	100.0%

Source: ZenithOptimedia estimates (July 2011)

(1) *Others include newspapers, magazines, radio and cinema.*

Television Advertising in China

China has emerged as the largest television viewing nation in the world. Television advertising has developed significantly over the last decade and is the largest advertising media in China.

Largest Television Viewership in the World. According to the National Bureau of Statistics of China, China has the largest number of television viewers in the world, with national television coverage of 97.23% or a potential audience of approximately 1.33 billion individuals at the end of 2009, served by 247 television stations. The number of television channels increased considerably in recent years, from 932 in 1995 to 3,250 in 2009, and the number of hours of television programming increased from 383,513 in 1995 to 2,653,552 in 2009.

Television Accounts for the Largest Share of Advertising Spending. Television advertising spending in China consistently tops other major Chinese advertising spending categories by having the widest coverage and greatest impact. According to ZenithOptimedia, advertising spending on television in China was RMB67,983 million in 2010, representing 38.4% of the country's total advertising spending. Despite the rapid growth of Internet and outdoor advertising, television has maintained its share of advertising spending over the last five years. From 1999 to 2011, television advertising spending in China grew at a CAGR of 13.19%, and it is expected to continue to grow going forward. According to ZenithOptimedia, China's television advertising spending is projected to reach RMB104,074 million in 2013, representing a CAGR of 15.38% from 2011 to 2013.

Outdoor Advertising in China

Outdoor advertising is the third largest advertising media in China after television and newspaper, and has experienced rapid development and growth in recent years. Outdoor advertising, which uses media formats such as billboards, light boxes, street furniture displays and displays such as digital television screens and wrap display advertising, offers an effective tool for advertisers to reach their target audience based on the locations where these advertising displays are placed. For example, advertisers can choose to target high-income households at high-end residential compounds or young middle-income individuals in office buildings. According to ZenithOptimedia, outdoor advertising spending in China grew at a CAGR of 14.35% between 1999 and 2011. In 2010, outdoor advertising spending amounted to RMB27,363 million, representing 15.47% of China's total advertising spending. According to ZenithOptimedia, outdoor advertising accounts for a larger percentage of total advertising spending in China compared to the United States and many countries in Asia and Europe. China's outdoor advertising spending is projected by ZenithOptimedia to reach RMB40,855 million in 2013, representing a CAGR of 15.43% from 2011 to 2013.

COMPETITION

As a whole, our business competes primarily with a number of companies that own or operate diversified national media assets in China, such as Focus Media Holding Ltd., Clear Media Ltd., Charm Communications Inc., and SinoMedia Holding. We generally compete with them in acquiring desirable advertising media assets and attracting advertising clients that want to execute national advertising campaigns. As the high-fragmented nature of the media industry in China has led to a lack of reliable data on players in the industry, there is no information available on ranking or market share amongst Redgate Ventures Group and its competitors. Based on publicly-disclosed revenue figures for the four companies mentioned above in 2010. Redgate Ventures Group is the smallest. The 2010 reported revenues of Focus Media, Clear Media, Charm Communications Inc., and SinoMedia Holding were US$516 million, HK$1.26 billion, US$192.4 million, and HK$1.38 billion, respectively, compared with HK$245 million for Redgate Ventures Group. While we compete with more than just these four companies, these were selected because they are amongst the only publicly-listed companies that own or operate diversified media assets in China, allowing us to compare our financial results with their publicly-disclosed financial results for reference purposes. We also face competition in each of our business divisions as set forth below:

Broadcast Network

The television advertising agency business in China is highly fragmented. We primarily compete with other television advertising agencies in bidding for the exclusive agency rights to sell all advertisements on a television channel or a program on the basis of price, size and quality of existing and prospective advertising client base and industry reputation. We may also compete with other television advertising agencies for advertising clients on the basis of the ratings of the programs or the television channels on which we sell advertisement time as well as coverage of such channels.

Outdoor Advertising Network

Our commercial billboard and display network primarily competes with companies that are engaged in the billboard advertising agency business, including Beijing-based U-Look Media and Advertising Co., Ltd., Shanghai-based Heartland Media Co., Ltd, and JC Decaux. We compete with them for both high-quality billboards and advertising clients.

Our residential light-box network competes for advertising clients primarily on the basis of network size and coverage, location, demographics of the viewership and price. Currently, this business competes primarily with two groups of competitors active in Shanghai:

- advertising companies that operate residential outdoor or indoor networks in Shanghai, such as Shanghai Chuangwai Advertising Co., Ltd.; and

- advertising companies that operate outdoor networks beyond residential communities in Shanghai, such as Clear Media, Shanghai Media Group, JC Decaux and Focus Media.

CHALLENGES AND RISKS GOING FORWARD

We face significant competition in the advertising market in China. For each of our advertising channels, we compete for advertisers primarily on the basis of network or audience coverage, popularity and quality of programs broadcasted, location, the range of advertising services that we offer, the effectiveness of our media formats, price and brand recognition. We expect competition in the advertising industry in China in general, and the outdoor and television segments, in particular, to intensify in the future. The market for outdoor advertising in general, including advertising in residential and commercial locations, requires that we continuously identify and secure valuable media resources and develop new features and enhancements for our media formats. Our broadcast network business competes with a wide range of competitors, including television advertising agencies. We compete with other agencies for valuable media resources, such as advertising time slots on high-quality television channels. We may also compete with them for advertising clients. The barriers to entry in the advertising industry in China include both licensing requirements as well as finding and training competent staff and building supplier and customer relationships. In addition, the advertising and media industries are heavily regulated, and this requires a thorough working knowledge of both the law as it pertains to the industry operating requirements as well as the standards and practices specific to the industry. For more information on the specific licensing requirements and regulations governing the industry, please refer to the sections headed "Regulations – Regulations on Foreign Investment in the Media, Advertising and Telecommunications industries", "Regulations – Establishment of Advertising Business", "Regulations – Advertising Content", and "Regulations – Operational Matters of the Advertising Business". We believe that this acts as a significant barrier to success for newcomers to the advertising industry in China, but many continue to enter and exit the market, so entry is less restricted.

We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources in order to fund some of our advertising inventory and concession rights expansion or make new acquisitions.

Overall macroeconomic environment in China and the continuous growth of the consumer spending affect advertising spending of our clients. In light of the global financial crisis and economic slowing down, we have been trying to diversify our client base to the greatest extent, adding more high growth domestic clients to our client base as international clients took cautious approach to their marketing expenditure.

RELEVANT REGULATIONS GOVERNING THE OPERATION OF THE REDGATE VENTURES GROUP IN THE PRC

Regulation in the Advertising Industry

The PRC government imposes extensive regulations over the media, advertising and telecommunications industries. The Redgate Ventures Group operates its business in China under a legal regime consisting of the National People's Congress of the PRC and its Standing Committee, the State Council, which is the highest authority of the executive branch of the National People's Congress of the PRC, and several ministries and agencies under its authority including, among others, the SAIC, the SARFT and the MIIT. The following summarizes the principal PRC laws and regulations that are relevant to our business.

Regulations on Foreign Investment in the Media, Advertising and Telecommunications Industries

The principal PRC regulations governing the investment of foreign capital in the media, advertising and telecommunications industries are:

- the Advertising Law of the PRC issued by the Standing Committee of the National People's Congress on 27 October 1994, which came into effect as of 1 February 2005;

- the Foreign Investment Industrial Guidance Catalog (the "**Catalog**"), jointly promulgated by the NDRC and the MOFCOM, on 30 November, 2004, as amended on 31 October 2007, which came into effect as of 1 December 2007;

- the Several Opinion on Foreign Investment in the Culture Sector (the "**Opinions**"), jointly issued by the SARFT, the Ministry of Culture, the General Administration of Press and Publication, the NDRC and the MOFCOM on 6 July 2005;

- the Administrative Provisions on Foreign Investment in the Advertising Industry, or the Administrative Provisions, jointly promulgated by the SAIC and the MOFCOM on 2 March 2004, as amended on 22 August 2008, which came into effect as of 1 October 2008;

- the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, or the Telecom FIE Regulations, issued by the State Council on 11 December 2001, as amended on 10 September 2008;

- the Circular of the MIIT on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Business (the "**Circular**"), promulgated by the MIIT on 13 July 2006; and

- Provisions on the Registration Administration of Outdoor Advertisements, issued by the SAIC on 22 May, 2006 which came into effect as of 1 July 2006.

Under the Catalog and the Opinions, foreign investment is (i) prohibited in companies that conduct radio and television program production, as described below, (ii) permitted in the advertising business, and (iii) restricted in the telecommunications business.

Television Stations

According to the Regulations on the Administration of Radio and Television Stations, promulgated by the State Council on 11 August 1997, the Detailed Procedures for the Financing of Radio, Film and Television Conglomerates, promulgated by the SARFT on 20 December 2001, and the Measures for the Administration of Examination and Approval of Radio Stations and Television Stations, promulgated by the SARFT on 18 August 2004, radio stations, television stations, radio frequencies or television channels may only be established and operated by the government. Pursuant to the Opinions, foreign capital may not be invested to establish or operate radio stations, television stations or transmission networks, broadcast radio or television programs, or operate radio frequencies or television channels for radio or television stations. Under the Opinions and the Circular on the Further Strengthening of the Supervision of Radio and Television Channels promulgated by the SARFT on 4 August 2005, foreign investors are prohibited from operating radio frequencies or television channels by means of providing advertising, printing or distribution services. None of the PRC operating subsidiaries of the Target Group nor subsidiaries operate television stations, or operate television channels.

Advertising

Under the Catalog and the Administrative Provisions, foreign investors may invest in PRC advertising companies through either wholly owned enterprises or joint ventures with Chinese parties. Since 10 December 2005, foreign investors have been permitted to operate wholly owned advertising companies in China, provided that such foreign investors have had at least three years of direct operations in the advertising industry as their core businesses outside the PRC. Foreign-invested advertising companies can engage in advertisement design, production, publishing and agency businesses, provided that permits and approvals are obtained, if required.

Pacific Asia Mode, the Hong Kong incorporated wholly owned subsidiary of the Redgate Ventures Group, has satisfied the above-stated three-year track record requirement under applicable regulations. Therefore, through that wholly owned subsidiary in Hong Kong, the Redgate Ventures Group has set up a wholly foreign owned advertising enterprise to primarily conduct its advertising business in China.

Regulations on the Advertising Industry

Establishment of Advertising Business

The principal regulations governing the PRC advertising industry include:

- the Advertising Law promulgated by the National People's Congress of the PRC on 27 October 1994;
- the Administration Regulations of Advertising, promulgated by the State Council on 26 October 1987;
- the Detailed Implementation Rules for the Regulations on Advertising, or the Implementation Rules, promulgated by the SAIC on 9 January 1988, amended in 1998, 2000 and 2004, and effective as of 1 January 2005; and
- the Measures on the Administration of Advertising Operation Licenses, promulgated by the SAIC on 30 November 2004.

Under these regulations, advertising companies may engage in advertising business only if they have obtained from the SAIC or its local branches a business license which specifically includes operating an advertising business as part of its business scope. A company carrying out advertising activities that fails to hold such a license may be subject to penalties, including fines, confiscation of advertising income and orders to cease advertising operations. Subject to annual examination, the business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation. Furthermore, pursuant to the Measures on the Administration of Advertising Operation Licenses, certain entities, including, but not limited to, radio and television stations and publishing institutions, must also obtain an advertising operating license from a branch of the SAIC at the county level or above before they can engage in the advertising business. These licenses will set forth the permitted advertising activities.

Advertising Content

PRC advertising laws and regulations set forth certain content requirements for advertisements in China, which include prohibitions on, among other things, false or misleading content, superlative wording, socially destabilizing content or content involving obscenity, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. The dissemination of tobacco advertisements via media and the display of tobacco advertisements in any waiting lounge, theater, cinema, conference hall, stadium or other public area are also prohibited. There are also specific restrictions and requirements regarding advertisements that relate to matters such as patented products or processes, pharmaceuticals, medical instruments, agrochemicals, foodstuff, alcohol and cosmetics. In addition, all advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals advertised through radio, film, television, out-of-home and other forms of media, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws and administrative regulations, must be submitted to the relevant administrative authorities for content approval prior to dissemination.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute are true and in full compliance with applicable law. In providing advertising services, advertising operators and distributors must review the prescribed supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. In addition, prior to distributing advertisements for certain commodities that are subject to government censorship and approval, advertising distributors are obligated to ensure that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting any misleading information. In circumstances involving serious violations, the SAIC or its local branches may revoke violators' licenses or permits for advertising business operations. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties in the course of their advertising business.

Operational Matters of the Advertising Business

Under the Advertising Law promulgated by the National People's Congress of the PRC on 27 October 1994, registration, review and filing systems need to be established and maintained for the operation of entities engaged in the advertising business. Advertising fees must be reasonable and rates and fee collection methods must be filed with the PRC Commodity Price Administration and the SAIC for records. Under the Implementation Rule of Advertising Industry Administration, or the Implementation Rule, promulgated by the SAIC, as amended, the advertising agency fee shall not be more than 15% of the advertising fees. The advertising clients must provide relevant documents, including certificates rendered by relevant supervisory administrations, before we can deliver or place its advertisements.

The SARFT promulgated the Interim Measures of Administration of Advertisement Broadcasting of Radio and Television in 2003 that came into effect on 1 January 2004. This regulation is applicable to advertisement broadcasting operations of all radio and television stations and channels. This regulation contains a number of restrictions, including that the total advertising time of a radio or television station or channel shall not be greater than 20% of its total broadcasting time each day. On 10 September 2009, the SARFT promulgated the Measures of Administration of Advertisement Broadcasting of Radio and Television which will become effective on 1 January 2010 and replace the Interim Measures of Administration of Advertisement Broadcasting of Radio and Television. This new regulation contains more detailed restrictions on the advertising time of a radio or television station or channel, including, for example, that the commercial advertising time for each program shall generally not be longer than 12 minutes per hour.

Outdoor Advertising

PRC laws and regulations generally applicable to advertisement are all applicable to outdoor advertisements. In addition, outdoor advertising is subject to regulation under the Provisions on the Registration Administration of Outdoor Advertisements, promulgated by the SAIC on 8 December 1995, as amended on 3 December 1998 and 22 May 2006, which came into effect on 1 July 2006.

Under the advertising Law, the exhibition and display of outdoor advertisements may not:

- utilize traffic safety facilities and traffic signs;

- impede the use of public facilities, traffic safety facilities and traffic signs;

- obstruct commercial and public activities or create an unpleasant sight in urban areas;

- be placed in restrictive areas near government offices, cultural landmarks or historical or scenic sites; or

- be placed in areas prohibited by the local governments from having outdoor advertisements.

Under the Provisions of the Registration Administration of Outdoor Advertisements, all outdoor advertisements must be registered with local SAIC above county level before dissemination. The advertising distributors are required to submit a registration application form and other supporting documents for registration. After review and examination, if an application complies with the requirements, the local SAIC will issue an outdoor advertising registration licence for such advertisement. Outdoor advertisement shall be published in accordance with the contents stipulated in the register such as venue, format, specification and time period, which cannot be altered without prior approval. The content of the outdoor advertisement must be submitted for filing with the local branches of SAIC. Some local regulatory authorities also require that additional approvals or permits be obtained before advertising billboards can be installed. If the outdoor advertising registration licence is not obtained under the said Provisions of the Registration Administration of Outdoor Advertisements, fines and penalty may be imposed. The maximum fine that may be imposed in respect of the non-registration of an outdoor advertising registration licence is RMB30,000.

Local governments also have their respective regulations concerning outdoor advertising, for instance, the Measures of Shanghai Municipality for the administration of outdoor advertising facilities in Shanghai, which was promulgated on 15 December 2004 and came into effect on 1 April 2005; the Measures for the administration of the installation of outdoor advertisement in Beijing Municipality in Beijing, which was promulgated and came into effect as of 27 October 2004; and the Measures of Guangzhou Municipality for the administration of outdoor advertising in Guangzhou, which was promulgated on 9 June 1998 and came into effect on 1 August 1998. Local governments are also responsible for the planning, coordination, and inspection of the placement of outdoor advertisements. The placement of outdoor advertisements is often subject to prior approval from local governments, and in certain cases, local governments prohibit outdoor advertisements in certain areas or at certain facilities.

Compliance with Regulatory Requirements

To the extent, the above laws and regulations are applicable to the existing business operated by Redgate Ventures Group, Redgate Ventures Group is required to maintain the requisite approvals, licenses and permits issued under the said laws and regulations to operate its business. As advised by our PRC legal advisers, Zhong Lun Law Firm, the business of Redgate Ventures Group is not a restricted business in the PRC.

Redgate Ventures Group has obtained licences and approvals which are necessary for the operation of its business, save that in respect of outdoor advertising registration licences that Redgate Ventures Group is responsible for obtaining such licences under contract, which responsibility will be transferred to the suppliers of the relevant outdoor advertising media. It is one of the conditions precedent under the Sale and Purchase Agreement that the warranties given by the Vendors as set out therein remains true and accurate and not misleading in any respect as of the Completion Date (for more details, please refer to the section headed "Sale and Purchase Agreement – Conditions Precedent), which warranties includes, among other things, that each member of Redgate Ventures Group has obtained all licences, consents, approvals, permissions, permits necessary for the carrying on of its businesses. There has been no non-compliance history in relation to licenses and permits already obtained by Redgate Ventures Group.

Redgate Ventures Group's current operation of its outdoor advertising business is mainly conducted through purchasing of outdoor advertising media from suppliers and then supplying the outdoor advertising media to its advertising clients. Redgate Interactive confirmed that in the actual operation of all outdoor advertising business of Redgate Interactive, the actual obligation of distribution of advertisements and performance of the related registrations are not assumed by Redgate Interactive. The actual distributors of all outdoor advertisements are the suppliers of the outdoor advertisement media to Redgate Interactive, and the obligation to obtain registration and the examination and approval is assumed by the said suppliers.

The status of the outdoor advertisement media purchasing contracts can be generally be categorized and described as follows:

(1) In respect of outdoor advertisement media purchasing contracts that have completed, Redgate Ventures Group has advised that:

- some of the said contracts expressed that the relevant suppliers of the outdoor advertisement media was responsible for obtaining the registration and the examination and approval for the outdoor advertisements;

- some of the said contracts expressed that it was Redgate Ventures Group was responsible for obtaining the registration and the examination and approval for the outdoor advertisements; and

- some of the said contracts did not express which party was responsible for obtaining the registration and the examination and approval for the outdoor advertisements.

Our PRC legal advisers, Zhong Lun Law Firm, have advised that the penalty in respect of the non-registration of an outdoor advertising registration licence will be imposed in accordance with the Measures for the Administrative Authorities for Industry and Commerce to Determine Illegal Proceeds in Administrative Punishment Cases promulgated by the SAIC, which provides that the confiscation of illegal proceeds derived from such non-registered advertisement shall be the total income derived from the illegal provision of services minus the costs of purchasing the goods used in providing the relevant services. The directors of Redgate Ventures have estimated the potential maximum fines and confiscation of income to be approximately HK$42,944,000, HK$72,787,000 and HK$31,909,000 as at 31 December 2009, 2010 and 2011 respectively. Please refer to Appendix II – Financial Information of Redgate Ventures Group, section C, note 37 for more detail.

(2) In respect of current outdoor advertisement media purchasing contracts, as reviewed by our PRC legal advisers, Zhong Lun Law Firm:

- it has been agreed and stated in a majority of the said contracts that the relevant suppliers of the outdoor advertisement media have assumed the obligation to obtain the registration and examination and approval for the outdoor advertisements; and

- in the remaining said contracts the said obligation to obtain the registration and examination and approval for the outdoor advertisements was not stated.

With regards to the said current contracts, the management of each of Beijing Yanhuang, Beijing Shenzhou, Beijing Langrui, Shanghai Langli, Hangzhou Yibao, Heibei Langshen and Wuhan Langxin has provided written confirmation to the Company, respectively, that each of the said members of Redgate Ventures Group will enter into supplemental agreements with the respective suppliers of the outdoor advertising media within 45 days from 8 November 2011 to specify that the said suppliers will assume the obligation to obtain the registration and the examination and approval of their respective outdoor advertisements. As at the Latest Practicable Date, the said members of Redgate Ventures Group have entered into the aforesaid supplemental agreements with all the said respective suppliers of the outdoor advertising media.

In light of the aforesaid, our PRC legal advisers, Zhong Lun Law Firm, is of the view that, on the premise that the relevant subsidiaries of Redgate Interactive are not the distributors of outdoor advertisements and that the suppliers of the outdoor advertisement media assume the obligation to obtain the registration and examination and approval for the outdoor advertisements, the relevant subsidiaries of Redgate Interactive are not responsible for the obligation of registration and examination and approval of outdoor advertisements as stipulated in the Outdoor Advertising Registration Management Regulations and shall not be subject to administrative penalty arising from the distribution of outdoor advertisements without approval.

Our PRC legal advisers have also advised the Company that, based on said confirmations of the aforesaid members of Redgate Ventures Group, each of the said members of Redgate Ventures Group complies with the relevant laws and regulations of the PRC in their advertising operation activities and no acts of violation exist.

(3) In respect of future outdoor advertisement media purchasing contracts:

- Redgate Ventures Group will enter into future contracts with suppliers of the outdoor advertisement media if the said suppliers will be responsible for obtaining the registration and examination and approval for the outdoor advertisements under contract, and will not enter into future contracts with suppliers of outdoor advertising media that are not in strict compliance with the relevant laws and regulations of the PRC; and

- Redgate Ventures Group has undertaken that it will obtain all the registration and the examination and approval for the outdoor advertisements if it is its responsibility under contract.

With regards to the above categories (1) and (2) in respect of completed contracts and current contracts, respectively, the Group has obtained an undertaking from the First Vendor to indemnify each member of the Enlarged Group against any actions, claims, demands, actions, proceedings, costs and expenses, losses and liabilities whatsoever (collectively the "**claims**") which may be suffered or incurred by any PRC established member of Redgate Ventures Group on or after Completion in respect of or arising directly or indirectly from or in connection with any outdoor advertising registration licences that have not been obtained under the applicable laws and regulations of the PRC (the "**Outdoor Licences Indemnity**").

The Outdoor Licences Indemnity is not subject to any expiration term. Pursuant to the Outdoor Licences Indemnity, the Company will hold in custody the Convertible Notes in the aggregate principal amount of HK$253,000,000 (the "**Retained Convertible Notes**") for a period of 30 months from the date on which the Retained Convertible Notes are issued to the First Vendor (i.e. the Completion Date). During the said 30-month period, if any of the said Claims occur, the Company may at its sole discretion set-off the Claims against the principal amount of the Retained Convertible Notes. If any Claims are not settled at the end of the 30-month period, the Company will continue to hold the Retained Convertible Notes in custody and the remaining balance of the principal amount, if any, will be paid to the holder of the Retained Convertible Notes in cash upon settlement of such Claims. At the request of the First Vendor and upon the confirmation with the support of a legal opinion issued by a PRC lawyer that no more Claims can be brought against or liability be imposed on the relevant members of the Enlarged Group, the Company, with the approval of the independent non-executive Directors, will release Retained Convertible Notes of such principal amount that corresponds to the liabilities reduced. In setting-off the Claims, if the principal amount of the Retained Convertible Notes is insufficient to settle any Claims, the Company shall have the right to claim against the First Vendor for all outstanding amounts due from the First Vendor under the Outdoor Licences Indemnity.

As at the Latest Practicable Date, the management of all members of Redgate Ventures Group established in the PRC have confirmed to the Company that they have paid all their respective taxes at the applicable tax rates in the PRC, as required. Pursuant to our PRC legal advisers, Zhong Lun Law Firm's search of the publicly available information at the official government websites of the competent industry and commerce bureaus and tax bureaus for Shanghai Dianguang, Beijing Yanhuang, Beijing Shenzhou, Beijing Langrui, Shanghai Langli, Hangzhou Yibao, Wuhan Langxin and Heibei Langshen, Zhong Lun Law Firm did not discover any information in relation to tax arrears or imposition of administrative penalty. Our PRC legal advisers also searched the publicly available information at the Beijing enterprise website, and as at 1 October 2011, there was no alert information in respect of Beijing Langrui and Beijing Shenzhou. As advised by our PRC legal advisers, according to the "Notice of confidential information relating to tax" issued by the Beijing tax bureau on 13 October 2011, Redgate Interactive has fully paid the city maintenance and construction tax, individual income tax, educational surcharges, foreign invested enterprise land use fee, levying of construction fee for cultural undertaking, and enterprise tax.

As at the Latest Practicable Date, save as disclosed in the sub-paragraph headed "Contingent Liabilities" in Appendix III to this circular, there is no outstanding tax arrears, administrative penalty or any pending litigation against any of Shanghai Dianguang, Beijing Yanhuang, Beijing Shenzhou, Beijing Langrui, Shanghai Langli, Hangzhou Yibao, Wuhan Langxin and Heibei Langshen.

As at the Latest Practicable Date, some members of Redgate Ventures Group have made social security fund registration and paid social security for all of their respective employees; some members of Redgate Ventures Group have made social security fund and housing provident fund registration, but not paid social security and housing contribution for all of their respective employees; and some members of Redgate Ventures Group have not conducted social security fund or housing provident fund registration or paid social security or housing contribution for their respective employees. Redgate Ventures Group intends to rectify this within 3 months of Completion. However, in light of the small number of employees, the small amount of social security and housing contribution that is required to be paid and the possible monetary fines that may be imposed for the said non-registration or non-payment of social security and housing contribution is of a small amount, our PRC legal advisers, Zhong Lun Law Firm, are of the opinion that the above mentioned non-registration or non-payment of social security and housing contribution by the respective members of the Redgate Ventures Group will not have a material impact on the business operation of the relevant members of the Redgate Ventures Group.

As at the Latest Practicable Date, some members of Redgate Ventures Group have not made changes to their registration of their principal place of business addresses in their respective enterprise legal person business licences to reflect their respective actual principal places of business. Redgate Ventures Group intends to rectify this within 3 months of Completion. Our PRC legal advisers, Zhong Lun Law Firm, has advised that the companies registration authority of the PRC will order the rectification registration of the principal place of business address to be made within a stipulated period if rectification has not been made in accordance with the relevant laws of the PRC, and if rectification is not made within the stipulated period, a fine of not less than RMB10,000 and not more than RMB100,000 may be imposed. However, our PRC legal advisers are of the opinion that not having made the said changes in the registration of their respective principal places of business address in their enterprise legal person business licences will not have a material impact on the business operations of the relevant members of Redgate Ventures Group, and that if the said changes are registered within the stipulated time, no penalty should be imposed.

As at the Latest Practicable Date, local financial statements of some members of Redgate Ventures Group have not been annually audited by the certified public accountants registered in the PRC in accordance with the PRC Company Law. Our PRC legal advisers, Zhong Lun Law Firm, are of the opinion that, based on the fact that the PRC Company Law did not provide any measures for penalty in respect of the aforesaid and that the relevant members of Redgate Ventures Group have all passed the annual inspections up to 2010, the relevant members of Redgate Ventures Group will not be subject to administrative penalty as a result of annual audit that have not been previously conducted, which will also not pose material legal impediment to their passing of future annual inspections.

As at the Latest Practicable Date, some members of Redgate Ventures Group are still in the process of filing and registering their housing lease contract in accordance with the Administrative Measures for Urban House Leasing of the PRC. However, our PRC legal advisers, Zhong Lun Law Firm, are of the opinion that as the relevant laws of the PRC did not state that the conducting of the said filing is a condition precedent to the effectiveness of real estate lease contracts and the penal consequence for not conducting filing has not been stipulated, not having conducted the filing procedures for the tenancy contracts will not affect the effectiveness and performance of the said lease contracts. Our PRC legal advisers further advised that upon completion of the filing and registration requirement, the housing lease contracts will be in compliance with the applicable law.

Shareholders should consider carefully all of the information set out in this circular and, in particular, the following risks factors associated with the Enlarged Group as well as the other information including Redgate Ventures Group's financial statements and accompanying notes and the unaudited pro forma financial information of the Enlarged Group set forth in Appendices II and IV respectively before making a voting decision at the Special General Meeting. If any of the possible events described below occur, the business, financial condition or results of operations of the Enlarged Group could be materially and adversely affected and the market price of the Shares could fall significantly.

The Directors have identified the following risks associated with the Acquisition.

RISKS RELATING TO THE BUSINESS

Redgate Ventures Group may not be able to successfully integrate, and achieve the benefits it expects from, its future acquisitions of businesses or assets due to a number of factors, some of which are beyond its control; and these acquisitions may expose it to significant business risks and materially adversely affect its future financial condition, results of operations and growth prospects.

Strategic acquisitions have been a key part of Redgate Ventures Group's growth strategy. The majority of Redgate Ventures Group's business divisions are comprised of businesses it acquired in the past few years with an aim to establish an integrated cross-media platform through integrating strategically acquired businesses in diverse media areas. Accordingly, Redgate Ventures Group has made acquisitions that were critical in expanding its media resources, client base, market access and talent pool. However, any particular acquisition may not produce the intended benefits due to a number of factors, some of which are beyond its control.

These factors include, among other things:

- difficulties in integrating acquisitions with Redgate Ventures Group's existing operations and personnel, including unifying its operating and accounting policies and procedures as well as its information systems, streamlining overlapping operations, consolidating subsidiaries and branch networks and allocating human resources;

- unforeseen operating difficulties and expenditures arising from the process of integration with the acquired entities;

- contractual and other limitations on Redgate Ventures Group's ability to operate some of the entities acquired or to be acquired, including replacing certain key management personnel, during specified periods post-acquisition;

- significant attention required from Redgate Ventures Group's management that would otherwise be available for the ongoing development of its business;
- the diversion of financial or other resources from Redgate Ventures Group's existing businesses; and
- potential loss of, or harm to, relationships with the clients of the acquired entities or Redgate Ventures' existing clients.

A successful integration of those acquisitions is crucial to achieving Redgate Ventures Group's goal of establishing an integrated cross-media platform. Redgate Ventures Group anticipates that it will continue to acquire businesses or assets that are complementary to its core business. Redgate Ventures Group cannot assure, however, that Redgate Ventures Group will be able to identify and secure suitable acquisition opportunities. In addition, Redgate Ventures Group's ability to effectively integrate any future acquisition on terms that are favorable to it may be limited by the number of attractive acquisition targets available, internal demands on Redgate Ventures Group's resources and, to the extent necessary, Redgate Ventures Group's ability to obtain financing on satisfactory terms for larger acquisitions, as well as Redgate Ventures Group's ability to obtain any required shareholder or government approvals. Moreover, even if an acquisition target is identified, the third parties with whom Redgate Ventures Group seeks to cooperate may not select it as a potential partner or it may not be able to enter into arrangements on commercially acceptable terms with respect to such an acquisition. Even if Redgate Ventures Group has entered into definitive agreements to consummate an acquisition, the acquisition may not be completed for an extended period of time, or at all, for various reasons, including failure to satisfy closing conditions or breach by a party. The negotiation and completion of potential acquisitions, whether or not ultimately consummated, could also require significant amounts of management's time and resources and potentially disrupt Redgate Ventures Group's existing business.

There may be unidentified risks relating to the Acquisition.

Although the Group has conducted due diligence with respect to the Acquisition, the Group may not identify all material risks associated with the Acquisition due to inherent limitations of due diligence, including, among other things, unforeseen contingent risks or latent liabilities relating to the entities acquired or to be acquired that may not become apparent until in the future. Any such unidentified risk could have a material adverse impact on the Group's business, financial condition and results of operations after the completion of the Acquisition. Even if the Group identifies any such risk and terminate the Sale and Purchase Agreement prior to the completion, the Group's reputation may be harmed and the Group's prospects may be materially and adversely affected.

Redgate Ventures Group faces increasing competition in the outdoor advertising industry and from other forms of advertising.

Redgate Ventures Group faces competition in its markets from other outdoor advertising companies. Over the past few years, there has been a significant increase in the variety and diversity of out-of home media formats, including advertising displays in shopping malls, airports, stadiums, supermarkets and on taxis, buses and trains. In addition, other forms of advertising media such as television, broadcast radio, magazines and newspapers also add to the competitive pressure which may have a material adverse effect on Redgate Ventures Group's profitability and financial performance. While Redgate Ventures Group's business plan has enabled it to compete successfully with other forms of advertising media in its markets to date, we cannot be certain that it will be able to continue to do so in the future.

The Group believe that in recent years outdoor advertising expenditure has increased more rapidly than the overall advertising expenditure in China. However, the Group does not know and cannot be sure whether this trend will continue or whether in the future outdoor advertising expenditure will grow slower than the advertising industry as a whole. Redgate Ventures Group's business, financial condition and results of operations would be materially and adversely affected if its major customers reallocate their advertising expenditure or budgets to other forms of advertising.

Redgate Ventures Group derives substantially all of its revenues from advertising, and the advertising market is volatile and sensitive to changes in economic conditions and advertising trends.

Most of Redgate Ventures Group's business divisions, including its outdoor advertising network and television advertising platform, derive substantially all of their revenues from the provision of advertising and related services. Advertising spending is volatile and sensitive to changes in the economy. Redgate Ventures Group's advertising clients may reduce the amount they spend on its media channels or agency services for a number of reasons, including:

- a downturn of economic conditions in China or elsewhere in the world;
- a decline in the economic conditions of the areas covered by its advertising networks;
- a downturn in its clients' industries or businesses;
- a decision to shift advertising spending to other media and platforms;
- a deterioration in the ratings of its radio programs and the programs of the television channels for which it act as exclusive advertising agent; or
- a decline in advertising spending in general.

A decrease in demand for advertising in China in general and for Redgate Ventures Group's advertising services in particular, would materially and adversely affect its business, financial condition, results of operations and prospects.

Redgate Ventures Group has been, and may continue to be, dependent on a limited number of clients for a significant portion of its revenues, and a loss of its significant clients may materially and adversely affect its results of operations.

182 clients, of which 146 are advertising agents and 36 are advertisers have historically accounted for a significant portion of Redgate Ventures Group revenues. For each of the year ended 31 December 2009, 31 December 2010 and 31 December 2011, Redgate Ventures Group's largest customer accounted for approximately 10%, 13% and 12% of its total revenue, respectively. For each of the year ended 31 December 2009, 31 December 2010 and 31 December 2011, Redgate Ventures Group's five largest clients collectively accounted for approximately 37%, 38% and 40% of its total revenues, respectively. Redgate Ventures Group may continue to be dependent on a small number of its clients for a substantial portion of its revenues in the future.

Advertisers generally are able to reduce advertising and marketing spending or cancel advertising campaigns at any time for any reason. If Redgate Ventures Group loses one or more of its largest advertising clients, if one or more of them reduce their spending on Redgate Ventures Group's advertising services, or if Redgate Ventures Group fails to maintain its relationships with advertising agencies through which it sells advertising services to its advertising clients, to the extent these clients are not replaced by new client accounts or an increase in business from existing clients, Redgate Ventures Group's revenues could significantly decline and Redgate Ventures Group's business, financial condition and results of operations could be materially and adversely affected. Moreover, Redgate Ventures Group does not enter into long-term agreements with most of its clients and cannot assure that Redgate Ventures Group will be able to continue selling its advertising services to them. In addition, Redgate Ventures Group's dependence on a small number of clients makes it vulnerable to delays in payments from these clients. Redgate Ventures Group is required under its exclusive advertising agency arrangements with television stations to make pre-determined monthly payments to the television stations regardless of whether we receive payments from our advertising clients. If one or more of Redgate Ventures Group's major clients are delinquent in their payments to it for a significant period of time, its financial condition may be materially harmed.

In addition, substantially all of Redgate Ventures Group's five largest advertising clients in each of 2007, 2008 and the nine months ended September 30, 2009 were represented by their respective advertising agencies in purchasing and placing advertisements with Redgate Ventures Group. The advertising agencies generally exercise considerable influence over the way the advertising budgets of their advertising clients are spent and in the selection of various media for the delivery of advertisements. Redgate Ventures Group's ability to maintain and manage relationships with these advertising agencies, which are vitally important to its ability to source business from their advertiser clients, is subject to various uncertainties. These uncertainties include changes in relationship personnel at such advertising agencies, which are often beyond Redgate Ventures Group's control.

If advertisers or consumers do not accept, or lose interest in, its outdoor advertising network, Redgate Ventures Group may be unable to generate sufficient cash flow, which would have a material adverse effect on its business, financial condition, results of operations and prospects.

The market in China for Redgate Ventures Group's outdoor advertising networks is relatively new and its potential is uncertain. Redgate Ventures Group's success in outdoor advertising depends on the acceptance of its advertising network by its advertising clients and their continuing interest in its network as a component of their advertising strategies. Redgate Ventures Group's success in outdoor advertising also depends on consumers being receptive to its advertising network. Advertisers may choose not to use Redgate Ventures Group's advertising services if they believe that consumers are not receptive to its advertising network or that its advertising network is not as effective as other competing forms of media networks. Likewise, consumers may find Redgate Ventures Group's residential light-box network to be intrusive. This could cause property owners or administrators to prohibit Redgate Ventures Group, or further restrict Redgate Ventures Group, from operating its advertising network on their properties, which may materially and adversely affect its business and prospects.

Furthermore, advertisers' willingness to purchase Redgate Ventures Group's advertising services depends in part on the viewing public's response to the advertisements. However, it is difficult to track the viewing public's response to the advertisements placed on Redgate Ventures Group's outdoor advertising network. If Redgate Ventures Group fails to adequately track the viewing public's response, particularly with respect to tracking the demographics of the viewers most receptive to those advertisements, Redgate Ventures Group will not be able to provide sufficient feedback and data to existing and potential advertising clients to help it generate demand and determine pricing. Without improved market research, advertising clients may reduce their use of Redgate Ventures Group's outdoor advertising network. If a substantial number of Redgate Ventures Group's advertising clients lose interest in its outdoor advertising network for these or other reasons, Redgate Ventures Group will be unable to generate sufficient revenues and cash flow to operate its outdoor advertising business, and its business, financial condition, results of operations and prospects could be materially and adversely affected.

If Redgate Ventures Group is unable to retain or obtain desirable placement locations for its media formats or desirable displays on commercially acceptable terms or at all or if the supply of desirable locations or displays diminishes, it may have difficulty maintaining or expanding its outdoor advertising network, and its operating margins and earnings could decrease significantly.

Redgate Ventures Group's ability to generate revenues for its outdoor advertising business depends upon its ability to provide a broad advertising network covering locations in China that are attractive to advertisers. This, in turn, requires that Redgate Ventures Group develops and maintains business relationships with the owners or operators of the leased billboards and other displays comprising our commercial billboard and display network. The billboard/display leasing agreements with billboard or display owners or operators generally range from several months to three years. However, Redgate Ventures Group may not be able to maintain its relationships with billboard/display owners or operators on commercially acceptable terms, if at all. For example, some of the billboard/display leasing agreements allow the billboard/display owners or operators to terminate the relevant agreements early, without compensation to Redgate Ventures, if there are changes in government planning policies regarding outdoor advertising facilities or other specified reasons. If a significant number of its billboard/display leasing agreements or governmental approvals are terminated or not renewed for any reason, advertisers may find Redgate Ventures Group's outdoor advertising services unattractive and may not wish to purchase its services, which would materially and adversely affect its business and prospects.

Redgate Ventures Group's outdoor media costs currently include leasing fees under its billboard/display leasing agreements, maintenance and monitoring fees and other associated costs, and comprise a significant portion of its cost of revenues. In the future, Redgate Ventures Group may need to increase the amount of fees that it pays to obtain new leases, renew existing billboard/display leases, and secure favourable exclusivity and renewal terms. Any such increase in outdoor media costs may result in a significant decrease in Redgate Ventures Group's operating margins and earnings.

Redgate Ventures Group's profit margins and operating results may be adversely affected by increases in the cost of inventory supplied by its suppliers.

Redgate Ventures Group's ability to generate revenues for its advertising business depends upon its ability to source inventory required by its customers. Redgate Ventures Group manages the fluctuations in cost inventory by transferring some of the incremental costs to its customers. Redgate Ventures Group's suppliers' substantial increase in cost of inventory required by Redgate Ventures Group's customers that Redgate Ventures Group is unable to completely pass on to its customers could adversely affect its profit margins and operating results.

If Redgate Ventures Group fails to obtain, maintain or renew certain governmental approvals or registrations for its outdoor advertising operations, it may not be able to continue to operate all or a portion of its outdoor advertising business or expand this business, which could materially and adversely affect its business and prospects.

Under the Provisions on the Registration Administration of Outdoor Advertisements, all outdoor advertisements must be registered with the local branches of the SAIC above county level and outdoor advertising registration certificates be obtained prior to their publication. In addition, certain of the cities where Redgate Ventures Group and the entities acquired by it operate outdoor advertising business, including Shanghai, Beijing and Guangzhou, have local regulations for outdoor advertising operations, including approval requirements for placement of outdoor advertising displays and restrictions or prohibitions on outdoor advertisements in certain areas or through certain facilities. See "Regulations – Regulations on the Advertising Industry – Outdoor Advertising." Furthermore, local governments may, from time to time, adopt measures to suspend or tighten the approvals of, registrations for, or impose further restrictions on, outdoor advertising operations for political, public policy, administrative or other consideration. For instance, on April 22, 2008, the Shanghai City Appearance and Environmental Sanitation Bureau issued an emergency notice suspending all approvals for the placement of outdoor advertising displays in Shanghai, including any renewals of approvals, and requiring the immediate cessation of the construction of all outdoor displays. While Redgate Ventures Group's then-existing outdoor displays in Shanghai were largely unaffected, this regulation may pose potential problems for the development of its outdoor advertising business in that city.

Redgate Ventures Group may not always be able to obtain, maintain and renew the relevant approvals or registrations, including the approval for placement of outdoor advertising displays and outdoor advertising registration certificates that are required to operate its outdoor advertising business. In addition, 4 out of 111 of the advertisements placed on Redgate Ventures Group's commercial billboard and display network have not been registered with the relevant local branches of the SAIC, from which the amount of revenue generated is RMB27,672,657, RMB65,371,282 and RMB66,064,074 for the three years ended 31 December 2011, 31 December 2010 and 31 December 2009, respectively. If Redgate Ventures Group fails to obtain the requisite registration, the relevant local SAICs may impose administrative sanctions on it, such as fines and penalty. See "Regulations – Compliance with Regulatory Requirements" and Appendix II – Financial Information of Redgate Ventures Group, section C, note 37. The directors of Redgate Ventures have estimated the potential maximum fines and confiscation of income to be approximately HK$42,944,000, HK$72,787,000 and HK$31,909,000 as at 31 December 2009, 2010 and 2011 respectively. As a result of such sanctions, Redgate Ventures Group may also have to discontinue the operation of the affected outdoor displays and all unregistered outdoor advertisements.

Redgate Ventures Group does not have long-term agreements with the television stations for which we act as exclusive advertising agent on specific channels or programs. Failure to renew those agreements upon expiration could materially and adversely affect Redgate Ventures Group's business, results of operations, financial condition and prospects.

Television advertising services are a significant part of Redgate Ventures Group's business. Redgate Ventures Group's television advertising services currently are focused on acting as the exclusive agent to sell all the advertising time slots around two television programs. The terms of Redgate Ventures Group's advertising agency agreements with television stations or its agents range from one to three years. These agreements may not always be renewed upon expiration. For example, a television station may decide not to renew an agreement due to its intention to award the agreement to an advertising agent competing with us or due to changes in its internal practice or policy of using external exclusive advertising agents. Redgate Ventures Group may also elect not to renew the relevant agreements if the terms and conditions for renewal are not commercially attractive or desirable. If any of these agreements is not renewed upon expiration and is not replaced by similar new agreement(s) or increase in revenues under existing agreements, Redgate Ventures Group revenues from the television advertising business could significantly decline and its business, results of operations, financial condition and prospects could be materially and adversely affected.

If the Redgate Ventures Group fails to attract advertisers to purchase its advertising inventory.

If the Redgate Ventures Group fails to attract advertisers to purchase its advertising inventory, such as billboards, advertising time on television, that it leases or has secured, it may have difficulty in maintaining its advertising rates it charges for the advertising time space on its advertising inventory and could negatively affect our ability to increase revenues in the future or cause our revenue to decline and its business and prospects to deteriorate.

Risks associated with seasonality of Redgate Ventures Group's revenue flow.

Redgate Ventures Group's business may be affected by seasonality. Revenue fluctuations are common in the advertising industry and are primarily the result of fluctuations in advertising expenditures. A large proportion of advertising expenditures is concentrated on product launches and promotion campaigns prior to the festive and shopping season in December. Redgate Ventures Group's past experience indicates that its revenue is typically lower in the first half and higher in the second half of the year. Based on Redgate Ventures Group's financial results, Redgate Ventures Group recorded Revenue of approximately HK$77 million for the first half, and approximately HK$108 million for the second half, of the financial year of 2009; approximately HK$118 million for the first half, and approximately HK$127 million for the second half, of the financial year of 2010; and approximately HK$145 million for the first half, and approximately HK$132 million for the second half, of the financial year of 2011 due to the seasonality factor of its business.

Redgate Ventures Group may be subject to liabilities for advertisements produced by it or displayed on its media channels.

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors, including businesses such as ours, to ensure that the content of the advertisements they prepare or distribute is fair and accurate and is in full compliance with applicable law. Violation of these laws or regulations may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving severe violations, the PRC government may revoke a violator's license for advertising business operations and a criminal penalty may be imposed.

Redgate Ventures Group is obligated under PRC laws and regulations to monitor the advertising content that is shown, displayed or printed on or distributed through any of its media channels for compliance with applicable law. In Redgate Ventures Group's broadcast network businesses, it is typically responsible for compliance with applicable laws, rules and regulations with respect to advertising content that it provides to the television or radio stations. Furthermore, for advertising contents related to specific types of products and services, such as alcohol, tobacco, cosmetics, pharmaceuticals and medical facilities, it is required to confirm that its advertising client has obtained requisite government approvals, including the advertiser's operating qualifications, proof of quality inspection of the advertised products, government pre-approval of the contents of the advertisement and filing with the local authorities.

Civil claims may be filed against Redgate Ventures Group for fraud, defamation, subversion, negligence, copyright or trademark infringement or other violations due to the nature and content of the advertisements displayed on Redgate Ventures Group's advertising network. While Redgate Ventures Group typically have contractual lights to be indemnified by the relevant advertisers for its losses and damages resulting from such claims, enforcement of such rights could be costly and indemnification recovered may not be sufficient to compensate for its losses. In addition, if such claims are filed against Redgate Ventures Group, its reputation may also be harmed.

The PRC government may prevent Redgate Ventures Group or the entities to be acquired from producing or distributing, and we or they may be liable for, content that it believes is inappropriate.

The media sector in China is highly regulated and closely monitored by various government agencies in China, in particular the SARFT. China has enacted laws and regulations governing the production and distribution of news, information or other broadcasting content. In the past, the PRC government has stopped the production or distribution of information or content that it violates PRC law and the media entities in breach of these laws have been severely reprimanded. The SARFT would prohibit information and content from being distributed through the media, if the SARFT were to find the information or content inappropriate. Inappropriate content includes, among others, information that threatens the unity, sovereignty and territorial integrity of China, endangers national security, incites violence and uprising, propagates obscenity or undermines public morality. In addition, the SARFT has published regulations that subject media operators to potential liability for content distributed through their broadcast or print media.

It may be difficult to determine the type of content that may result in liability. PRC government censorship is carried out on a case-by-case basis, often without consistency among the cases and without explanation. In addition, the PRC government may launch campaigns and issue new policies with respect to control and censorship of the media sector, which may lead to more stringent interpretation or enforcement of regulations. For example, the MIIT, initiated a campaign in late 2009 against transmission of unhealthy content through mobile networks and has adopted certain measures, including, among other things, requesting all the mobile network operators in China to inspect mobile value-added services ("**MVAS**") providers and MVAS marketing channels, censor advertisements and other content and develop systems to filter "harmful" content.

If the content created or distributed by Redgate Ventures Group or the entities to be acquired by it is deemed to have violated any content restriction, Redgate Ventures Group or such entities would not be able to continue to create or distribute the content and could be subject to penalties, including confiscation of income, fines, suspension of business and revocation of licenses for operating media services, which would materially and adversely affect it or their business, financial condition and results of operations.

Redgate Ventures Group may be exposed to intellectual property infringement and other claims by third parties that, if successful, could disrupt its business and have a material adverse effect on its financial condition and results of operations.

The success of Redgate Ventures Group's television advertising services and outdoor advertising business depends, in part, on Redgate Ventures Group ability to use copyrighted works without infringing third-party intellectual property rights. As Redgate Ventures Group expands its service offerings, and as litigation becomes more common in China, it faces a higher risk of being the subject of claims for intellectual property infringement, invalidity or indemnification relating to other parties' proprietary rights. Redgate Ventures Group's current or potential competitors, many of which have substantial resources, may have or may obtain intellectual property protection that will prevent, limit or interfere with Redgate Ventures Group's ability to offer additional service offerings in China. Moreover, the defense of intellectual property suits, including copyright infringement suits, and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of Redgate Ventures Group's management personnel. Furthermore, an adverse determination in any such litigation or proceedings to which Redgate Ventures Group may become a party could cause it to:

- pay damage awards;
- seek licenses from third parties;
- pay ongoing royalties;
- redesign its service offerings; or
- be subjected to injunctions,

each of which could effectively prevent us from pursuing some or all of Redgate Ventures Group's television advertising services and outdoor advertising business, and result in its clients or potential clients deferring, limiting or discontinuing their purchases of its service offerings, which could have a material adverse effect on its financial condition and results of operations.

Redgate Ventures Group's failure to protect its intellectual property rights could have a negative impact on its business, competitive position and prospects.

We believe Redgate Ventures Group's brand, trade names, trademarks and other intellectual property are important to its success. The success of Redgate Ventures Group's business depends in part upon its continued ability to use its brand, trade names and trademarks to increase brand awareness and to further develop its brand. The unauthorized reproduction of Redgate Ventures Group's trademarks could diminish the value of its brand and its market acceptance, competitive advantages or goodwill. Redgate Ventures Group is also susceptible to competitors' emulating its business model and methods. Preventing the unauthorized use of Redgate Ventures Group's intellectual property is difficult, time-consuming and expensive, and may divert significant management and staff resources from its business and operations. Misappropriation of Redgate Ventures Group's content, trademarks and other intellectual property rights could also divert significant business to its competitors. Any litigation or proceeding or other efforts to protect Redgate Ventures Group's intellectual property rights could result in substantial costs and diversion of its resources and could seriously harm its business and operating results. Furthermore, the degree of future protection of Redgate Ventures Group's intellectual property rights is uncertain and may not adequately protect its rights or permit us to gain or keep its competitive advantage. If Redgate Ventures Group is unable to adequately protect its brand, trade names, trademarks and other intellectual property rights, its business, competitive position and prospects may be materially and adversely affected.

Redgate Ventures Group has no business liability, interruption, litigation or casualty insurance coverage, which may result in its incurring substantial costs and the diversion of resources.

Insurance companies in China offer limited business insurance protection and do not, to its knowledge, offer general business liability insurance. While business interruption insurance is available to a limited extent in China, we have determined that the cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to subscribe to such insurance. Furthermore, Redgate Ventures Group does not maintain any third-party liability insurance coverage or any insurance coverage for damage arising from accidents that occur during the course of our operations, including the collapse of outdoor displays or other media formats that we operate. As a result, Redgate Ventures Group may have to pay for financial and other losses, damages and liabilities, including those caused by natural disasters and other events beyond its control, out of its own funds, which could have a material adverse effect on its financial condition and results of operations.

Redgate Ventures Group's business depends substantially on the continuing efforts of its key personnel, including senior management and other key employees and skilled staff, and its business may be severely disrupted if we lose their services.

Redgate Ventures Group's future success heavily depends upon the continued services of its senior management. In particular, Redgate Ventures Group relies on the expertise and experience of Peter B. Brack, its co-founder; and Chairman, Ying Zhu, its co-founder, President, General Manager and director, Robert W.H.S. Yung, its co-founder, Chief Financial Officer and director, Qingchun Wang, its Chief Operating Officer and Yiping Zhang, its Vice-President. Redgate Ventures Group relies on their industry expertise, their experience in its business operations and sales and marketing, and their working relationships with its employees, its other major shareholders, its clients and relevant regulatory authorities. Redgate Ventures Group faces competition for personnel from other advertising and media companies and other organizations. Competition for these individuals could cause Redgate Ventures Group to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect its results of operations. Redgate Ventures Group may be unable to attract or retain the personnel required to achieve its business objectives, and failure to do so could severely disrupt its business and prospects. In addition, the process of hiring qualified personnel is often lengthy. If Redgate Ventures Group's recruitment and retention efforts are unsuccessful in the future, it may be more difficult for it to execute its business strategies. In order to mitigate these risks, the members of the senior management of Redgate Ventures Group have all signed employment contracts which require three months' notice period upon termination or resignation, and upon Completion, the Group will enter into Post Completion Employment Contracts with the members of the senior management of Redgate Ventures Group, namely Mr. Peter B. Brack, Ms. Ying Zhu and Mr. Robert W.H.S. Yung. Please refer to the section headed "Outdoor Advertising Business in the PRC – Acquisition of Redgate Ventures" for further details on the Post Completion Employment Contracts. In addition, the former holding company of subsidiaries of Redgate Ventures Group has used share-based compensation as a retention tool in the past and intends to use share-based compensation, subject to compliance with the relevant listing rules, in the future under a new share option scheme for Redgate Ventures Group, the details of which will be decided after Completion.

Though Redgate Ventures Group maintains key-person life insurance for certain members of its senior management, proceeds available from such insurance coverage may not be able to fully compensate us for the loss of their services. If one or more of its senior management or other skilled personnel are unable or unwilling to continue in their present positions, it may not be able to locate suitable or qualified replacements. As a result, its business may be severely disrupted, its financial condition and results of operations may be materially and adversely affected, and it may incur additional expenses to recruit and train new personnel. Each of Redgate Ventures Group's executive officers has entered into an employment agreement with it, which contains confidentiality and non-competition provisions. If any disputes arise between its executive officers and Redgate Ventures Group, these agreements may be unenforceable in China, where these executive officers reside and hold most of their assets, in light of the uncertainties in China's legal system. See "Risks Relating to the PRC – Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and Redgate Ventures Group."

RISKS RELATING TO THE PRC

Adverse changes in economic policies of the PRC government could have a material adverse effect on the overall economic growth of the PRC, which could reduce the demand for Redgate Ventures Group's products and services and materially and adversely affect its business.

Substantially all of its assets are located in and substantially all of Redgate Ventures Group's revenues are sourced from the PRC. Accordingly, its business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally, including the overall economic growth in China.

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces in the economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may have a negative effect on Redgate Ventures Group. For example, Redgate Ventures Group's operating results and financial condition may be adversely affected by changes in tax regulations that are applicable to it.

An economic slowdown in China may reduce the demand for Redgate Ventures Group's services and have a material adverse effect on its financial condition, results of operations and business prospects.

Redgate Ventures Group conducts most of its business and generate substantially all of its revenues in China. As a result, economic, political and legal developments in China have a significant effect on Redgate Ventures Group's financial condition and results of operations, as well as its future prospects. In recent years, the PRC has been one of the world's fastest growing economies in terms of gross domestic product, or GDP, growth. However, the global financial crisis that unfolded in 2008 and has continued during 2009 has led to China's economic growth slowing substantially. In particular, China's GDP growth rate in the first quarter of 2009 dropped to 6.1%, the lowest since 1992. The adverse impact of the global financial crisis on the PRC economy may continue or be exacerbated in the future. Redgate Ventures Group has seen the business operations of some of Redgate Ventures' subsidiaries impacted as China's economic growth slows down. For instance, Redgate Ventures Group generally experienced longer collection cycles for its accounts receivable during this period. Any further slowdown in the economic growth of China could lead to further reduced business activities, reduced advertising spending, and reduced demand for Redgate Ventures Group's services, which could materially and adversely affect its business, as well as its financial condition and results of operations.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and Redgate Ventures Group.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which legal decisions have limited value as precedents. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Each of Redgate Ventures' PRC operating subsidiaries, Redgate Interactive is a foreign-invested enterprise and is subject to laws and regulations applicable to foreign investment in China as well as laws and regulations applicable to foreign-invested enterprises. These laws and regulations change frequently, and their interpretation and enforcement involve uncertainties. For example, Redgate Ventures Group may have to resort to administrative and court proceedings to enforce the legal protections that it enjoys either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may also impede Redgate Ventures Group's ability to enforce the contracts it has entered into. As a result, these uncertainties could materially adversely affect Redgate Ventures Group's business and operations.

Redgate Ventures Group rely principally on dividends and other distributions on equity paid by its operating subsidiaries to fund cash and financing requirements, and limitations on the ability of its operating subsidiaries to pay dividends to it could have a material adverse effect on its ability to conduct its business.

Redgate Ventures is a holding company, and we rely principally on dividends and other distributions on equity paid by its operating subsidiary, Redgate Interactive, for its cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to its shareholders, service any debt it may incur and pay its operating expenses. If Redgate Interactive incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Furthermore, relevant PRC laws and regulations permit payments of dividends by Redgate Interactive only out of its retained earnings, if any, determined in accordance with PRC accounting standards and regulations.

Under PRC laws and regulations, Redgate Interactive is required to set aside 10% of its after-tax profits each year to fund a statutory surplus reserve until the accumulated amount of such reserve has exceeded 50% of its registered capital. Such reserve is not distributable as dividends. As a result of these PRC laws and regulations, Redgate Interactive is restricted in its ability to transfer a portion of its net assets to us in the form of dividends. Furthermore, if its subsidiaries and consolidated variable interest entities in China incur debt on their own behalf in the future, the loan agreements governing that debt may restrict their ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require Redgate Ventures Group to adjust its taxable income under the contractual arrangements it currently has in place in a manner that would materially and adversely affect its subsidiaries' ability to pay dividends and other distributions to it. Any limitation on the ability of Redgate Ventures' subsidiaries and affiliated consolidated entity to pay dividends to it could adversely limit its ability to grow, make investments or acquisitions that could be beneficial to its businesses, pay dividends, or otherwise fund and conduct its business.

Restrictions on currency exchange may limit Redgate Ventures Group's ability to utilize its revenues effectively.

Substantially all of Redgate Ventures Group's revenues have been denominated in Renminbi since 2008. The Renminbi is currently convertible under the "current account," which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment and loans. Currently, Redgate Interactive may purchase foreign exchange for settlement of "current account transactions," including payment of dividends to us, without the approval of the SAFE by complying with certain procedural requirements. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Since a significant amount of Redgate Ventures Group's future revenues will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit Redgate Ventures Group's ability to utilize revenues generated in Renminbi to fund its business activities outside of the PRC denominated in foreign currencies or pay dividends in foreign currencies to its shareholders. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities. This could affect the ability of Redgate Interactive to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Fluctuations in exchange rates could result in foreign currency exchange losses.

Since July 2005, the Renminbi is no longer pegged solely to the U.S. dollar. Instead, the Renminbi is reported to be pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.3% each day. This permitted floating range was raised to 0.5% in May 2007. In 2006, 2007, 2008, 2009 and 2010, the Renminbi appreciated against the Hong Kong dollar by approximately 3.4%, 7.0%, 6.9%, 0.1% and 3.5%, respectively. As a majority of Redgate Ventures Group's cash and cash equivalents are denominated in Renminbi, fluctuations in exchange rates between Hong Kong dollar and Renminbi will affect the relative purchasing power of these proceeds and Redgate Ventures Group's balance sheet and earnings per share in Hong Kong dollar following this Acquisition. Since Redgate Ventures Group's reporting currency is the Hong Kong dollar while the functional currency of Redgate Ventures Group's operating entities in China is the Renminbi, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar may also cause its financial results reported in Hong Kong dollar terms to deviate from Redgate Ventures Group's actual financial condition and results of operations. The appreciation of the Renminbi against the Hong Kong dollar contributed to the increase in its net revenues reported in Hong Kong dollar terms in 2006, 2007 and 2008, 2009 and 2010. The Renminbi may appreciate or depreciate significantly in value against the Hong Kong dollar in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the Renminbi against the Hong Kong dollar. Fluctuations in the exchange rate will also affect the relative value of earnings from and the value of any Hong Kong dollar-denominated investments Redgate Ventures Group makes in the future.

Very limited hedging transactions are available in China to reduce Redgate Ventures Group's exposure to exchange rate fluctuations. To date, Redgate Ventures Group has not entered into any hedging transactions to reduce its exposure to foreign currency exchange risk. While Redgate Ventures Group may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge its exposure at all. In addition, Redgate Ventures Group's currency exchange losses may be magnified by PRC exchange control regulations that restrict its ability to convert Renminbi into foreign currency.

Redgate Ventures Group may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law and we may therefore be subject to PRC income tax on its global income.

Under the PRC Enterprise Income Tax Law and its implementation rules, both of which came into effect on January 1, 2008, enterprises established under the laws of foreign countries or regions whose "*de facto* management bodies" are located within the PRC territory are considered resident enterprises and will generally be subject to the enterprise income tax at the rate of 25% on its global income. "*De facto* management body" refers to a managing body that exercises, in substance, overall management and control over the production and business, personnel, accounting and assets of an enterprise. The SAT issued the Notice Regarding the Determination of Chinese Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the "*de facto* management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals or foreigners, like Redgate Ventures Group, the determining criteria set forth in Circular 82 may reflect the SAT's general position on how the "*de facto* management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners. If Redgate Ventures Group is to be considered a PRC resident enterprise, it would be subject to PRC enterprise income tax at the rate of 25% on its global income. In such case, Redgate Ventures Group's profitability and cash flow would be adversely affected as a result of its global income being taxed under the PRC Enterprise Income Tax Law.

Dividends payable by Redgate Ventures Group to its non-PRC shareholders, and gains on the sales of its common shares, may be subject to withholding taxes under PRC tax laws, which may materially reduce the value of Shareholders' investment.

Prior to January 1, 2008, dividends payable to non-PRC enterprise shareholders were exempted from withholding tax. The PRC Enterprise Income Tax Law and its implementation rules provide that PRC enterprise income tax at the rate of 10% will generally be applicable to dividends derived from sources within the PRC and received by non-PRC enterprise shareholders. Similarly, gains derived from the transfer of shares by such shareholders are also subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Redgate Ventures is a BVI holding company and substantially all of its income may come from dividends it receives from its subsidiaries, primarily those located in China. It is unclear whether the gains its non-PRC enterprise shareholders may realize from the transfer of its common shares, would be treated as PRC-sourced income and be subject to PRC tax. If Redgate Ventures Group is required under the PRC Enterprise Tax Law to withhold PRC enterprise income tax on its dividends payable to its non-PRC enterprise shareholders, or if non-PRC foreign shareholders are required to pay PRC income tax on the transfer of their common shares, the value of Shareholders' investment may be materially reduced.

Our PRC legal advisers, Zhong Lun Law Firm, has advised us that according to the PRC Enterprise Income Tax Law and its implementations measures, Pacific Asia Mode shall pay PRC enterprise income tax on the dividends and bonus income derived from Redgate Interactive. There is currently no law stipulating that PRC enterprise income tax shall be paid by Redgate Global for dividends and bonus income derived from Pacific Asia Mode, Redgate Ventures for dividends and bonus income derived from Redgate Global, and the Vendors for dividends and bonus income derived from Redgate Ventures.

Our PRC legal advisers, Zhong Lun Law Firm, has advised us that according to the PRC Enterprise Income Tax Law and its implementation measures, and the Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises' Equity Transfer Income (No. 698 [2009] of the State Administration of Taxation), when non-PRC enterprise shareholders of Redgate Ventures transfer shares in Redgate Ventures, if the PRC local competent tax authority considers that the transferor of the shares abuses the system, such as the corporate model arrangement, by indirectly transferring the shares of enterprises owned by PRC residents and has no reasonable commercial purpose for doing so, evading the responsibility to pay enterprise income tax, the PRC local competent tax authority may require the transferor of the shares to pay enterprise income tax at the rate of 10% on the gains derived from the transfer of the said shares.

Dividends we receive from Redgate Ventures Group's operating subsidiaries located in China may be subject to PRC withholding tax.

Under the PRC Enterprise Income Tax Law and its implementation rules, enterprise income tax at the rate of 10% will generally be applicable to dividends paid by PRC resident enterprises to non-PRC resident enterprise shareholders, unless the tax rate is reduced by a tax treaty between China and the relevant jurisdiction. Redgate Ventures is a BVI holding company and substantially all of its income may come from dividends it receives from its subsidiaries located in the BVI and Hong Kong. Redgate Ventures' subsidiaries in Hong Kong derive substantially all of their income from their subsidiaries located in China. If Redgate Ventures' subsidiaries in Hong Kong are considered non-PRC resident enterprises, dividends they receive from the operating subsidiaries in China will generally be subject to a 5% withholding tax under the PRC Enterprise Income Tax Law and its implementation rules, which will reduce the amount of dividends, if any, Redgate Ventures Group may pay to its shareholders.

Our PRC legal advisers, Zhong Lun Law Firm, has advised us that according to the PRC Enterprise Income Tax Law and its implementations measures, Redgate Interactive is not required to pay PRC enterprise income tax on the dividends and bonus income derived from its subsidiaries in the PRC; and Pacific Asia Mode shall pay PRC enterprise income tax on the dividends and bonus income derived from Redgate Interactive.

Our PRC legal advisers, Zhong Lun Law Firm, has advised us that according to the PRC Enterprise Income Tax Law and its implementation measures, the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the "**Arrangement**"), and the Notice of the State Administration of Taxation on How to Understand and Determine the "Beneficial Owners" in Tax Agreements (Letter No. 601 [2009] of the State Administration of Taxation), if the tax authority determines that Pacific Asia Mode is the "beneficial owner" of Redgate Interactive, Pacific Asia Mode shall pay enterprise income tax at the rate of 5% on the dividend and bonus income derived from its wholly owned subsidiary, Redgate Interactive. If the said enterprise income tax is not so paid, enterprise income tax shall be payable at the rate of 10%.

Natural disasters and health and public security hazards in China may severely disrupt Redgate Ventures Group's business and operations and may have a material adverse effect on its financial condition and results of operations.

Redgate Ventures Group is unable to predict the effect, if any, that any future natural disasters and health and public security hazards may have on its business. Any future natural disasters and health and public security hazards may, among other things, significantly disrupt Redgate Ventures Group's ability to adequately staff its business, and may generally disrupt its operations. Furthermore, such natural disasters and health and public security hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect Redgate Ventures Group's business and prospects. As a result, any natural disasters or health hazards in China may have a material adverse effect on Redgate Ventures Group's financial condition and results of operations.

A. FINANCIAL SUMMARY

The following is a summary of the audited consolidated results of the Group for the three years ended 30 June 2009, 2010 and 2011 (extracted from the annual reports of the Group for 2010 and 2011) and the unaudited interim results of the Group for the six months ended 31 December 2010 and 2011 (extracted from the interim report of the Group for the six months ended 31 December 2011). The financial statements of Group for the year ended 30 June 2009 was audited by PCP CPA Limited, Certified Public Accountants registered in Hong Kong and for the years ended 30 June 2010 and 2011 by Crowe Horwath (HK) CPA Limited, Certified Public Accountants registered in Hong Kong.

CONDENSED INCOME STATEMENT

	Six months ended 31 December		Year ended 30 June		
	2011	**2010**	**2011**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)		(restated)	
Continuing operations					
Turnover	27,058	11,059	30,140	9,345	78,112
Cost of sales	(29,083)	(12,853)	(48,768)	(19,889)	(80,698)
Gross (loss)	(2,025)	(1,794)	(18,628)	(10,544)	(2,586)
Other revenue	–	–	2,281	677	5,487
Other net income	2,346	1,355	5,249	13,957	–
Marketing and promotion expenses	(1,223)	(1,363)	(2,849)	(4,691)	(4,660)
Administrative expenses	(11,398)	(19,484)	(38,665)	(38,246)	(74,409)
Finance costs	(1,162)	(4,945)	(7,632)	(6,771)	(4,503)
Share of (loss)/profits of associates	(5)	(2)	(2)	2,512	401
Impairment loss on property, plant and equipment	–	–	(4,151)	–	–
Impairment loss on intangible assets	–	–	(12,941)	(1,477)	–
Changes in fair value of trading securities	(1,088)	100	(9,804)	(830)	–
Changes in fair value of derivative financial instruments	(1,384)	–	(1,533)	–	–
Loss on disposal of trading securities	(5,453)	(1,589)	–	–	–
Loss on disposal of an associate	–	–	–	(6,438)	–
Loss on disposal of intangible assets	–	–	–	(168)	(30,620)
Change in fair value of purchase consideration payable	–	–	(979)	–	–
Impairment loss on deposits and other receivables	–	–	–	–	(17,434)
Impairment loss on accounts receivables	–	–	–	–	(122,219)
Impairment loss on loan to a former associate	–	–	–	–	(12,440)
Impairment loss on goodwill	–	–	–	–	(4,322)
Impairment loss on interest in an associate	–	–	–	–	(4,200)
Loss on disposal of subsidiaries	–	–	–	–	(84,375)
Loss on disposal of property, plant and equipment	–	–	–	–	(34,955)
(Loss) before income tax	(21,392)	(27,722)	(89,654)	(52,019)	(390,835)
Income tax	1,273	(387)	3,902	9,056	(165)

	Six months ended 31 December		Year ended 30 June		
	2011	**2010**	**2011**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)		(restated)	
(Loss) for the year from continuing operations	(20,119)	(28,109)	(85,752)	(42,963)	(391,000)
Discontinued operations					
Profit/(loss) for the year from discontinued operations	–	(1,687)	721	(184,429)	–
(Loss) for the year	(20,119)	(29,796)	(85,031)	(227,392)	(391,000)
Attributable to:					
Owners of the Company	(19,879)	(29,248)	(82,478)	(140,706)	(391,000)
Non-controlling interest	(240)	(548)	(2,553)	(86,686)	–
(Loss) for the year	(20,119)	(29,796)	(85,031)	(227,392)	(391,000)
(Loss) per share attributable to owners of the Company					
From continuing and discontinued operations					
– Basic *(HK$ per share)*	(0.22)	(0.51)	(1.93)	(11.16)	(1.25)
– Diluted *(HK$ per share)*	(0.22)	(0.51)	(1.93)	(11.16)	(1.25)
From continuing operations					
– Basic *(HK$ per share)*	(0.22)	(0.48)	(1.87)	(3.41)	(1.25)
– Diluted *(HK$ per share)*	(0.22)	(0.48)	(1.87)	(3.41)	(1.25)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 December		Year ended 30 June		
	2011	**2010**	**2011**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)		(restated)	
(Loss) for the year	(20,119)	(29,796)	(85,031)	(227,392)	(391,000)
Other comprehensive income/(loss) for the year					
Exchange differences on translation of financial statements of overseas subsidiaries	(68)	(8)	(286)	(16)	(32)
Reclassification adjustment for realisation of exchange difference transferred to profit or loss upon disposal of interests in subsidiaries	–	–	88	–	72
(Loss) on fair value changes of available-for-sale investment	–	–	–	–	(640)
Reclassification adjustment relating to available-for-sale investment disposal of during the year	–	–	–	640	–
Total comprehensive (loss) for the year	(20,187)	(29,804)	(85,229)	(226,768)	(391,600)
Attributable to:					
Owners of the Company	(19,947)	(29,256)	(82,676)	(140,082)	(391,600)
Non-controlling interest	(240)	(548)	(2,553)	(86,686)	–
	(20,187)	(29,804)	(85,229)	(226,768)	(391,600)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Six months ended 31 December	Year ended 30 June		
	2011	2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)			
Non-current assets				
Property, plant and equipment	3,726	6,545	22,110	24,866
Intangible assets	51,122	59,108	62,236	36,065
Goodwill	48,979	48,979	–	–
Interests in associates	1,785	1,790	1,792	42,908
Deposit for acquisition of available-for-sale investment	–	20,000	–	–
Available-for-sale investment	78,000	–	–	18,900
Deposit for acquisition of a subsidiary	80,000	–	10,000	–
	263,612	136,422	96,138	122,739
Current assets				
Trading securities	6,138	12,731	7,495	–
Inventories	861	–	1,459	1,449
Accounts receivable	2,843	3,813	182	4,133
Prepayments, deposits and other receivables	14,565	5,527	2,552	5,901
Promissory notes receivable	–	38,700	38,573	–
Pledge bank deposits	–	–	–	10,000
Cash and cash equivalents	8,730	114,172	10,326	735
	33,137	174,943	60,587	21,408
Current liabilities				
Bank loans and overdrafts	–	–	–	11,957
Trade payables, accrued expenses and other payables	34,426	22,803	32,758	10,304
Purchase consideration payable	5,684	5,684	–	–
Promissory note payable	–	–	–	6,702
Amounts due to directors	–	–	568	2,140
Tax payable	569	318	–	–
Convertible notes	–	4,241	14,076	1,603
	40,679	33,046	47,402	32,706
Net current assets/(liabilities)	(7,542)	141,897	13,185	(11,298)
Total assets less current liabilities	256,070	278,319	109,323	111,441

	Six months ended 31 December	Year ended 30 June		
	2011	2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)			
Non-current liabilities				
Deferred taxation	12,781	14,843	1,403	7,954
Convertible notes	–	–	52,676	20,503
Purchase consideration payable	6,364	6,364	–	–
	19,145	21,207	54,079	28,457
NET ASSETS	236,925	257,112	55,244	82,984
EQUITY				
Equity attributable to owners of the Company				
Share capital	95	95	74,203	42,884
Reserves	227,407	247,354	(28,408)	40,100
	227,502	247,449	45,795	82,984
Non-controlling interest	9,423	9,663	9,449	–
TOTAL EQUITY	236,925	257,112	55,244	82,984

B. FINANCIAL INFORMATION ON THE GROUP FOR THE TWO YEARS ENDED 30 JUNE 2009 AND 2010

Set out below are the audited financial statements of the Group as extracted from pages 43 to 168 of the annual report of the Company for the two years ended 30 June 2009 and 2010, which are published on both the GEM website (www.hkgem.com) and the website of the Company (www.it-holdings.com.hk).

CONSOLIDATED INCOME STATEMENT

For the two years ended 30 June 2009 and 2010

	Note	2010 HK$'000	2009 HK$'000
Turnover	6	9,345	78,112
Cost of sales		(20,019)	(80,698)
Gross (loss)		(10,674)	(2,586)
Other revenue	7	677	5,487
Other net income	7	13,939	–
Marketing and promotion expenses		(5,265)	(4,660)
Administrative expenses		(52,655)	(74,409)
Finance costs	8	(6,771)	(4,503)
Share of profits of associates		2,512	401
Impairment loss on accounts receivables		–	(122,219)
Impairment loss on deposits and other receivables		–	(17,434)
Impairment loss on loan to a former associate		–	(12,440)
Impairment loss on goodwill		–	(4,322)
Impairment loss on intangible assets		(175,677)	–
Impairment loss on interest in an associate		–	(4,200)
Gain on disposal of available-for-sale investment		4,930	–
Change in fair value of trading securities		(830)	–
Loss on disposal of an associate		(6,438)	–
Loss on disposal of subsidiaries		–	(84,375)
Loss on disposal of intangible assets		(168)	(30,620)
Loss on disposal of property, plant and equipment		(28)	(34,955)
(Loss) before income tax	9	(236,448)	(390,835)
Income tax	10	9,056	(165)
(Loss) for the year		(227,392)	(391,000)

	Note	2010 HK$'000	2009 HK$'000
Attributable to:			
Owners of the Company		(140,706)	(391,000)
Non-controlling interest		(86,686)	–
(Loss) for the year		(227,392)	(391,000)
(Loss) per share			
– Basic *(HK cents)*	*13(a)*	(24.76)	(125.42)
– Diluted *(HK cents)*	*13(b)*	(24.76)	(125.42)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	2010	2009
	HK$'000	*HK$'000*
(Loss) for the year	(227,392)	(391,000)
Other comprehensive income/(loss) for the year		
Exchange differences on translation of financial statements of overseas subsidiaries	(16)	(32)
Reclassification adjustment for realisation of exchange difference transferred to profit or loss upon disposal of interests in subsidiaries	–	72
(Loss) on fair value changes of available-for-sale investment	–	(640)
Reclassification adjustment relating to available-for-sale investment disposal during the year	640	–
	624	(600)
Total comprehensive (loss) for the year	(226,768)	(391,600)
Attributable to:		
Owners of the Company	(140,082)	(391,600)
Non-controlling interest	(86,686)	–
	(226,768)	(391,600)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	15	22,110	24,866
Intangible assets	16	62,236	36,065
Goodwill	17	–	–
Interests in associates	19	1,792	42,908
Interest in a jointly-controlled entity	20	–	–
Available-for-sale investment	21	–	18,900
Deposit for acquisition of a subsidiary	45	10,000	–
		96,138	122,739
Current assets			
Trading securities	23	7,495	–
Inventories	24	1,459	1,449
Accounts receivables	25	182	4,133
Prepayments, deposits and other receivables		2,552	5,091
Promissory notes receivable	30(a)	38,573	–
Pledged bank deposits	26	–	10,000
Cash and cash equivalents	27	10,326	735
		60,587	21,408
Current liabilities			
Bank loans and overdrafts	28	–	11,957
Trade payables, accrued expenses and other payables	29	32,758	10,304
Promissory note payable	30(b)	–	6,702
Amounts due to directors	22(c)	568	2,140
Convertible notes	34	14,076	1,603
		47,402	32,706

	Note	2010 HK$'000	2009 HK$'000
Net current assets/(liabilities)		13,185	(11,298)
Total assets less current liabilities		109,323	111,441
Non-current liabilities			
Deferred taxation	*33*	1,403	7,954
Convertible notes	*34*	52,676	20,503
		54,079	28,457
NET ASSETS		55,244	82,984
EQUITY			
Equity attributable to owners of the Company			
Share capital	*35*	74,203	42,884
Reserves	*37(a)*	(28,408)	40,100
		45,795	82,984
Non-controlling interest	*37(a)*	9,449	–
TOTAL EQUITY		55,244	82,984

STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Interests in subsidiaries	18	5,637	5,637
Deposit for acquisition of a subsidiary	45	10,000	–
		15,637	5,637
Current assets			
Prepayments and other receivables		316	167
Amounts due from subsidiaries	22(a)	68,183	89,041
Pledged bank deposits	26	–	10,000
Cash and cash equivalents	27	8,173	81
		76,672	99,289
Current liabilities			
Trade payables, accrued expenses and other payables	29	1,443	2,827
Amounts due to subsidiaries	22(b)	13,471	13,757
Amounts due to directors	22(c)	160	245
Promissory note payable	30(b)	–	6,702
Convertible notes	34	14,076	1,603
		29,150	25,134
Net current assets		47,522	74,155
Total assets less current liabilities		63,159	79,792
Non-current liabilities			
Deferred taxation	33	1,403	–
Convertible notes	34	52,676	20,503
		54,079	20,503
NET ASSETS		9,080	59,289

	Note	2010 HK$'000	2009 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	*35*	74,203	42,884
Reserves	*37(b)*	(65,123)	16,405
TOTAL EQUITY		9,080	59,289

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000*	Share option reserve *HK$'000*	Convertible notes reserve *HK$'000*	Contributed surplus *HK$'000*	Capital redemption reserve *HK$'000*	Exchange reserve *HK$'000*	Investment revaluation reserve *HK$'000*	(Accumulated losses) *HK$'000*	Attributable to owners of the Company *HK$'000*	Non-controlling interest *HK$'000*	Total *HK$'000*
At 1 July 2008	24,544	342,866	23,220	–	5,625	43	(245)	–	(60,332)	335,721	–	335,721
Fair value changes of available-for-sale investment	–	–	–	–	–	–	–	(640)	–	(640)	–	(640)
Release of exchange reserve upon disposal of foreign subsidiaries	–	–	–	–	–	–	72	–	–	72	–	72
Exchange difference on consolidation	–	–	–	–	–	–	(32)	–	–	(32)	–	(32)
	–	–	–	–	–	–	40	(640)	–	(600)	–	(600)
Loss for the year	–	–	–	–	–	–	–	–	(391,000)	(391,000)	–	(391,000)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	40	(640)	(391,000)	(391,600)	–	(391,600)
Issuance of shares	5,814	49,957	–	–	–	–	–	–	–	55,771	–	55,771
Fair value of options granted	–	–	28,233	–	–	–	–	–	–	28,233	–	28,233
Equity component of convertible notes issued	–	–	–	15,448	–	–	–	–	–	15,448	–	15,448
Exercise of share options	2,652	29,416	(15,055)	–	–	–	–	–	–	17,013	–	17,013
Shares issuance costs	–	(1,881)	–	–	–	–	–	–	–	(1,881)	–	(1,881)
Exercise of convertible notes, net of transaction cost	9,874	21,222	–	(6,817)	–	–	–	–	–	24,279	–	24,279
At 30 June 2009	42,884	441,580	36,398	8,631	5,625	43	(205)	(640)	(451,332)	82,984	–	82,984
At 1 July 2009	42,884	441,580	36,398	8,631	5,625	43	(205)	(640)	(451,332)	82,984	–	82,984
Exchange difference on consolidation	–	–	–	–	–	–	(16)	–	–	(16)	–	(16)
Transfer to profit or loss on disposal of available-for-sale investment	–	–	–	–	–	–	–	640	–	640	–	640
	–	–	–	–	–	–	(16)	640	–	624	–	624
Loss for the year	–	–	–	–	–	–	–	–	(140,706)	(140,706)	(86,686)	(227,392)
Total comprehensive (loss) for the year	–	–	–	–	–	–	(16)	640	(140,706)	(140,082)	(86,686)	(226,768)
Issuance of shares	21,446	31,226	–	–	–	–	–	–	–	52,672	–	52,672
Fair value of options granted	–	–	8,720	–	–	–	–	–	–	8,720	–	8,720
Equity component of convertible notes issued	–	–	–	15,184	–	–	–	–	–	15,184	–	15,184
Exercise of share options	3,564	11,332	(6,404)	–	–	–	–	–	–	8,492	–	8,492
Deferred taxation	–	–	–	(2,505)	–	–	–	–	–	(2,505)	–	(2,505)
Shares issuance costs	–	(1,257)	–	–	–	–	–	–	–	(1,257)	–	(1,257)
Exercise of convertible notes, net of transaction cost	6,309	21,898	–	(6,620)	–	–	–	–	–	21,587	–	21,587
Acquisition of a subsidiary *(note 38)*	–	–	–	–	–	–	–	–	–	–	96,135	96,135
At 30 June 2010	74,203	504,779	38,714	14,690	5,625	43	(221)	–	(592,038)	45,795	9,449	55,244

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

	Note	2010 *HK$'000*	2009 *HK$'000*
Operating activities			
(Loss) before income tax		(236,448)	(390,835)
Adjustments for:			
– Depreciation		8,305	9,392
– Release of prepaid lease payments		–	879
– Reversal of allowance of bad debts		(7,627)	–
– Write-down of inventories		893	319
– Impairment loss on accounts receivables		–	122,219
– Impairment loss on deposits and other receivables		–	17,434
– Impairment loss on loan to a former associate		–	12,440
– Amortisation of intangible assets		11,893	20,870
– Loss on disposal of subsidiaries		–	84,375
– Loss on disposal of an associate		6,438	–
– Share of profits of an associates		(2,512)	(401)
– Interest income		(442)	(501)
– Share-based payments		8,720	28,233
– Impairment loss on goodwill		–	4,322
– Impairment loss on intangible assets		175,677	–
– Impairment loss on interest in an associate		–	4,200
– Loss on disposal of intangible assets		168	30,620
– Loss on disposal of property, plant and equipment		28	34,955
– Loss on disposal of trading securities		345	–
– Gain on disposal of available-for-sale investment		(4,930)	–
– Change in fair value of trading securities		830	–
– Dividend income		–	(14)
– Reversal of impairment loss on loan to a former associate		(6,249)	–
– Finance costs		6,771	4,503

	Note	2010 HK$'000	2009 HK$'000
Operating (loss) before changes in working capital		(38,140)	(16,990)
(Increase) in inventories		(818)	(879)
Decrease/(increase) in accounts receivables		4,591	(41,365)
Decrease in prepayments, deposits and other receivables		11,877	50,310
(Decrease) in amounts due to directors		(1,572)	(53,412)
(Decrease) in trade payables, accrued expenses and other payables		(681)	(7,632)
Cash (used in) operations		(24,743)	(69,968)
Hong Kong profits tax refund		–	317
Net cash (used in) operating activities		(24,743)	(69,651)
Investing activities			
(Increase) in trading securities		(8,670)	–
Decrease in trading securities – pledged		–	1,024
Decrease in derivative financial instruments – pledged		–	170
Deposit paid for acquisition of a subsidiary		(10,000)	–
Interest received		6	501
Payment for purchase of property, plant and equipment		(2,701)	(52,129)
Purchase of intangible assets		(1,374)	(8,200)
Purchase of an associate		–	(971)
Purchase of available-for-sale investment		–	(77)
Proceeds from disposals of property, plant and equipment		88	345
Net cash outflow from disposal of an associate		(947)	–
Acquisition of subsidiaries, net of cash and cash equivalents acquired	*38*	159	(536)
Decrease in pledged deposits		10,000	3,000
Disposal of subsidiaries, net of cash and cash equivalents disposed	*39*	–	2,862
Dividend income		–	14
Net cash (used in) investing activities		(13,439)	(53,997)

	Note	2010 HK$'000	2009 HK$'000
Financing activities			
Net proceeds from issuance of new shares		51,415	70,904
Interest paid		(69)	(2,587)
Proceeds from share issued under share option scheme		8,492	–
Proceeds from new bank loans		–	21,667
Repayment of bank loans		(10,000)	–
Net cash generated from financing activities		49,838	89,984
Net increase/(decrease) in cash and cash equivalents		11,656	(33,664)
Effect of foreign exchange		(108)	(26)
Cash and cash equivalents at the beginning of the year		(1,222)	32,468
Cash and cash equivalents at the end of the year	*27*	10,326	(1,222)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

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 HM 11, Bermuda and Room 903, Tung Wai Commercial Building, 109-111 Gloucester Road, Wanchai, Hong Kong, respectively.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

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

2 Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

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

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and obligation arising on liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 3 (Revised 2008)	Business Combinations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives

HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to HKFRS 2, HKAS 38, Paragraph 80 to HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group and the financial position of the Company for the current or prior accounting periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to HKAS 23 and HKFRS 2 and Interpretations HK(IFRIC) 15 and HK(IFRIC) 16 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

HKAS 1 (Revised 2007) Presentation of Financial Statements

As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly-controlled entity or an associate

The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 July 2009, all dividends receivable from subsidiaries, associates and jointly-controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

HKFRS 3 (Revised 2008) Business Combinations

HKFRS 3 (revised 2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 July 2009 in accordance with the relevant transitional provisions. The adoption of HKFRS 3 (revised 2008) has affected the accounting for business combinations in the current year.

The impact of the adoption of HKFRS 3 (revised 2008) has been:

– to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree;

– to change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss;

– where the business combination in effect settles a pre-existing relationship between the Group and the acquiree, to require the recognition of a settlement gain or loss; and

– to require acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

HKAS 27 (revised 2008) has been applied retrospectively (subject to specified transitional provisions). The revised Standard has resulted in changes in the Group's accounting policies regarding changes in ownership interests in subsidiaries of the Group. The new accounting policies in relation to changes in ownership interests in subsidiaries have been applied prospectively to changes that take place on or after 1 July 2009 in accordance with the relevant transitional provisions.

In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in existing subsidiaries regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss.

Under HKAS 27 (revised 2008), increases or decreases in ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are dealt with in equity and attributed to the owners of the parent, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, HKAS 27 (revised 2008) requires that the Group derecognise all assets, liabilities and non-controlling interests at their carrying amounts.

Any retained interest in the former subsidiary is recognised at its fair value at the date when control is lost, with the resulting gain or loss being recognised in profit or loss.

HKAS 28 (Amendment) Investments in Associates

As a result of amendments to HKAS 28, Investments in associates, impairment losses recognised in respect of the associates and jointly-controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying amount. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

HKFRS 7 (Amendment) – Improving disclosures about financial instruments

As a result of the adoption of the amendments to HKFRS 7, the consolidated financial statements include expanded disclosures in note 41(f) about the fair value measurement of the Group's financial instruments, categorizing these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

HKFRS 8 Operating segments

HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The presentation of segment information in prior years which was based on a disaggregation of the Group's consolidated financial statements into segments based on related business lines is consistent with the requirements of HKFRS 8, and thus the adoption of HKFRS 8 has had no impact on the reported results or financial position of the Group.

The Group has not early applied any of the following new and revised Standards, Amendments and Interpretations which have been issued but are not yet effective for annual periods beginning on 1 July 2009:

HKFRSs (Amendments)	Improvements to HKFRSs 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[3]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[4]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[1]
HKFRS 9	Financial Instruments[6]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]

[1] *Amendments that are effective for annual periods beginning on or after 1 January 2010.*

[2] *Effective for annual periods beginning on or after 1 February 2010.*

[3] *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.*

[4] *Effective for annual periods beginning on or after 1 July 2010.*

[5] *Effective for annual periods beginning on or after 1 January 2011.*

[6] *Effective for annual periods beginning on or after 1 January 2013.*

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the 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.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

4 Significant accounting policies

(a) Basis of preparation of the financial statements

The Group incurred loss for the year ended 30 June 2010 of approximately HK$227,392,000. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company have been taking active steps to improve the liquidity position of the Group. These steps included (1) undertaking fund raising transactions during the financial year ended 30 June 2010 and subsequently to cover the Group's operating costs and to meet its financing commitments; (2) evaluating new business opportunities and (3) implementing stringent cost control measures to strengthen its cash flow position.

In light of the measures described above, the directors are confident that the Group will have sufficient working capital to meet its financial obligation as and when they fall due. Accordingly, the directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis. These consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

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

(b) Basis of consolidation of the financial statements

The consolidated financial statements 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 year 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 and non-controlling interests

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.

Non-controlling 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. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the company even if this results in the non-controlling interests having a deficit balance.

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 4(q), (s) or (t) depending on the nature of the liability.

In the Company's statement of financial position, 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, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment *(see notes 4(e) and (k))*. The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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 this 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 statement of financial position, 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) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (2008) are recognised at their fair values, except that:

– deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

– liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment awards are measured in accordance with HKFRS 2 *Share-based Payment*; and

– 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* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 *Financial Instruments Recognition and Measurement*, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

(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. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period 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.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the consolidated statement of financial position at amortised cost less impairment losses *(see note 4(k))*.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses *(see note 4(k))*.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investment is recognised in profit or loss in accordance with the policy set out in note 4u(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 4u(iv). When these investments are derecognised or impaired *(see note 4(k))*, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Property, plant and equipment

(i) Valuation

Property, plant and equipment are stated in the statement of financial position 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.

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, annually.

(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 profit or loss on the date of retirement or disposal.

(iv) Construction in progress

Construction in progress represents buildings and structures under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

(h) Mining rights

Mining rights acquired separately are initially measured at cost. Mining are rights are reclassified from exploration and evaluation assets at the carrying amount when the technical feasibility and commercial viability of extracting mineral resources are demonstrable.

Mining rights with definite useful lives are carried at cost less accumulated amortisation and any accumulated impairment loss *(see note 4(k))*. Amortisation is provided using the unit of production method based on the actual production volume over the estimated total proved and probable reserves of the ore mines.

(i) Intangible assets (other than goodwill)

Computer software, patents and trade marks

Intangible assets that are acquired by the Group and with finite useful lives are stated in the statement of financial position 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.

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

Patents and trademarks	15 years
Computer software	5 years

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 profit or loss when the asset is de-recognised.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 4(g). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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 written off as an expense of 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 except where the property is classified as an investment property.

(k) Impairment of assets

(I) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled entities) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unlisted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

– If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities which are stated at fair value, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(II) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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 profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the higher of fair value less cost to sell and its 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, 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) 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 readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. 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 statement of cash flows.

(o) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated of their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in equity. The fair value is measured at grant date using the Binomial Option Pricing Model and the Black-Scholes 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 share options, the total estimated fair value of the share 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 profit or loss 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 share options that vest (with a corresponding adjustment to the share option 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 share option 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.

(p) 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 end of the reporting period, 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

(q) 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.

(r) Provisions and contingent liabilities

Provisions are recognised for other 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.

(s) 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.

(t) Interest-bearing borrowings

Interest-bearing borrowings are recognised 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 recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable 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's premises 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 as it accrues using effective interest method.

(v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payments established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Rental income

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

(v) 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 are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of 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.

(w) Promissory notes

Promissory notes are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

(x) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one of 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 the key management personnel of the Group or the Group's parent, or a close family member of such as individual, or is an entity under the control, joint control or significant influence of such individuals; or

(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.

(y) 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 end of the reporting period 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 at the end of the reporting period. 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 exchange reserve. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5 Critical accounting estimates and judgments

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are readily apparent from other sources. The estimates, judgments 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 judgment is exercised in the assessment of the collectability of accounts receivable from each customer. In making its judgment, 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

The Black-Scholes Option Pricing Model was applied to estimate the fair value of share options granted by the Company. This pricing model requires the input of highly subjective assumptions, including the volatility of share price. The changes in input assumptions can materially affect the fair value estimate.

(iii) Measurement of convertible notes

On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the shareholders' equity, net of transaction costs.

The determination of the liability component requires an estimation of the market interest rate.

(iv) Impairments

In considering the impairment losses that may be required for the Group's mining right, other intangible assets and property, plant and equipment, recoverable amounts of the assets need to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and amount of operating costs. Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the above impairment losses would affect the net profit of the Group in future years.

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 recognised in turnover during the year is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Income from design of residential intranet, provision of home-automation services and trading of related products	9,345	74,374
Income from hotel services	–	3,738
	9,345	78,112

7 Other revenue and other net income

	2010	2009
	HK$'000	*HK$'000*
Other revenue		
Bank interest income	6	132
Other interest income	–	369
Interest income on promissory note	436	–
Total interest income on financial assets not at fair value through profit or loss	442	501
Dividend income from listed securities	–	14
Other income	235	4,972
	677	5,487
Other net income		
Net foreign exchange gain	63	–
Reversal of allowance of bad debts	7,627	–
Reversal of impairment loss on loan to a former associate	6,249	–
	13,939	–

8 Finance costs

	2010	2009
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	69	2,569
Interest on other loan	–	18
Interest on convertible notes *(note 34)*	6,417	1,768
Interest on promissory notes *(note 30(b))*	285	148
Total interest expense on financial liabilities not at fair value through profit or loss	6,771	4,503

9 (Loss) before income tax

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

	2010	2009
	HK$'000	*HK$'000*
(a) Staff costs:		
Contributions to defined contribution plan	191	249
Share-based payments	526	28,233
Salaries, wages and other benefits	9,509	13,528
	10,226	42,010
Average number of employees	52	123

	2010	2009
	HK$'000	*HK$'000*
(b) Other items:		
Cost of inventories sold	6,921	67,046
Amortisation of intangible assets	11,893	20,870
Release of prepaid lease payments	–	879
Auditor's remuneration	1,024	1,048
Depreciation on owned assets	8,305	9,392
Operating lease charges in respect of office premises	1,332	1,685
Net foreign exchange loss	–	740
Impairment loss on trade debtors	–	122,219
Impairment loss on deposits and other receivables	–	17,434
Impairment loss on loan to a former associate	–	12,440
Impairment loss on goodwill	–	4,322
Impairment loss on intangible assets	175,677	–
Impairment loss on interest in an associate	–	4,200
Change in fair value of trading securities	830	–
Loss on disposal of an associate	6,438	–
Loss on disposal of trading securities	345	78
Loss on disposal of intangible assets	168	30,620
Loss on disposal of subsidiaries	–	84,375
Loss on disposal of property, plant and equipment	28	34,955

The cost of sales includes write-down of inventories of HK$893,000 (2009: HK$319,000) and aggregate employee benefits expense, amortisation of intangible assets and operating lease charges in respect of office premises of approximately HK$12,205,000 (2009: HK$13,333,000), which are also included in the respective total amounts disclosed above for each of these types of expenses.

10 Income tax

(a) Income tax in the consolidated income statement represents:

	2010	**2009**
	HK$'000	*HK$'000*
Deferred tax		
(Credited)/charged to the consolidated income statement during the year *(Note 33)*	(9,056)	165
	(9,056)	165

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: HK$Nil).

No provision for PRC corporate income tax ("CIT") has been made as the Group's PRC subsidiaries did not generate any assessable profits during the year, or it has tax loss brought forward to offset current year's assessable profits. Pursuant to Guo Fa [2007] No. 39 issued by the State Council, one of the subsidiaries of the Company, 匯創智能系統(深圳)有限公司 is granted a tax concession at a preferential tax rate of 20% for the year ended 30 June 2010, 22% for 2011, 24% for 2012 and 25% for 2013.

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

	2010	**2009**
	HK$'000	*HK$'000*
(Loss) before income tax	(236,448)	(390,835)
Notional tax on (loss) before income tax, calculated at applicable tax rates in the respective countries	(68,445)	(39,571)
Tax effect of non-deductible expenses	70,455	45,186
Tax effect of non-taxable revenue	(6,312)	(8,796)
Tax effect of utilisation of tax loss previously not recognised	(4,924)	–
Tax effect of unused tax losses not recognised	675	3,580
Others	(505)	(234)
Actual tax income/(expense)	(9,056)	165

The share of tax attributable to associate amounting to HK$786,000 (2009: HK$Nil) is included in "Share of profits of associates" in the consolidated income statement.

11 Directors' and senior management's remuneration

Directors' remuneration

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

	2010	2009
	HK$'000	*HK$'000*
Fees	409	420
Basic salaries, allowances and other benefits	4,560	4,594
Share-based payments	48	–
Long service payment	–	–
Retirement scheme contribution	47	48
	5,064	5,062
Number of directors	10	7

The remuneration of directors for the year ended 30 June 2010 is set out below:

Name of directors	Fees	Salary, allowance and other benefits	Share-based payments	Long service payment	Retirement scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Ms. Wong Yuen Yee	–	1,320	–	–	12	1,332
Mr. Wong Yao Wing, Robert	–	1,320	–	–	12	1,332
Mr. Wong Kwok Sing *(a)*	–	1,280	–	–	9	1,289
Mr. Lam Shiu San *(b)*	–	581	–	–	11	592
Mr. Ang Wing Fung *(c)*	–	59	–	–	3	62
Independent non-executive directors						
Mr. Wong Tak Leung, Charles *(d)*	150	–	16	–	–	166
Mr. Lai Ying Sum *(e)*	90	–	16	–	–	106
Mr. Cheng King Hung *(f)*	120	–	16	–	–	136
Ms. Au Yuk Kit *(g)*	–	–	–	–	–	–
Mr. Chu Woon Yuen *(h)*	19	–	–	–	–	19
Ms. Wong On Yee *(i)*	30	–	–	–	–	30
	409	4,560	48	–	47	5,064

Notes:

(a) Mr. Wong Kwok Sing resigned on 23 March 2010

(b) Mr. Lam Shiu San resigned on 1 June 2010

(c) Mr. Ang Wing Fung appointed on 19 February 2010

(d) Mr. Wong Tak Leung, Charles resigned on 3 May 2010

(e) Mr. Lai Ying Sum resigned on 1 April 2010

(f) Mr. Cheng King Hung resigned on 2 August 2010

(g) Ms. Au Yuk Kit appointed on 2 August 2010

(h) Mr. Chu Woon Yuen appointed on 3 May 2010

(i) Ms. Wong On Yee appointed on 1 April 2010

The remuneration of directors for the year ended 30 June 2009 is set out below:

Name of directors	Fees	Salary, allowance and other benefits	Share-based payments	Long service payment	Retirement scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Ms. Wong Yuen Yee	–	1,320	–	–	12	1,332
Mr. Wong Kwok Sing	–	1,320	–	–	12	1,332
Mr. Wong Yao Wing, Robert	–	1,320	–	–	12	1,332
Mr. Lam Shiu San	–	634	–	–	12	646
Independent non-executive directors						
Mr. Wong Tak Leung, Charles	180	–	–	–	–	180
Mr. Lai Ying Sum	120	–	–	–	–	120
Mr. Cheng King Hung	120	–	–	–	–	120
	420	4,594	–	–	48	5,062

As at 30 June 2010, the directors held share options under the Company's share option scheme. The details of the share options are disclosed under the paragraph "share option scheme" in the report of the directors and note 36.

Individuals with highest emoluments

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

	2010	2009
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits	5,486	5,584
Long service payment	–	–
Share-based payments	247	1,034
Retirement scheme contribution	57	60
	5,790	6,678

During the year, 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 year include three (2009: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2009: two) individuals during the year are as follows:

	2010	2009
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits	1,566	1,352
Share-based payments	247	2,178
Retirement scheme contribution	24	24
	1,837	3,554

The emolument of the two (2009: two) individual with the highest emolument is fall within the following band:

	Number of individual 2010 *HK$'000*	2009 *HK$'000*
Emolument band		
HK$Nil – HK$1,500,000	2	1
HK$1,500,001 – HK$2,000,000	–	1

12 (Loss) attributable to equity holders of the company

The consolidated (loss) attributable to equity holders of the Company includes a loss of HK$153,102,000 (2009: loss of HK$413,219,000) which has been dealt with in the financial statements of the Company.

13 (Loss) per share

(a) Basic (loss) per share

The calculation of basic and diluted losses per share attributable to the owners of the Company is based on the following data:

	2010 *HK$'000*	2009 *HK$'000*
Loss		
Loss for the purposes of basic and diluted loss per share attributable to the owners of the Company	140,706	391,000

	2010 *'000*	2009 *'000* (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	568,247	311,742

The weighted average number of ordinary shares for the years ended 30 June 2009 and 2010 for the purpose of calculating the basic and diluted loss per share has been adjusted to reflect the effects of share consolidation as set out in note 35(a).

(b) Diluted (loss) per share

The Company had no dilutive potential ordinary shares in existence during the years ended 30 June 2009 and 2010 since the Company's share options and the convertible notes are anti-dilutive. Therefore, the diluted (loss) per share are the same as the basic (loss) per share.

14 Segment information

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision-makers ("CODM") for the purposes of resource allocation and performance assessment.

The Group has presented the following three reportable segments. These segments are managed separately. No operating segments have been aggregated to form the following reportable segments.

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

(2) Hotel management: the provision for hotel management services.

(3) Gold mining: mining and processing of gold mines.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment loss represents the loss from each segment without allocation of central administration costs (e.g. directors' remuneration, share of profit of associates and finance costs.) This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. Taxation (credit)/charge is not allocated to reportable segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Sales between segments are carried out on arm's length basis. The revenue from external parties reported to the chief operating decision makers is measured in a manner consistent with that in the profit or loss.

All assets are allocated to reportable segments other than interest in associates and unallocated assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and all liabilities are allocated to reportable segments other than current, deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

(a) Business segments

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker is set out below:

	Intelligent system		Hotel management		Gold mining		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue								
Revenue from external customers	9,345	74,374	–	3,738	–	–	9,345	78,112
Reportable segment (loss) before taxation	(22,361)	(177,236)	(5,197)	(113,316)	(184,429)	–	(211,987)	(290,552)
Depreciation, amortisation and release of prepaid lease payments	(19,747)	(20,327)	(40)	(10,814)	(411)	–	(20,198)	(31,141)
Other material non-cash items:								
– Equity-settled share-based transactions	–	(971)	–	(6,180)	–	–	–	(7,151)
– Impairment loss on intangible assets	(1,477)	–	–	–	(174,200)	–	(175,677)	–
Reportable segment assets	234,956	122,148	223,641	106,449	158,961	–	617,558	228,597
Reportable segment liabilities	21,588	229,421	598	310,854	26,037	–	48,223	540,275
Capital expenditure								
– through acquisition of a subsidiary	–	–	–	–	215,407	–	215,407	–
– other	568	22,828	–	37,501	3,507	–	4,075	60,329

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Total reportable segments' revenues	9,345	78,112
Elimination of inter-segment revenue	–	–
Consolidated turnover	9,345	78,112
Loss		
Reportable segment (loss) derived from group's external customers	(211,987)	(290,552)
Share of profits less losses of associates	2,512	401
Other revenue and other net income	6,959	566
Finance costs	(6,702)	(1,934)
Impairment loss on interest in an associate	–	(4,200)
Impairment loss on goodwill	–	(4,322)
Loss on disposal of subsidiaries	–	(84,375)
Unallocated head office and corporate expenses	(27,230)	(6,419)
Consolidated (loss) before tax expense	(236,448)	(390,835)
Assets		
Total reportable segments' assets	617,558	228,597
Elimination of inter-segment receivables	(519,686)	(156,506)
	97,872	72,091
Interests in associates (accounted for by the equity method) *(Note 1)*	1,792	42,908
Unallocated		
– available-for-sale investment	–	18,900
– promissory notes receivable	38,573	–
– others	18,488	10,248
Consolidated total assets	156,725	144,147

	2010	2009
	HK$'000	*HK$'000*
Liabilities		
Total reportable segments' liabilities	48,223	540,275
Elimination of inter-segment payables	(16,501)	(518,947)
	31,722	21,328
Unallocated		
– deferred tax liabilities	1,403	7,954
– promissory note payable	–	6,702
– convertible notes	66,752	22,106
– others	1,604	3,073
Consolidated total liabilities	101,481	61,163

Note 1: Interests in associates are not included in the measure of segment assets but are regularly provided to the chief operating decision maker.

(c) Geographic information

As all segments of the Group are operating in the People's Republic of China ("The PRC"), including Hong Kong, no geographic information has further been disclosed.

(d) Information about major customers

Revenue from customers contributing 10% or more of the total sales of the Group are as follows:

	2010	2009
	HK$'000	*HK$'000*
Customer A – revenue from intelligent system	3,755	21,390
Customer B – revenue from intelligent system	1,825	–
Customer C – revenue from intelligent system	1,790	–
Customer D – revenue from intelligent system	–	20,685
Customer E – revenue from intelligent system	–	14,135
Customer F – revenue from intelligent system	–	8,914
	7,370	65,124

15 Property, plant and equipment

	The Group						
	Buildings	Leasehold improvements	Furniture and fixtures	Equipment	Motor vehicle	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:							
At 1 July 2008	5,373	1,782	613	26,640	1,037	–	35,445
Additions	–	36,203	–	15,859	67	–	52,129
Disposals	(5,373)	(36,561)	(188)	(2,949)	(894)	–	(45,965)
Exchange realignment	–	–	1	5	–	–	6
At 30 June 2009	–	1,424	426	39,555	210	–	41,615
Additions through acquisition of a subsidiary *(Note 38)*	1,054	–	75	1,152	146	445	2,872
Additions	–	–	16	43	876	1,766	2,701
Disposals	–	–	(6)	(15)	(235)	–	(256)
Exchange realignment	30	–	2	36	5	25	98
At 30 June 2010	1,084	1,424	513	40,771	1,002	2,236	47,030
Accumulated depreciation and impairments:							
At 1 July 2008	12	811	409	9,690	238	–	11,160
Charge for the year	141	2,233	67	6,814	137	–	9,392
Written back on disposals	(153)	(1,952)	(74)	(1,355)	(274)	–	(3,808)
Exchange realignment	–	–	2	3	–	–	5
At 30 June 2009	–	1,092	404	15,152	101	–	16,749
Charge for the year	85	286	17	7,687	230	–	8,305
Written back on disposals	–	–	–	–	(140)	–	(140)
Exchange realignment	1	–	–	4	1	–	6
At 30 June 2010	86	1,378	421	22,843	192	–	24,920
Net book value:							
At 30 June 2010	998	46	92	17,928	810	2,236	22,110
At 30 June 2009	–	332	22	24,403	109	–	24,866

The buildings are situated in the People's Republic of China under long-term lease.

As at 30 June 2010, buildings with carrying value of HK$998,000 (2009: HK$Nil) had not been granted formal title of ownership. In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings.

16 Intangible assets

	The Group			
	Patents and trademarks	**Computer software**	**Mining right**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 1 July 2008	4,300	105,795	–	110,095
Additions	–	8,200	–	8,200
Disposals	–	(39,090)	–	(39,090)
At 30 June 2009	4,300	74,905	–	79,205
Addition through acquisition of a subsidiary *(Note 38)*	–	–	212,535	212,535
Additions	–	–	1,374	1,374
Disposals	(1,075)	–	–	(1,075)
At 30 June 2010	3,225	74,905	213,909	292,039
Accumulated amortisation and impairment:				
At 1 July 2008	1,553	29,187	–	30,740
Charge for the year	287	20,583	–	20,870
Written back on disposals	–	(8,470)	–	(8,470)
At 30 June 2009	1,840	41,300	–	43,140
Charge for the year	287	11,606	–	11,893
Written back on disposals	(907)	–	–	(907)
Impairment	778	699	174,200	175,677
At 30 June 2010	1,998	53,605	174,200	229,803
Net book value:				
At 30 June 2010	1,227	21,300	39,709	62,236
At 30 June 2009	2,460	33,605	–	36,065

The amortisation are charge for the year is included in "cost of sales" in the consolidated income statement.

Impairment of mining right

The mining right is owned by a subsidiary of the Group namely Zhang Jia Fan Gold Mine. As a result of a revision of business strategy and focus due to tightening of the regulatory environment in relation to the acquisition of mining business by listed companies resulting uncertainties as to the time required to complete the acquisition, the increased cost of acquisition due to the changes in the regulations and market sentiment in respect of companies engaging in gold mining business on a small scale and delay in making progress in increasing the output of the Zhang Jia Fan Gold Mine, the Group has scaled down the expected annual production of Zhang Jia Fan Gold Mine.

In view of the above, the directors of the Company considered that the mining right of the Zhang Jia Fan Gold Mine should be impaired. A valuation was performed by an independent valuer, on a cash flow projections basis. The recoverable amount of the mining right of the Zhang Jia Fan Gold Mine has been determined based on a value in use calculation. That calculation uses cash flow projections covering a 20-year period until the resources run out based on financial forecasts approved by management, and discounting rate of 18.69%. Key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the mining right of the Zhang Jia Fan Gold Mine to exceed the aggregate recoverable amount of the mining right of the Zhang Jia Fan Gold Mine. Accordingly, an amount of approximately HK$174,200,000 was recognised as impairment loss in profit or loss during the year.

17 Goodwill

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Cost:		
At the beginning of year	4,322	60,643
Acquisition of a subsidiary	–	4,322
Eliminated on disposal of subsidiaries	–	(60,643)
Written-off during the year	(4,322)	–
At the end of year	–	4,322
Impairment:		
At the beginning of year	4,322	–
Impairment loss recognised	–	4,322
Written-off during the year	(4,322)	–
At the end of year	–	4,322
Carrying amounts:	–	–

In previous year, goodwill was resulted from the acquisition of the entire issued capital of Dragon Emperor International Limited. The assets of Dragon Emperor International Limited are primarily available-for-sale investment which was already measured at its fair value at year end date. Impairment loss was recognised by reference to the recoverable amount of the available-for-sale investment which is its fair value less costs to sell. The fair value is determined using a discounted cash flow analysis.

The entire amount of goodwill was allocated to the cash-generating unit ("CGU") Autoscale Resources Limited for impairment tests purposes. 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 2010 HK$'000	The Company 2009 HK$'000
Unlisted shares, at cost	5,637	5,637
Less: Impairment loss	–	–
	5,637	5,637

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
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 (i)	The 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 Investment & Management Holdings Limited	BVI	100%	–	100%	100 shares of US$1 each	Investment holding
Inno Hotel Group Limited	BVI	100%	100%	–	100 shares of US$1 each	Investment holding
Inno Gold Mining Limited	BVI	100%	100%	–	1 share of US$1 each	Investment holding
Massive King Investment Limited	BVI	100%	–	100%	1 share of US$1 each	Investment holding
Gaofeng Holding Co., Limited	Hong Kong	62.6%	–	62.6%	10,000 shares of HK$1 each	Investment holding
Dragon Emperor International Limited	BVI	100%	–	100%	10 shares of US$1 each	Investment holding
Jiu Jiang Gaofeng Mining Industry Company Limited (i)	The PRC	62.6%	–	62.6%	Registered capital of USD280,000	Investment holding
Zhang Jin Fan Gold Mine (ii) (iii)	The PRC	51%	–	51%	Registered capital of RMB800,000	Mining and processing of gold mines in the PRC
Shiny Step Investments Limited	BVI	100%	100%	–	1 share of US$1 each	Investment holding

(i) Registered under the laws of the PRC as a wholly foreign owned enterprise.

(ii) Registered under the laws of the PRC as a shareholding cooperative company.

(iii) The English translation of the company names is for reference only. The official name of these companies are in Chinese.

19 Interests in associates

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Unlisted shares, at cost	4,920	49,274
Share of post-acquisition loss	(3,128)	(2,166)
Impairment loss	–	(4,200)
	1,792	42,908

In previous year, the Group completed its annual impairment test for interest in associates by comparing the recoverable amount of interest in associates of its carrying amount as at 30 June 2009. The recoverable amounts of the interest in the associate have been determined based on value in use calculations, using cash flow projection at a discount rate of 15%. The carrying amount of the interest in associates is written down by approximately HK$4,200,000. Management has considered the above assumptions and valuation and also taken into account the business plan going forward.

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results, assets or liabilities of the Group.

			Percentage of equity				
Name of Company	**Form of business structure**	**Place of incorporation**	**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

* *Companies not audited by Crowe Horwath (HK) CPA Limited*

Summary financial information of the Group's associates:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Assets	3,910	25,184
Liabilities	(253)	(12,379)
Revenues	–	7,878
(Loss)/Profit after tax	(185)	2,828

20 Interest in a jointly-controlled entity

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Share of net assets of jointly-controlled entity	–	–

During the year, the Group has disposed of its entire interest in jointly-controlled entity.

In previous year, the Group's share of losses exceeds the carrying amounts of the jointly-controlled entity, the carrying amount was reduced to HK$Nil.

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

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Current liabilities	–	94
Income	–	–
Expenses	–	(1)
Loss for the year	–	(1)

21 Available-for-sale investment

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Unlisted securities:		
– Equity securities	–	18,900
Analysed for reporting purpose as:		
Current assets	–	–
Non-current assets	–	18,900
	–	18,900

In previous year, the Group held 15.4% of the ordinary share capital of Gaofeng Holding Co. Limited ("HK Gaofeng"), a company interested in the entire equity interest in Jiu Jiang Gaofeng Mining Industry Company Limited ("Jiu Jiang Gaofeng"). Jiu Jiang Gaofeng is a limited liability company established in the PRC. The scope of business of Jiu Jiang Gaofeng is sale and purchase of dolomite, investment, consultation and mining engineering technical consultation.

The unlisted equity securities are measured at fair value. Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a risk adjusted discount factor of 14.02% is used.

On 27 October 2009, HK Gaofeng became a subsidiary of the Group subsequent to further interest acquired and the interest in available-for-sale investment was derecognised on the same date. For details of the acquisitions please refer to note 38.

22 Amounts due from/to subsidiaries and directors

(a) Amounts due from subsidiaries

	The Company	
	2010	**2009**
	HK$'000	*HK$'000*
Amounts due from subsidiaries	562,877	446,392
Less: Impairment loss	(494,694)	(357,351)
	68,183	89,041

Impairment losses were recognised during the years ended 30 June 2010 and 30 June 2009 due to sustained loss making conditions of these subsidiaries.

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

(b) Amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

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

23 Trading securities

Trading securities included:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities listed in Hong Kong	7,495	–

Fair values are determined with reference to quoted market bid prices.

24 Inventories

	The Group 2010 HK$'000	2009 HK$'000
Finished goods	301	709
Work in progress	864	345
Raw materials	294	395
	1,459	1,449

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

	The Group 2010 HK$'000	2009 HK$'000
Carrying amount of inventories sold	6,921	67,046
Write-down of inventories	893	319
	7,814	67,365

25 Accounts receivables

	The Group 2010 HK$'000	2009 HK$'000
Trade debtors	37	125,605
Less: Allowance for doubtful debts	–	(122,219)
	37	3,386
Receivable from a jointly controlled entity	–	95
Receivable from associates	145	652
	182	4,133

Receivable from associates are unsecured, interest-free and repayable on demand.

(a) Ageing analysis

Included in accounts receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Current	–	539
Less than 1 month past due	34	79
1 to 3 months past due	–	–
Over 3 months past due	3	2,768
	37	2,847
	37	3,386

The Group's trading terms with customers are mainly on credit. The credit period is generally 120 days. No interest is charged on accounts receivables and the Group does not hold any collateral over these balances. Further details on the Group's credit policy are set out in note 41(d).

(b) Impairment of trade debtors

At 30 June 2010, the Group's trade debtors of HK$Nil (2009: HK$122,219,000) 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 customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to 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.

(d) Movement in the allowance for doubtful debts for trade debtors

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
At the beginning of year	122,219	113
Impairment losses recognised	–	122,219
Trade debtors written off	(114,592)	(113)
Reversal of allowance of bad debts	(7,627)	–
At the end of year	–	122,219

(e) Pledge of trade debtors

In previous year, the Group has pledged its trade debtors amounting to HK$9,348,530 to a third party to secure the due and punctual payment of all and any sums which are or at any time become payable by the Company under a promissory note dated 15 May 2009 issued by the Company in the principal amount at HK$7,820,000.

26 Pledged bank deposits

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank deposits pledged against banking facilities	–	10,000	–	10,000

In previous year, the amounts were pledged to secure certain bank loans of the Group and the Company *(see note 28)*.

27 Cash and cash equivalents

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	10,326	735	8,173	81
Cash and cash equivalents in the consolidated statement of financial position	10,326	735	8,173	81
Bank overdrafts *(note 28)*	–	(1,957)	–	–
Cash and cash equivalents in the consolidated statement of cash flows	10,326	(1,222)	8,173	81

28 Bank loans and overdrafts

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Non-current		
Bank loans	–	–
Current		
Bank loans	–	10,000
Bank overdrafts *(note 27)*	–	1,957
	–	11,957
Total	–	11,957

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Secured		
Bank loans	–	10,000
Bank overdrafts	–	1,957
	–	11,957

In previous year, the bank overdrafts and the bank loans are secured by the Group's time deposits of HK$10,000,000.

In previous year, 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$12,000,000 granted to the Group and the Company. The facilities were utilised to the extent HK$11,957,000.

In previous year, the effective interest rates of bank loans and bank overdrafts were 3.4% and 5.8% per annum respectively.

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	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	979	4,323	–	–
Accrued expenses and other payables	31,779	5,981	1,443	2,827
	32,758	10,304	1,443	2,827

The following is an age analysis of trade payables presented based on invoice date as at the end of the reporting period:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Less than 1 month	979	4,323	–	–
1 to 3 months	–	–	–	–
Over 3 months	–	–	–	–
	979	4,323	–	–

30 Promissory notes

(a) Promissory note receivable

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
At the date of inception	38,137	–
Implicit interest credited	436	–
Balance at the end of the year	38,573	–

On 3 May 2010, two promissory notes in the principal amounts of HK$2,150,000 and HK$38,700,000 were issued to the Group as part of consideration for the disposal of Group's interest in Great China Media Holdings Limited.

The two promissory notes are guaranteed by the director of the note issuer, and are non-interest bearing. The promissory notes in the principal amounts of HK$2,150,000 and HK$38,700,000 will be matured on 3 August 2010 and 3 May 2011 respectively.

The fair value of the notes in the principal amounts of HK$2,150,000 and HK$38,700,000 were calculated by discounting the expected future cash flows at the rate of 7.346% and 7.427% per annum respectively. The directors considered that the carrying amount of the promissory note approximates to its fair value.

(b) Promissory note payable

	The Group and the Company	
	2010	**2009**
	HK$'000	*HK$'000*
Balance at the beginning of the year	6,702	–
Issued during the year	–	6,554
Implicit interest charged	285	148
Settled during the year	(6,987)	–
Balance at the end of the year	–	6,702

The promissory note was settled during the year.

In previous year, promissory note was secured by certain Group's accounts receivables and it was non-interest bearing.

In previous year, the promissory note was carried at amortised cost using the effective interest rate of 19.32% per annum.

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.

The Group also participates in a state-managed scheme. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The Group contributes on a monthly basis to various defined contribution retirement benefit plan and the Group has no further obligation beyond the contributions made.

32 Long service payments

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Balance at the beginning of the year	233	233
Addition during the year	–	–
Balance at the end of the year	233	233

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 Deferred taxation

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

The Group

	Tax loss	Accelerated depreciation allowances	Convertible notes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax arising from:				
At 1 July 2008	–	7,789	–	7,789
Charged to profit or loss *(note 10)*	–	165	–	165
At 30 June 2009	–	7,954	–	7,954
Recognised directly in equity	–	–	2,505	2,505
(Credited) to profit or loss *(note 10)*	(4,866)	(3,088)	(1,102)	(9,056)
At 30 June 2010	(4,866)	4,866	1,403	1,403

The Company

	Convertible notes
	HK$'000
Deferred tax arising from:	
At 1 July 2008	–
Charged to profit or loss	–
At 30 June 2009	–
Recognised directly in equity	2,505
(Credited) to profit or loss	(1,102)
At 30 June 2010	1,403

At the end of the reporting period, the Group has unused tax losses of around HK$41,742,000 (2009: HK$34,599,000) available to offset against future profits. Deferred tax assets has been recognised in respect of the tax losses of around HK$29,489,000 (2009: HK$Nil).

No deferred tax assets has been recognised in respect of the remaining tax losses of HK$12,253,000 (2009: HK$51,363,000) due to unpredictability of future profit stream. The unused tax losses do not expire under current tax legislation.

The tax losses do not expire under current tax legislation except for an amount of HK$2,744,000 (2009: HK$2,958,000), which will be expired in three to four years.

34 Convertible notes

HK$75,000,000 Convertible Note due 2011

On 27 October 2009, the Company issued 2-year HK$75,000,000 unsecured and non interest-bearing convertible note. Subsequent to share consolidation with effect from 12 November 2009 *(see Note 35(a))*, the holders of convertible note have the option to convert the note into ordinary shares of the Company of HK$0.1 each at a conversion price of HK$0.69, subject to adjustments in accordance with the instrument constituting the convertible note, at any time from the issue date, 27 October 2009, up to and excluding the fifth business day immediately before the maturity date, 27 October 2011. Unless previously redeemed and cancelled, the note will be redeemed at par on the maturity date.

The convertible note was split between liability and equity components of approximately HK$59,816,000 and HK$15,184,000 respectively upon initial recognition by recognising the liability component at fair value and attributing the residual amount as the equity component.

The interest charged for the year is calculated using the effective interest method by applying the effective interest rate of 11.97% to the liability component.

HK$43,384,000 Convertible Note due 2011

On 28 February 2009, the Company issued 2-year HK$43,384,000 unsecured and non interest-bearing convertible note. Subsequent to share consolidation *(see Note 35(a))*, the holders of convertible note have the option to convert the note into ordinary shares of the Company of HK$0.1 each at a conversion price of HK$0.319, subject to adjustments in accordance with the instrument constituting the convertible note, at any time from the issue date, 28 February 2009, up to and excluding the fifth business day immediately before the maturity date, 28 February 2011. Unless previously redeemed and cancelled, the note will be redeemed at par on the maturity date.

The convertible note was split between liability and equity components of approximately HK$30,256,000 and HK$13,128,000 respectively upon initial recognition by recognising the liability component at fair value and attributing the residual amount as the equity component.

The interest charged for the year is calculated using the effective interest method by applying the effective interest rate of 19.75% to the liability component.

HK$16,680,000 Convertible Notes due 2010

On 15 May 2009, the Company issued 1-year HK$16,680,000 unsecured and non interest-bearing convertible notes. The holders of convertible 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$0.06, subject to adjustments in accordance with the instrument constituting the convertible notes, at any time from the issue date, 15 May 2009, up to and excluding the fifth business day immediately before the maturity date, 15 May 2010. Unless previously redeemed and cancelled, the notes will be redeemed at par on the maturity date.

The convertible notes were split between liability and equity components of approximately HK$14,360,000 and HK$2,320,000 respectively upon initial recognition by recognising the liability component at fair value and attributing the residual amount as the equity component.

The interest charged for the year is calculated using the effective interest method by applying the effective interest rate of 16.15% to the liabilities component.

The convertible notes were fully converted during the year.

The movement of the liability components of the convertible notes for the year is set out below:

	The Group and the Company	
	2010	**2009**
	HK$'000	*HK$'000*
Liability component at the beginning of the year	22,106	–
Issue of convertible notes	59,816	44,616
Conversion to ordinary shares	(21,587)	(24,278)
Interest charged	6,417	1,768
Liability component at the end of the year	66,752	22,106
Less: Amount due within one year shown under current liabilities	(14,076)	(1,603)
Amount due after one year	52,676	20,503

35 Share capital

	2010		2009	
	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 of the year	5,000,000	100,000	5,000,000	100,000
Ordinary shares of HK$0.1 each				
Effect of increase in nominal value of shares from HK$0.02 each to HK$0.1 each *(note a)*	(4,000,000)	–	–	–
End of the year	1,000,000	100,000	5,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.02 each				
Beginning of the year	2,144,178	42,884	1,227,187	24,544
Shares issued under share option schemes *(note b)*	2,000	40	132,616	2,652
Placement of shares *(note c)*	–	–	290,704	5,814
Conversion of convertible notes *(note d)*	265,458	5,309	493,671	9,874
	2,411,636	48,233	2,144,178	42,884
Ordinary shares of HK$0.1 each				
Effect of increase in nominal value of shares from HK$0.02 each to HK$0.1 each *(note a)*	(1,929,309)	–	–	–
	482,327	48,233	2,144,178	42,884
Shares issued under share option schemes *(note b)*	35,240	3,524	–	–
Placement of shares *(note c)*	214,465	21,446	–	–
Conversion of convertible notes *(note d)*	10,000	1,000	–	–
End of the year	742,032	74,203	2,144,178	42,884

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) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 11 November 2009, every five issued and unissued shares of HK$0.02 each were consolidated into one new share of HK$0.1 with effect from 12 November 2009.

Following the share consolidation becoming effective on 12 November 2009, the authorised share capital of the Company is HK$100,000,000 divided into 1,000,000,000 shares of HK$0.1 each, of which 482,327,000 shares were in issue and fully paid. The shares after the share consolidation rank pari passu in all respects with each other.

(b) Before share consolidation, options were exercised to subscribe for 2,000,000 ordinary shares in the Company at a consideration of HK$152,000 of which HK$40,000 was credited to share capital and the balance of HK$112,000 was credited to the share premium account. HK$134,000 has been transferred from the share option reserve to the share premium account.

After share consolidation, options were exercised to subscribe for 35,240,000 new ordinary shares in the Company at a consideration of HK$8,340,000 of which HK$3,524,000 was credited to share capital and the balance of HK$4,816,000 was credited to the share premium account. HK$6,270,000 has been transferred from the share option reserve to the share premium account.

(c) On 13 January 2010, the Company placed and issued 94,465,000 new ordinary shares of HK$0.24 each at cash consideration of HK$22,672,000 in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$9,446,000 was credited to the share premium account of the Company.

On 23 March 2010, the Company placed and issued 120,000,000 new ordinary shares of HK$0.25 each at cash consideration of HK$30,000,000 in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$12,000,000 was credited to the share premium account of the Company.

(d) On 7 July 2009, a convertible note holder has exercised conversion right to convert part of the principal amount into the 15,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$300,000 was credited to the share premium account of the Company.

On 10 July 2009, a convertible note holder has exercised conversion right to convert part of the principal amount into the 100,000,000 ordinary shares 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 22 July 2009, a convertible note holder has exercised conversion right to convert the whole part of the principal amount into the 35,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$700,000 was credited to the share premium account of the Company.

On 28 July 2009, a convertible note holder has exercised conversion right to convert the whole part of the principal amount into the 15,458,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$309,000 was credited to the share premium account of the Company.

On 23 October 2009, a convertible note holder has exercised conversion right to convert the whole part of the principal amount into the 50,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$1,000,000 was credited to the share premium account of the Company.

On 4 November 2009, a convertible note holder has exercised conversion right to convert part of the principal amount into the 50,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$1,000,000 was credited to the share premium account of the Company.

On 17 November 2009, a convertible note holder has exercised conversion right to convert part of the principal amount into the 10,000,000 new ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of new shares of HK$1,000,000 was credited to the share premium account of the Company.

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

(f) Terms of unexpired and unexercised share options at the end of the reporting date.

Exercise period	Exercise price: Before the share consolidation	Exercise price: After the share consolidation	Number of share options 2010: Before the share consolidation	Number of share options 2010: After the share consolidation	Number of share options 2009: Before the share consolidation	Number of share options 2009: After the share consolidation
5 July 2002 to 4 July 2012	HK$0.280	HK$1.400	4,800,000	960,000	4,800,000	960,000
6 January 2004 to 5 January 2014	HK$0.220	HK$1.100	10,500	2,100	10,500	2,100
20 September 2005 to 19 September 2015	HK$0.114	HK$0.570	1,000,000	200,000	1,000,000	200,000
23 August 2007 to 22 August 2017	HK$0.630	HK$3.150	69,780,000	13,956,000	69,780,000	13,956,000
9 September 2008 to 8 September 2018	HK$0.174	HK$0.870	30,849,365	6,169,873	30,849,365	6,169,873
11 September 2008 to 10 September 2018	HK$0.195	HK$0.975	22,000,000	4,400,000	22,000,000	4,400,000
24 November 2008 to 23 November 2018	HK$0.070	HK$0.350	–	–	13,900,000	2,780,000
16 December 2008 to 15 December 2018	HK$0.0762	HK$0.381	22,000,000	4,400,000	26,000,000	5,200,000
17 February 2009 to 16 February 2019	HK$0.099	HK$0.495	12,000,000	2,400,000	12,000,000	2,400,000
29 May 2009 to 28 May 2019	HK$0.088	HK$0.440	12,000,000	2,400,000	12,000,000	2,400,000
31 December 2009 to 30 December 2019	–	HK$0.225	–	1,368,895	–	–
15 January 2010 to 14 January 2020	–	HK$0.365	–	12,000,000	–	–
			174,439,865	48,256,868	192,339,865	38,467,973

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 year:

	Number of share options granted on 5 July 2002							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.280	HK$1.400	HK$0.280	HK$1.400	HK$0.280	HK$1.400	HK$0.280	HK$1.400
Senior management	2,400,000	480,000	–	–	–	–	2,400,000	480,000
Other employees and consultants	2,400,000	480,000	–	–	–	–	2,400,000	480,000
	4,800,000	960,000	–	–	–	–	4,800,000	960,000
Exercisable share options	4,800,000	960,000					4,800,000	960,000

(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 year:

	Number of share options granted on 6 January 2004							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.220	HK$1.100	HK$0.220	HK$1.100	HK$0.220	HK$1.100	HK$0.220	HK$1.100
Other employees and consultants	10,500	2,100	–	–	–	–	10,500	2,100
	10,500	2,100	–	–	–	–	10,500	2,100
Exercisable share options	10,500	2,100					10,500	2,100

(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 year:

	Number of share options granted on 20 September 2005							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.114	HK$0.570	HK$0.114	HK$0.570	HK$0.114	HK$0.570	HK$0.114	HK$0.570
Other employees and consultants	1,000,000	200,000	–	–	–	–	1,000,000	200,000
	1,000,000	200,000	–	–	–	–	1,000,000	200,000
Exercisable share options	1,000,000	200,000					1,000,000	200,000

(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 year:

	Number of share options granted on 23 August 2007							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.630	HK$3.150	HK$0.630	HK$3.150	HK$0.630	HK$3.150	HK$0.630	HK$3.150
Directors	34,720,000	6,944,000	–	–	–	–	34,720,000	6,944,000
Senior management	22,190,000	4,438,000	–	–	–	–	22,190,000	4,438,000
Other employees and consultants	12,870,000	2,574,000	–	–	–	–	12,870,000	2,574,000
	69,780,000	13,956,000	–	–	–	–	69,780,000	13,956,000
Exercisable share options	69,780,000	13,956,000					69,780,000	13,956,000

(v) 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 9 September 2008.

The following share options with an exercise period from 9 September 2008 to 8 September 2018 were outstanding under the Post-IPO Share Option Scheme during the year:

	Number of share options granted on 9 September 2008							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.174	HK$0.870	HK$0.174	HK$0.870	HK$0.174	HK$0.870	HK$0.174	HK$0.870
Senior management	10,363,746	2,072,749	–	–	–	–	10,363,746	2,072,749
Other employees and consultants	20,485,619	4,097,124	–	–	–	–	20,485,619	4,097,124
	30,849,365	6,169,873	–	–	–	–	30,849,365	6,169,873
Exercisable share options	30,849,365	6,169,873					30,849,365	6,169,873

(vi) 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 11 September 2008.

The following share options with an exercise period from 11 September 2008 to 10 September 2018 were outstanding under the Post-IPO Share Option Scheme during the year:

	Number of share options granted on 11 September 2008							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.195	HK$0.975	HK$0.195	HK$0.975	HK$0.195	HK$0.975	HK$0.195	HK$0.975
Other employees and consultants	22,000,000	4,400,000	–	–	–	–	22,000,000	4,400,000
	22,000,000	4,400,000	–	–	–	–	22,000,000	4,400,000
Exercisable share options	22,000,000	4,400,000					22,000,000	4,400,000

(vii) 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 24 November 2008.

The following share options with an exercise period from 24 November 2008 to 23 November 2018 were outstanding under the Post-IPO Share Option Scheme during the year:

	Number of share options granted on 24 November 2008							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.070	HK$0.350	HK$0.070	HK$0.350	HK$0.070	HK$0.350	HK$0.070	HK$0.350
Other employees and consultants	13,900,000	2,780,000	–	–	(13,900,000)	(2,780,000)	–	–
	13,900,000	2,780,000	–	–	(13,900,000)	(2,780,000)	–	–
Exercisable share options	13,900,000	2,780,000					–	–

(viii) 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 16 December 2008.

The following share options with an exercise period from 16 December 2008 to 15 December 2018 were outstanding under the Post-IPO Share Option Scheme during the year:

	Number of share options granted on 16 December 2008							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.0762	HK$0.381	HK$0.0762	HK$0.381	HK$0.0762	HK$0.381	HK$0.0762	HK$0.381
Senior management	4,750,000	950,000	–	–	–	–	4,750,000	950,000
Other employees and consultants	21,250,000	4,250,000	–	–	(4,000,000)	(800,000)	17,250,000	3,450,000
	26,000,000	5,200,000	–	–	(4,000,000)	(800,000)	22,000,000	4,400,000
Exercisable share options	26,000,000	5,200,000					22,000,000	4,400,000

(ix) 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 17 February 2009.

The following share options with an exercise period from 17 February 2009 to 16 February 2019 were outstanding under the Post-IPO Share Option Scheme during the year:

	Number of share options granted on 17 February 2009							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.099	HK$0.495	HK$0.099	HK$0.495	HK$0.099	HK$0.495	HK$0.099	HK$0.495
Other employees and consultants	12,000,000	2,400,000	–	–	–	–	12,000,000	2,400,000
	12,000,000	2,400,000	–	–	–	–	12,000,000	2,400,000
Exercisable share options	12,000,000	2,400,000					12,000,000	2,400,000

(x) 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 29 May 2009.

The following share options with an exercise period from 29 May 2009 to 28 May 2019 were outstanding under the Post-IPO Share Option Scheme during the year:

	Number of share options granted on 29 May 2009							
	At 1 July 2009		Granted during the year		Exercised during the year		At 30 June 2010	
Name or category of participant	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation	Before the share consolidation	After the share consolidation
Exercise price per share	HK$0.088	HK$0.440	HK$0.088	HK$0.440	HK$0.088	HK$0.440	HK$0.088	HK$0.440
Other employees and consultants	12,000,000	2,400,000	–	–	–	–	12,000,000	2,400,000
	12,000,000	2,400,000	–	–	–	–	12,000,000	2,400,000
Exercisable share options	12,000,000	2,400,000					12,000,000	2,400,000

(xi) 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 31 December 2009.

The following share options with an exercise period from 31 December 2009 to 30 December 2019 were outstanding under the Post-IPO Share Option Scheme during the year:

	Number of share options granted on 31 December 2009					
Name or category of participant	At 1 July 2009	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 30 June 2010
Exercise price per share	–	HK$0.225	HK$0.225	HK$0.225	HK$0.225	HK$0.225
Directors	–	300,000	(200,000)	–	–	100,000
Senior management	–	1,900,000	(1,200,000)	–	–	700,000
Other employees and consultants	–	31,228,515	(30,659,620)	–	–	568,895
	–	33,428,515	(32,059,620)	–	–	1,368,895
Exercisable share options	–				–	1,368,895

(xii) 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 15 January 2010.

The following share options with an exercise period from 15 January 2010 to 14 January 2020 were outstanding under the Post-IPO Share Option Scheme during the year:

		Number of share options granted on 15 January 2010				
Name or category of participant	**At 1 July 2009**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**Lapsed during the year**	**At 30 June 2010**
Exercise price per share	–	HK$0.365	HK$0.365	HK$0.365	HK$0.365	HK$0.365
Other employees and consultants	–	12,000,000	–	–	–	12,000,000
	–	12,000,000	–	–	–	12,000,000
Exercisable share options	–					12,000,000

The fair values of the options granted on 20 September 2005, 23 August 2007, 9 September 2008, 11 September 2008, 24 November 2008, 16 December 2008, 17 February 2009, 29 May 2009, 31 December 2009 and 15 January 2010 determined using the Binomial Option Pricing Model and the Black-Scholes Option Pricing Model were HK$2,459,600, HK$32,590,077, HK$13,654,408, HK$5,868,400, HK$2,597,910, HK$4,093,100, HK$1,071,600, HK$948,000, HK$5,495,000 and HK$3,225,000 respectively. The significant inputs and assumptions to the model were as follows:

Grant date	20 September 2005	23 August 2007	9 September 2008	11 September 2008	24 November 2008	16 December 2008	17 February 2009	29 May 2009	31 December 2009	15 January 2010
Stock assets price	HK$0.110	HK$0.63	HK$0.174	HK$0.195	HK$0.07	HK$0.075	HK$0.099	HK$0.087	HK$0.23	HK$0.37
Exercise price	HK$0.114	HK$0.63	HK$0.174	HK$0.195	HK$0.07	HK$0.0762	HK$0.099	HK$0.088	HK$0.225	HK$0.365
Expected volatility	107%	77.37%	95.077%	95.255%	98.732%	100.409%	102.361%	102.323%	96.04%	97.35%
Expected life	5 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years	5 years	5 years
Risk free interest rate	4.012%	4.480%	2.848%	2.799%	1.467%	1.530%	1.586%	2.767%	1.93%	1.86%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

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

The Binomial Option Pricing Model and the Black-Scholes Option Pricing Model require 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	Share option reserve	Convertible notes reserve	Contributed surplus	Capital redemption reserve	Exchange reserve	Investment revaluation reserve	(Accumulated losses)	Non-controlling interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2008	342,866	23,220	–	5,625	43	(245)	–	(60,332)	–	311,177
Loss for the year	–	–	–	–	–	–	–	(391,000)	–	(391,000)
Issuance of shares	49,957	–	–	–	–	–	–	–	–	49,957
Fair value of options granted	–	28,233	–	–	–	–	–	–	–	28,233
Equity component of convertible notes issued	–	–	15,448	–	–	–	–	–	–	15,448
Exercise of share options	29,416	(15,055)	–	–	–	–	–	–	–	14,361
Share issuance costs	(1,881)	–	–	–	–	–	–	–	–	(1,881)
Exercise of convertible notes, net of transaction costs	21,222	–	(6,817)	–	–	–	–	–	–	14,405
Fair value changes of available-for-sale investment	–	–	–	–	–	–	(640)	–	–	(640)
Release of exchange reserve upon disposal of foreign subsidiaries	–	–	–	–	–	72	–	–	–	72
Exchange difference on consolidation	–	–	–	–	–	(32)	–	–	–	(32)
At 30 June 2009	441,580	36,398	8,631	5,625	43	(205)	(640)	(451,332)	–	40,100
At 1 July 2009	441,580	36,398	8,631	5,625	43	(205)	(640)	(451,332)	–	40,100
Loss for the year	–	–	–	–	–	–	–	(140,706)	(86,686)	(227,392)
Issuance of shares	31,226	–	–	–	–	–	–	–	–	31,226
Fair value of options granted	–	8,720	–	–	–	–	–	–	–	8,720
Equity component of convertible notes issued	–	–	15,184	–	–	–	–	–	–	15,184
Exercise of share options	11,332	(6,404)	–	–	–	–	–	–	–	4,928
Deferred taxation	–	–	(2,505)	–	–	–	–	–	–	(2,505)
Share issuance costs	(1,257)	–	–	–	–	–	–	–	–	(1,257)
Exercise of convertible notes, net of transaction costs	21,898	–	(6,620)	–	–	–	–	–	–	15,278
Transfer to profit or loss on disposal of available-for-sale investment	–	–	–	–	–	–	640	–	–	640
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	96,135	96,135
Exchange difference on consolidation	–	–	–	–	–	(16)	–	–	–	(16)
At 30 June 2010	504,779	38,714	14,690	5,625	43	(221)	–	(592,038)	9,449	(18,959)

(b) The Company

	Share premium HK$'000	Share option reserve HK$'000	Convertible notes reserve HK$'000	Contributed surplus HK$'000	Capital redemption reserve HK$'000	(Accumulated losses) HK$'000	Total HK$'000
At 1 July 2008	342,866	23,220	–	5,625	43	(62,653)	309,101
Loss for the year	–	–	–	–	–	(413,219)	(413,219)
Issuance of shares	49,957	–	–	–	–	–	49,957
Fair value of options granted	–	28,233	–	–	–	–	28,233
Equity component of convertible notes issued	–	–	15,448	–	–	–	15,448
Exercise of share options	29,416	(15,055)	–	–	–	–	14,361
Share issuance costs	(1,881)	–	–	–	–	–	(1,881)
Exercise of convertible notes, net of transaction costs	21,222	–	(6,817)	–	–	–	14,405
At 30 June 2009	441,580	36,398	8,631	5,625	43	(475,872)	16,405
At 1 July 2009	441,580	36,398	8,631	5,625	43	(475,872)	16,405
Loss for the year	–	–	–	–	–	(153,102)	(153,102)
Issuance of shares	31,226	–	–	–	–	–	31,226
Fair value of options granted	–	8,720	–	–	–	–	8,720
Equity component of convertible notes issued	–	–	15,184	–	–	–	15,184
Exercise of share options	11,332	(6,404)	–	–	–	–	4,928
Deferred taxation	–	–	(2,505)	–	–	–	(2,505)
Share issuance costs	(1,257)	–	–	–	–	–	(1,257)
Exercise of convertible notes, net of transaction costs	21,898	–	(6,620)	–	–	–	15,278
At 30 June 2010	504,779	38,714	14,690	5,625	43	(628,974)	(65,123)

(c) Nature and purpose of reserves

(i) Share premium and Capital redemption reserve

The application of the share premium account and capital redemption reserve are governed by Section 40 of the Companies Act 1981 of Bermuda ("Companies Act").

(ii) Share option reserve

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with accounting policy adopted for share-based payments in note 4(o)(ii).

(iii) Convertible notes reserve

Convertible notes reserve have been set up and will be dealt with in accordance with the Group's accounting policies.

(iv) Contributed surplus

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 contribute surplus. Contributed surplus is available for distribution to shareholders subject to the provision of Section 54 of the Companies Act.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(y).

(vi) Investment revaluation reserve

The Investment revaluation reserve represents accumulated gains and losses arising on the revaluation of available-for-sale investment that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those investment have been disposed of or are determined to be impaired.

(vii) Distributable of reserves

At 30 June 2010, no aggregate amount of reserves was available for distribution to shareholders of the Company (2009: HK$Nil).

38 Acquisition of a subsidiary

On 27 October 2009, the Group acquired 47.2% equity interest in Gaofeng Holding Co. Limited ("HK Gaofeng") at a consideration of HK$75,000,000 (the "Acquisition"). HK Gaofeng directly owns 100% equity interest of Jiu Jiang Gaofeng Mining Company Limited ("Jiu Jiang Gaofeng"), a company established in the PRC. Jiu Jiang Gaofeng owns 81.5% equity interest of Zhang Jia Fan Gold Mine, a company established in the PRC and is engaged in the business of gold mine in Zhang Jia Fan, the PRC and has not commenced production activities. Prior to the Acquisition, the Group held 15.4% equity interest of HK Gaofeng and this has been allocated for as available-for-sale investment *(note 21)*. As a result, HK Gaofeng became 62.6% owned subsidiary of the Group subsequent to the Acquisition.

As mentioned by the Company's circular dated 11 September 2009 (the "Circular"), Jiu Jiang Gaofeng 81.5% equity interest of Zhang Jia Fan Gold Mine was yet to be approved by Jiangxi Commerce Administrative Bureau when the Company made its announcement for the Acquisition. The consideration of the Acquisition was made by reference to a management agreement entered into between Jiu Jiang Gaofeng and Zhang Jia Fan Gold Mine with terms as mentioned in the Circular (the "Management Agreement"). The Management Agreement was automatically terminated, in accordance with the term, when the approval was obtained from Jiangxi Commerce Administrative Bureau on 9 July 2009. At date of completion of the Acquisition on 27 October 2009, Zhang Jia Fan Gold Mine is already a subsidiary of HK Gaofeng.

The assets and liabilities of HK Gaofeng acquired at the date of completion of the Acquisition are as follows:

	HK$'000
Assets and liabilities acquired:	
Property, plant and equipment and construction in progress	2,872
Intangible assets	212,535
Accounts receivables, deposits and other receivables	3,089
Cash and cash equivalents	159
Inventories	85
Trade payables, accrued expenses and other payables	(23,135)
	195,605
Less: Non-controlling interest	(96,135)
Less: Interest in available-for-sale investment held prior to the acquisition	(24,470)
Consideration	75,000
Represented by	
Convertible notes issued	75,000
Net cash inflow arising from acquisition:	
Bank balances and cash acquired	159

The subsidiary acquired did not contribute significantly to the Group's reserve and results during the year.

During the year 2009, the Group acquired 100% of the issued share capital of Dragon Emperor International Limited for a total consideration of HK$20,906,000 (including professional fee of HK$536,000). The amount of goodwill arising as a result of the acquisition was HK$4,322,000.

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

	HK$'000
Fair values of net assets acquired:	
Available-for-sale investment	16,600
Other payable	(16)
	16,584
Goodwill arising from the acquisition	4,322
Consideration	20,906
Represented by:	
Convertible notes issued	13,816
Promissory note	6,554
Direct expenses incurred for the acquisition	536
	20,906
Net cash outflow arising from acquisition:	
Cash consideration	536

Dragon Emperor International Limited contributed HK$16,000 to Group's loss for the period between the date of acquisition and the end of the reporting period in 2009.

39 Disposal of subsidiaries

The Group has disposed certain subsidiaries during the year 2009, the net assets of those subsidiaries at their dates of disposal were as follow:

	2009
	HK$'000
Net assets disposed of	
Property, plant and equipment	6,857
Prepaid lease payments	33,439
Accounts receivables	170
Prepayment, deposits and other receivables	14,911
Amounts due (to) subsidiaries	(217)
Amounts due from fellow subsidiaries	43
Amounts due (to) associated companies	(286)
Amounts due (to) directors	(7)
Inventories	286
Cash and cash equivalents	283
Bank loans	(21,667)
Trade payables, accrued expenses and other payables	(2,509)
Provision for taxation	(17)
	31,286
Attributable goodwill	60,643
Release of translation reserve	72
	92,001
Loss on disposal	(84,375)
Total consideration	7,626
Satisfied by:	
Other receivables	225
Promissory note	4,256
Cash	3,145
	7,626
Net cash inflow arising on disposal	
Cash consideration	3,145
Cash and cash equivalents	(283)
	2,862

40 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 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 year of 2010 and 2009.

The Group monitors capital using a gearing ratio. The Group's policy is to keep the gearing ratio at a reasonable level.

During the year, the Group's gearing ratios exceeds 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt.

The Group's gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Debt *(Note i)*	66,752	40,765
Cash and cash equivalents and pledged deposits	(10,326)	(10,735)
Net debt	56,426	30,030
Equity *(Note ii)*	45,795	82,984
Net debt-to-equity ratio	123.2%	36.2%

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

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

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

41 Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 4.

Categories of financial instruments

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Available-for-sale financial assets	–	18,900	–	–
Fair value through profit or loss	7,495	–	–	–
Loans and receivables	61,633	19,959	86,672	99,289
Financial liabilities				
Amortised cost	100,078	53,209	81,826	45,637

Financial risk management objectives and policies

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 seeks to minimise potential adverse effects on the Group's financial performance and are set out below.

(a) Interest rate risk

The Group has no interest-bearing borrowing and variable-rate bank balances as at 30 June 2010. The directors consider that the exposure on cash flow interest rate risk is insignificant. Accordingly, no sensitivity analysis has been prepared for the year ended 30 June 2010.

The Group is exposed to cash flow interest rate risk on variable-rate bank borrowings as at 30 June 2009. 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 end of the reporting period. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period 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 30 June 2009, 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$18,000. This is mainly attributable to the Group's exposure to interest rates on its bank balances and bank loans.

(b) Liquidity risk

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity and going concern of the Group in the light of the Group incurred loss for the year ended 30 June 2010 of approximately HK$227,392,000 (2009: HK$391,000,000). The directors of the Company are satisfied that the Group has so far meet all the financial obligations as and when they fall due and 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 future.

The following table details the remaining contractual maturities at the end of the reporting period 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 end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2010						2009					
	Carrying Amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Carrying Amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
Bank loans and overdrafts	–	–	–	–	–	–	11,957	(11,957)	(11,957)	–	–	–
Trade payables, accrued expenses and other payables	32,758	(32,758)	(32,758)	–	–	–	10,304	(10,304)	(10,304)	–	–	–
Promissory note payable	–	–	–	–	–	–	6,702	(7,820)	(7,820)	–	–	–
Amounts due to directors	568	(568)	(568)	–	–	–	2,140	(2,140)	(2,140)	–	–	–
Convertible notes	66,752	(77,078)	(15,878)	(61,200)	–	–	22,106	(29,508)	(1,827)	(27,681)	–	–
	100,078	(110,404)	(49,204)	(61,200)	–	–	53,209	(61,729)	(34,048)	(27,681)	–	–

The Company

	2010						2009					
	Carrying Amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Carrying Amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
Amounts due to subsidiaries	13,471	(13,471)	(13,471)	–	–	–	13,757	(13,757)	(13,757)	–	–	–
Amounts due to directors	160	(160)	(160)	–	–	–	245	(245)	(245)	–	–	–
Trade payables, accrued expenses and other payables	1,443	(1,443)	(1,443)	–	–	–	2,827	(2,827)	(2,827)	–	–	–
Promissory note payable	–	–	–	–	–	–	6,702	(7,820)	(7,820)	–	–	–
Convertible notes	66,752	(77,078)	(15,878)	(61,200)	–	–	22,106	(29,508)	(1,827)	(27,681)	–	–
	81,826	(92,152)	(30,952)	(61,200)	–	–	45,637	(54,157)	(26,476)	(27,681)	–	–

(c) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities *(see note 23)* and available-for-sale investment securities *(see note 21)* as at 30 June 2010 and 2009 respectively.

Sensitivity analysis

At 30 June 2010, if equity prices at that date had been 5% higher/lower with all other variables held constant, loss after taxation would decrease/increase by HK$375,000 as a result of the changes in fair value of trading securities.

At 30 June 2009, if equity prices at that date had been 5% higher/lower with all other variables held constant, other equity reserves would increase/decrease by HK$945,000 as a result of the changes in fair value of available-for-sale investment.

(d) Credit risk

The Group 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.

At 30 June 2010, the Group had certain concentration of credit risk as 93% (2009: 100%) of the total trade receivables of the Group were due from 1 customer (2009: 4 customers). In addition, the Group had concentration of credit risk on geographical area since its total trade receivables consist of customers entirely from the PRC of 100% as at 30 June 2010 (2009: 100%). Those transactions expose to significant concentrations of credit risk at the end of reporting period.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivables are set out in note 25.

(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.

(f) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

	The Group				The Company			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss								
Non-derivative financial assets held for trading	7,495	–	–	7,495	–	–	–	–
Total	7,495	–	–	7,495	–	–	–	–

There were no significant transfers between instruments in Level 1 and Level 2 during the year.

42 Commitments

(a) Operating leases commitment

At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Within 1 year	961	785
After 1 year but within 5 years	–	–
After 5 years	–	–
	961	785

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 2010 not provided for in the financial statements of the Group were as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Contracted but not provided for:		
Acquisition of a subsidiary	–	75,000
Investment in joint venture	18,661	18,333
	18,661	93,333

43 Legal dispute

A High Court action was commenced against the Company's Chairman, Chief Executive Officer and the Company in August 2010 in respect of alleged breach of investment agreement and placing agreement between the plaintiff, the Company's Chairman and Chief Executive Officer. The plaintiff has filed a statement of claim claiming damages in the amount of approximately HK$15,838,000.

The directors, based on legal advice, consider that the case is in its pre-mature stage in which it is not possible to estimate the eventual outcome of the claims at this current stage. In addition, it would not be possible to quantify reliably the likely potential damages and cost to be incurred by the Group in the event that the Company fails in its defence.

44 Related party transactions

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

	Note	2010 HK$'000	2009 HK$'000
Operating expenses paid	*(i)*	449	636
Consultancy fee paid	*(ii)*	157	174
Loan interest income	*(iii)*	–	369
Impairment loss recognised in respect of loan to a former associate	*(iv)*	–	12,440
Reversal of impairment loss in respect of loan to a former associate	*(iv)*	6,249	–

Note:

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

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

(iii) Loan interest income from United Premier Medical Group, a former associate of the Group.

(iv) Impairment was made for loans to United Premier Medical Group, a former associate of the Group in previous year and partial repayment made during the year.

(v) In previous year, purchases of Great China Media Holdings Limited, an associate of the Group, from Capital Base Holding Limited, of which both Ms. Wong Yuen Yee and Mr. Wong Kwok Sing are executive directors and owners. The consideration involved amounting to HK$43,384,000 which has been satisfied by issuance of convertible note as detailed in note 34.

(vi) In previous year, directors of the Company provided personal guarantee for banking facilities to the extent of HK$12,000,000 granted to the Group and the Company.

Mr. Lam Shiu San resigned as director of the Company on 1 June 2010.

Mr. Wong Kwok Sing resigned as director of the Company on 23 March 2010.

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.

(b) Compensation of key management personnel

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

	2010	**2009**
	HK$'000	*HK$'000*
Basic salary, allowance and other benefits	6,535	6,638
Recognised retirement pension	71	72
Share-based payments	295	1,033
	6,901	7,743

45 Events after the reporting period

(a) The Company entered into a sales and purchases agreement to acquire 100% equity interest in Active Link Investments Limited ("**Active Link**") for a consideration of HK$105,600,000 as set out in the Company's announcement dated 21 July 2010 and circular dated 24 August 2010. The Company had paid a refundable deposit of HK$10,000,000 during the year and the acquisition is yet to be completed as at the date of this report.

Active Link was established on 19 May 2010 and is principally engaged in investment holding Active Link's subsidiaries engage in design, production and publication of outdoor advertisements in the PRC. The Group is expected to further expand its business in outdoor advertising industry in the PRC through the acquisition.

It is impractical to disclose the pro forma revenue and profit of the Group for the year had the acquisition been effected at the beginning of the year, disclose the carrying amount, fair value of the net assets acquired and any goodwill arising from the above acquisition as the information for business combination is incomplete at the time the financial statements are authorized for issue.

(b) A High Court action was commenced against the Company subsequent to the reporting period as detailed in note 43 to the financial statements.

46 Comparative figures

Certain comparative amounts have been reclassified to conform with current year's presentation.

C. FINANCIAL INFORMATION ON THE GROUP FOR THE TWO YEARS ENDED 30 JUNE 2010 AND 2011

Set out below are the audited financial statements of the Group as extracted from pages 43 to 188 of the annual report of the Company for the two years ended 30 June 2010 and 2011, which are published on both the GEM website (www.hkgem.com) and the website of the Company (www.it-holdings.com.hk).

CONDENSED INCOME STATEMENT
For the two years ended 30 June 2010 and 2011

	Note	2011 HK$'000	2010 HK$'000 (restated)
Continuing operations			
Turnover	5	30,140	9,345
Cost of sales		(48,768)	(19,889)
Gross (loss)		(18,628)	(10,544)
Other revenue	6	2,281	677
Other net income	6	5,249	13,957
Marketing and promotion expenses		(2,849)	(4,691)
Administrative expenses		(38,665)	(38,246)
Finance costs	7	(7,632)	(6,771)
Share of (loss)/profits of associates		(2)	2,512
Impairment loss on property, plant and equipment		(4,151)	–
Impairment loss on intangible assets		(12,941)	(1,477)
Changes in fair value of trading securities		(9,804)	(830)
Changes in fair value of derivative financial instruments		(1,533)	–
Loss on disposal of an associate		–	(6,438)
Loss on disposal of intangible assets		–	(168)
Change in fair value of purchase consideration payable		(979)	–
(Loss) before income tax	8	(89,654)	(52,019)
Income tax	9	3,902	9,056
(Loss) for the year from continuing operations		(85,752)	(42,963)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	10	721	(184,429)
(Loss) for the year		(85,031)	(227,392)

	Note	2011 *HK$'000*	2010 *HK$'000* (restated)
Attributable to:			
Owners of the Company		(82,478)	(140,706)
Non-controlling interest		(2,553)	(86,686)
(Loss) for the year		(85,031)	(227,392)
(Loss) per share attributable to owners of the Company			
From continuing and discontinued operations			
– Basic *(HK$ per share)*	*13*	(1.93)	(11.16)
– Diluted *(HK$ per share)*	*13*	(1.93)	(11.16)
From continuing operations			
– Basic *(HK$ per share)*	*13*	(1.87)	(3.41)
– Diluted *(HK$ per share)*	*13*	(1.87)	(3.41)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	2011	2010
	HK$'000	*HK$'000*
		(restated)
(Loss) for the year	(85,031)	(227,392)
Other comprehensive income/(loss) for the year		
Exchange differences on translation of financial statements of overseas subsidiaries	(286)	(16)
Reclassification adjustment for realisation of exchange difference transferred to profit or loss upon disposal of interests in subsidiaries	88	–
Reclassification adjustment relating to available-for-sale investment disposal of during the year	–	640
Total comprehensive (loss) for the year	(85,229)	(226,768)
Attributable to:		
Owners of the Company	(82,676)	(140,082)
Non-controlling interest	(2,553)	(86,686)
	(85,229)	(226,768)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	15	6,545	22,110
Intangible assets	16	59,108	62,236
Goodwill	17	48,979	–
Interests in associates	19	1,790	1,792
Deposit for acquisition of available-for-sale investment	42(b)	20,000	–
Deposit for acquisition of a subsidiary		–	10,000
		136,422	96,138
Current assets			
Trading securities	21	12,731	7,495
Inventories	22	–	1,459
Accounts receivable	23	3,813	182
Prepayments, deposits and other receivables	24	5,527	2,552
Promissory notes receivable	25	38,700	38,573
Cash and cash equivalents	26	114,172	10,326
		174,943	60,587
Current liabilities			
Trade payables, accrued expenses and other payables	27	22,803	32,758
Purchase consideration payable	36(v)	5,684	–
Amounts due to directors	20(c)	–	568
Tax payable	30	318	–
Convertible notes	32	4,241	14,076
		33,046	47,402

	Note	2011 HK$'000	2010 HK$'000
Net current assets		141,897	13,185
Total assets less current liabilities		278,319	109,323
Non-current liabilities			
Deferred taxation	*31*	14,843	1,403
Convertible notes	*32*	–	52,676
Purchase consideration payable	*36(v)*	6,364	–
		21,207	54,079
NET ASSETS		257,112	55,244
EQUITY			
Equity attributable to owners of the Company			
Share capital	*33*	95	74,203
Reserves	*35(a)*	247,354	(28,408)
		247,449	45,795
Non-controlling interest	*35(a)*	9,663	9,449
TOTAL EQUITY		257,112	55,244

STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	15	259	–
Interests in subsidiaries	18	96,291	5,637
Deposit for acquisition of a subsidiary		–	10,000
		96,550	15,637
Current assets			
Prepayments, deposits and other receivables	24	2,116	316
Amounts due from subsidiaries	20(a)	85,974	68,183
Cash and cash equivalents	26	104,373	8,173
		192,463	76,672
Current liabilities			
Trade payables, accrued expenses and other payables	27	4,466	1,443
Purchase consideration payable	36(v)	5,684	–
Amounts due to subsidiaries	20(b)	9,390	13,471
Amounts due to directors	20(c)	–	160
Convertible notes	32	4,241	14,076
		23,781	29,150
Net current assets		168,682	47,522
Total assets less current liabilities		265,232	63,159

	Note	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Deferred taxation	*31*	66	1,403
Convertible notes	*32*	–	52,676
Purchase consideration payable	*36(v)*	6,364	–
		6,430	54,079
NET ASSETS		258,802	9,080
EQUITY			
Equity attributable to owners of the Company			
Share capital	*33*	95	74,203
Reserves	*35(b)*	258,707	(65,123)
TOTAL EQUITY		258,802	9,080

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000*	Share option reserve *HK$'000*	Convertible notes reserve *HK$'000*	Contributed surplus *HK$'000*	Capital redemption reserve *HK$'000*	Exchange reserve *HK$'000*	Investment revaluation reserve *HK$'000*	(Accumulated losses) *HK$'000*	Attributable to owners of the Company *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 July 2009	42,884	441,580	36,398	8,631	5,625	43	(205)	(640)	(451,332)	82,984	–	82,984
Exchange difference on consolidation	–	–	–	–	–	–	(16)	–	–	(16)	–	(16)
Transfer to profit or loss on disposal of available-for-sale investment	–	–	–	–	–	–	–	640	–	640	–	640
	–	–	–	–	–	–	(16)	640	–	624	–	624
Loss for the year	–	–	–	–	–	–	–	–	(140,706)	(140,706)	(86,686)	(227,392)
Total comprehensive (loss) for the year	–	–	–	–	–	–	(16)	640	(140,706)	(140,082)	(86,686)	(226,768)
Issue of shares	21,446	31,226	–	–	–	–	–	–	–	52,672	–	52,672
Fair value of options granted	–	–	8,720	–	–	–	–	–	–	8,720	–	8,720
Equity component of convertible notes issued	–	–	–	15,184	–	–	–	–	–	15,184	–	15,184
Exercise of share options	3,564	11,332	(6,404)	–	–	–	–	–	–	8,492	–	8,492
Deferred taxation	–	–	–	(2,505)	–	–	–	–	–	(2,505)	–	(2,505)
Share issue costs	–	(1,257)	–	–	–	–	–	–	–	(1,257)	–	(1,257)
Exercise of convertible notes, net of transaction cost	6,309	21,898	–	(6,620)	–	–	–	–	–	21,587	–	21,587
Acquisition of a subsidiary *(note 36)*	–	–	–	–	–	–	–	–	–	–	96,135	96,135
At 30 June 2010	74,203	504,779	38,714	14,690	5,625	43	(221)	–	(592,038)	45,795	9,449	55,244
At 1 July 2010	74,203	504,779	38,714	14,690	5,625	43	(221)	–	(592,038)	45,795	9,449	55,244
Exchange difference on consolidation	–	–	–	–	–	–	(286)	–	–	(286)	–	(286)
Reclassification adjustment upon disposal of subsidiaries *(note 10)*	–	–	–	–	–	–	88	–	–	88	–	88
	–	–	–	–	–	–	(198)	–	–	(198)	–	(198)
Loss for the year	–	–	–	–	–	–	–	–	(82,478)	(82,478)	(2,553)	(85,031)
Total comprehensive (loss) for the year	–	–	–	–	–	–	(198)	–	(82,478)	(82,676)	(2,553)	(85,229)
Issue of new shares on acquisition *(note 36)*	14,025	–	–	–	–	–	–	–	–	14,025	–	14,025
Issue of shares	46,460	236,670	–	–	–	–	–	–	–	283,130	–	283,130
Release upon disposal of subsidiaries *(note 10)*	–	–	–	–	–	–	–	–	–	–	(7,651)	(7,651)
Share issue costs	–	(10,895)	–	–	–	–	–	–	–	(10,895)	–	(10,895)
Redemption of convertible notes	–	–	–	(13,948)	–	–	–	–	12,018	(1,930)	–	(1,930)
Capital reorganisation	(134,593)	(504,779)	–	–	47,334	–	–	–	592,038	–	–	–
Acquisition of a subsidiary *(note 36)*	–	–	–	–	–	–	–	–	–	–	10,418	10,418
At 30 June 2011	95	225,775	38,714	742	52,959	43	(419)	–	(70,460)	247,449	9,663	257,112

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2011

	Note	2011 HK$'000	2010 HK$'000
Operating activities			
(Loss) for the year		(85,031)	(227,392)
Adjustment for:			
Income tax expense	*9*	(3,902)	(9,056)
Depreciation	*15*	7,490	8,305
Reversal of allowance of bad debts	*23*	–	(7,627)
Write-down of inventories	*22*	1,251	893
Impairment loss on deposits and other receivables		1,689	–
Amortisation of intangible assets	*16*	21,563	11,893
(Gain) on disposal of subsidiaries	*10*	(4,366)	–
Loss on disposal of an associate		–	6,438
Share of loss/(profits) of an associates		2	(2,512)
Interest income	*6*	(2,279)	(442)
Share-based payments		–	8,720
Impairment loss on intangible assets	*16*	12,941	175,677
Impairment loss on property, plant and equipment	*15*	4,151	–
Change in fair value of derivative financial instruments		1,533	–
Gain on extinguishment of convertible notes	*6*	(5,040)	–
Loss on disposal of intangible assets		–	168
Loss on disposal of property, plant and equipment		27	28
Loss on disposal of trading securities		–	345
Gain on disposal of available-for-sale investment		–	(4,930)
Change in fair value of trading securities		9,804	830
Reversal of impairment loss on loan to a former associate		–	(6,249)
Finance costs	*7*	7,632	6,771
Change in fair value of purchase consideration		979	–
Operating (loss) before changes in working capital		(31,556)	(38,140)
Decrease/(increase) in inventories		94	(818)
(Increase)/decrease in accounts receivable		(444)	4,591
(Increase)/decrease in prepayments, deposits and other receivables		(6,324)	11,877
(Decrease) in amounts due to directors		(194)	(1,572)
Increase/(decrease) in trade payables, accrued expenses and other payables		16,935	(681)

	Note	2011 HK$'000	2010 HK$'000
Cash (used in) operations		(21,489)	(24,743)
PRC tax paid		(111)	–
Net cash (used in) operating activities		(21,600)	(24,743)
Investing activities			
(Increase) in trading securities		(15,040)	(8,670)
Deposit paid for available-for-sales investment		(20,000)	–
Deposit paid for acquisition of a subsidiary		–	(10,000)
Interest received		2	6
Payment for purchase of property, plant and equipment		(3,519)	(2,701)
Purchase of intangible assets		–	(1,374)
Proceeds from disposals of property, plant and equipment		9	88
Net cash outflow from disposal of an associate		–	(947)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	36	(29,794)	159
Decrease in pledged deposits		–	10,000
Disposal of subsidiaries, net of cash and cash equivalents disposed	10	13,832	–
Proceeds from promissory notes	25	2,150	–
Net cash (used in) investing activities		(52,360)	(13,439)
Financing activities			
Net proceeds from issue of new shares		272,235	51,415
Interest paid		(4)	(69)
Proceeds from share issued under share option scheme		–	8,492
Redemption of convertible note		(94,121)	–
Repayment of bank loans		–	(10,000)
Net cash generated from financing activities		178,110	49,838
Net increase in cash and cash equivalents		104,150	11,656
Effect of foreign exchange rate changes		(304)	(108)
Cash and cash equivalents at the beginning of the year		10,326	(1,222)
Cash and cash equivalents at the end of the year	26	114,172	10,326

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

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 HM 11, Bermuda and Room 903, Tung Wai Commercial Building, 109-111 Gloucester Road, Wanchai, Hong Kong and was relocated to Room 606, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong on 21 January 2011 respectively.

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

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Company and its subsidiaries (together referred to as the "Group") have adopted the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") that are first effective for current accounting period.

HKFRSs (Amendments)	Amendments to HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 39, HKFRS 5 and HKFRS 8 as part of Improvements to HKFRS issued in 2009
HKFRSs (Amendments)	Amendments to HKAS 27 and HKFRS 3 as part of Improvements to HKFRSs issued in 2010
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 1 (Amendment)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC) – Int 19	Extinguishing Liabilities with Equity Instruments
HK(Int) 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

The adoption of these new and revised HKFRSs has had no material effect on the results and financial position of the Group and the financial position of the Company for the current or prior accounting periods.

The Group has not applied the following new and revised HKFRSs that are not yet effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[5]
HKFRS 11	Joint Arrangements[5]
HKFRS 12	Disclosure of Interests in other Entities[5]
HKFRS 13	Fair value measurement[5]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[6]
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee benefits[5]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[5]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Venture[5]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[2]

1 *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.*
2 *Effective for annual periods beginning on or after 1 January 2011.*
3 *Effective for annual periods beginning on or after 1 July 2011.*
4 *Effective for annual periods beginning on or after 1 January 2012.*
5 *Effective for annual periods beginning on or after 1 January 2013.*
6 *Effective for annual periods beginning on or after 1 July 2012.*

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

(i) HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

(ii) The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specially, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss. HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control, In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvements with the investees, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties' rights and obligations under the arrangements. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting.

The Group is in the process of making an assessment on the impact of application of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), 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 below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) 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 consolidated financial statements comprise the Company and its subsidiaries and the Group's interest in associates and jointly controlled entities.

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.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Hong Kong dollar is the Company's functional and presentation currency. These financial statements are presented in Hong Kong dollars ("HK$") rounded to the nearest thousand except when otherwise indicated.

(c) Subsidiaries and non-controlling interests

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.

Non-controlling 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. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the company even if this results in the non-controlling interests having a deficit balance.

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 3(r), (t) or (v) depending on the nature of the liability.

In the Company's statement of financial position, investments in subsidiaries and amounts due from subsidiaries are carried at cost less impairment losses *(see note 3(l))*. 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, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment *(see notes 3(e) and (l))*. The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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 this 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 statement of financial position, its investments in associates and jointly controlled entities are carried at cost less impairment losses *(see note 3(l))*. The results of the associates and jointly controlled entities are accounted by the Company on the basis of dividends received and receivable.

(e) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (Revised 2008) are recognised at their fair values, except that:

– deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

– liabilities or equity instruments related to the share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

– 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* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

(f) Goodwill

Goodwill is carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill is allocated to each of the cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less that the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

(g) 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. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period 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.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the consolidated statement of financial position at amortised cost less impairment losses *(see note 3(l))*.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses *(see note 3(l))*.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investment is recognised in profit or loss in accordance with the policy set out in note 3w(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 3w(iv). When these investments are derecognised or impaired *(see note 3(l))*, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) Property, plant and equipment

(i) Valuation

Property, plant and equipment are carried in the statement of financial position at cost less accumulated depreciation and impairment losses *(see note 3(l))*.

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 uses which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives.

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, annually.

(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 profit or loss on the date of retirement or disposal.

(iv) Construction in progress

Construction in progress represents buildings and structures under construction, which is carried at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

(i) Mining rights

Mining rights acquired separately are initially measured at cost. Mining rights are reclassified from exploration and evaluation assets at the carrying amount when the technical feasibility and commercial viability of extracting mineral resources are demonstrable.

Mining rights with definite useful lives are carried at cost less accumulated amortisation and any accumulated impairment loss *(see note 3(l))*. Amortisation is provided using the unit of production method based on the actual production volume over the estimated total proved and probable reserves of the ore mines.

(j) Intangible assets (other than goodwill)

(i) Intangible assets acquired separately

Intangible assets that are acquired by the Group and with finite useful lives are carried in the statement of financial position at cost less accumulated amortisation and impairment losses *(see note 3(l))*.

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 the 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.

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

Patents and trademarks	15 years
Computer software	5 years

Gains or losses arising from derecognition 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 profit or loss when the asset is derecognised.

(ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives, as follows:

Licenses	4 to 7 years

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(h). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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 written off as an expense of 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 except where the property is classified as an investment property.

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled entities) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unlisted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale equity securities which are carried at fair value, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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 profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell and its 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.

(m) 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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) 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.

(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 readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. 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 statement of cash flows.

(p) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in equity. The fair value is measured at grant date using the Binomial Option Pricing Model and the Black-Scholes 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 share options, the total estimated fair value of the share 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 profit or loss for the year of the 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 share options that vest (with a corresponding adjustment to the share option 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 share option 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 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 end of the reporting period, 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

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 amortised 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

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3(s)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 3(s)(iii).

(ii) Provisions are recognised for other 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.

(iii) 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) Convertible notes

(i) Convertible note that contain an equity component

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.

(ii) Other convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments *(see note 3(u))*. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 3(u). 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.

(u) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on the remeasurement of fair value is recognised immediately in profit or loss.

(v) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are carried at amortised costs with any difference between the amount initially recognised and redemption value being recognised 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

Revenue is measured at the fair value of the consideration received and receivable 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 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) Outdoor media advertising service

Revenue from outdoor adverting spaces is recognised on a time proportion basis over the terms of the agreements.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Dividend income

Dividend income from securities and other investments is recognised when the right to receive payment is established.

(vi) Rental income

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

(x) 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 are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of 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.

(y) Promissory notes

Promissory notes are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

(z) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one of 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; or

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

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

(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 as individual, or is an entity under the control, joint control or significant influence of such individuals; or

(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.

(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 end of the reporting period 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 the exchange rates prevailing at the end of the reporting period. 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 exchange reserve. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

(ab) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(ac) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. Critical accounting estimates and judgments

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are readily apparent from other sources. The estimates, judgments 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 judgments, 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 judgment is exercised in the assessment of the collectability of accounts receivable from each customer. In making its judgment, 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

The Binomial Option Pricing Model and Black-Scholes Option Pricing Model were applied to estimate the fair value of share options granted by the Company and certain of its subsidiaries. These pricing models require the input of highly subjective assumptions, including the volatility of share price. The changes in input assumptions can materially affect the fair value estimate.

(iii) Derivative financial instruments

The directors of the Company use their judgment in selecting an appropriate valuation technique to determine the fair value of embedded conversion option and call option of the convertible notes. Valuation techniques commonly used by market practitioners are applied. The fair values of convertible note are determined by the Monte-Carlo Simulation Method that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in note 32.

(iv) Impairments

In considering the impairment losses that may be required for the Group's mining right, other intangible assets and property, plant and equipment, recoverable amounts of the assets need to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as the level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and amount of operating costs. Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the directors when assessing the credit-worthiness and past collection history of each individual customer. An increase or decrease in the above impairment losses would affect the net profit of the Group in future years.

(v) Impairments of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with HKAS 36 "Impairment of Assets" ("HKAS 36"). The calculations of recoverable amounts of cash-generating units require the use of estimates. Had the pre-tax discount rate, revenue growth rate and terminal growth rate applied to the discounted cash flow been different from the management's estimate, the goodwill might result in impairment. Details of the assumptions are described in note 17.

(vi) Estimate of the contingent consideration payable based on post-acquisition performance of the subsidiary

In connection with the acquisition of a subsidiary, the contingent consideration payable is based on post-acquisition performance of the subsidiary and other marketing conditions, details of which are set out in note 36(v).

5. Turnover

Turnover represents revenue from the design of residential intranet, provision of home-automation services and trading of related home-automation products and revenue from the outdoor advertising operations in the People's Republic of China ("PRC"). The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2011	**2010**
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Income from design of residential intranet, provision of home-automation services and trading of related products	1,103	9,345
Income from outdoor advertising operations	29,037	–
	30,140	9,345

6. Other revenue and other net income

	2011	2010
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Other revenue		
Bank interest income	2	6
Interest income on promissory notes *(note 25)*	2,277	436
Total interest income on financial assets not at fair value through profit or loss	2,279	442
Sundry income	2	235
	2,281	677
Other net income		
Net foreign exchange gain	209	63
Gain on extinguishment of convertible notes	5,040	–
Gain on disposal of property, plant and equipment	–	18
Reversal of allowance of bad debts *(note 23(d))*	–	7,627
Reversal of impairment loss on loan to a former associate	–	6,249
	5,249	13,957

7. Finance costs

	2011	2010
	HK$'000	*HK$'000*
Continuing operations		
Interest on bank loans and overdrafts wholly repayable within five years	4	69
Interest on convertible notes *(note 32)*	7,628	6,417
Interest on promissory notes	–	285
Total interest expense on financial liabilities not at fair value through profit or loss	7,632	6,771

8. (Loss) before income tax

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

	2011 *HK$'000*	2010 *HK$'000* (restated)
Continuing operations		
(a) Staff cost (including directors' emolument):		
Contributions to defined contribution plan	458	182
Share-based payments	–	526
Salaries, wages and other benefits	9,485	9,076
	9,943	9,784
Average number of employees	60	28
(b) Other items:		
Cost of inventories sold	1,800	7,684
Amortisation of intangible assets	21,563	11,893
Auditor's remuneration	910	954
Net foreign exchange gain	(209)	(63)
Depreciation on owned assets	7,221	7,894
Operating lease charges in respect of office premises	1,477	1,191
Impairment loss on property, plant and equipment	4,151	–
Impairment loss on deposits and other receivables	1,212	–
Impairment loss on intangible assets	12,941	1,477
Changes in fair value of trading securities	9,804	830
Changes in fair value of derivative financial instruments	1,533	–
Change in fair value of purchase consideration payable	979	–
Loss on disposal of an associate	–	6,438
Loss on disposal of trading securities	–	345
Loss on disposal of intangible assets	–	168
Loss on disposal of property, plant and equipment	3	–

The cost of sales includes write-down of inventories of HK$1,251,000 (2010: HK$893,000), direct cost for the outdoor advertising operations of approximately HK$25,300,000 (2010: HK$Nil) and aggregate employee benefits expense, amortisation of intangible assets and operating lease charges in respect of office premises of approximately HK$21,668,000 (2010 (restated): HK$12,205,000), which are also included in the respective total amounts disclosed above for each of these types of expenses.

9. Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	2011	**2010**
	HK$'000	*HK$'000*
Continuing operations		
Current tax		
PRC Enterprise Income Tax	429	–
Deferred tax *(note 31)*		
Current year	(4,331)	(9,056)
	(3,902)	(9,056)

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: HK$Nil).

Subsidiaries located in the PRC are subject to the PRC enterprise income tax at a rate of 25% on its assessable profits. No provision for PRC enterprise income tax ("EIT") has been made in the year 2010 as the Group's PRC subsidiaries did not generate any assessable profits during that year, or had tax losses brought forward to offset that year's assessable profits.

Pursuant to Guo Fa [2007] No. 39 issued by the State Council, one of the subsidiaries of the Company, 匯創智能系統(深圳)有限公司 was granted tax concessions at a preferential tax rate of 20% for the year ended 30 June 2010, 22% for 2011, 24% for 2012 and 25% for 2013.

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

	2011	**2010**
	HK$'000	*HK$'000*
		(restated)
(Loss) before income tax (from continuing operations)	(89,654)	(52,019)
Notional tax on (loss) before income tax, calculated at applicable tax rates in the respective countries	(14,801)	(6,763)
Tax effect of non-deductible expenses	7,167	25,679
Tax effect of non-taxable revenue	(3,687)	(23,736)
Tax effect of utilisation of tax loss previously not recognised	(237)	(4,924)
Tax effect of unused tax losses not recognised	2,443	675
Reversal of previously recognised deferred tax asset	4,866	–
Others	347	13
Actual tax (income)	(3,902)	(9,056)

The share of tax attributable to associate included in "share of profits and losses of associates" in the consolidated income statement is HK$Nil (2010: HK$786,000).

10. Discontinued operations

On 7 October 2010, the Company and the purchaser entered into an agreement pursuant to which the Company agreed to sell and the purchaser agreed to acquire the entire issued share capital of Inno Gold Mining Limited (the "Inno Gold") and the shareholder's loan made by the Group to Inno Gold at an aggregate consideration of HK$15,000,000. The disposal was completed on 9 May 2011.

Inno Gold was engaged in the business of operating gold mines, mineral flotation and excavation in the PRC through its subsidiaries.

(i) The results of the discontinued operations included in the consolidated income statement and consolidated statement of cash flows up to the date of disposals are set out below:

2011

	HK$'000
Turnover	–
Cost of sales and services	(97)
Gross loss	(97)
Other revenue	237
Marketing and promotion expenses	(609)
Administrative expenses	(3,174)
Loss before income tax expenses	(3,643)
Income tax expenses	(2)
Loss for the year	(3,645)
Gain on disposal of subsidiaries	4,366
Profit for the year from discontinued operations	721
Attributable to:	
Owners of the Company *(note 13)*	2,519
Non-controlling interests	(1,798)
	721

	HK$'000
Loss for the year from discontinued operations included the followings:	
Auditor's remuneration	19
Depreciation	269
Operating lease charge in respect of office premises	214
Staff costs	838
Loss on disposal of property, plant and equipment	24
Impairment loss on other receivables	477

Cash flow from discontinued operations

Net cash flows used in operating activities	(1,360)
Net cash flows used in investing activities	(3,017)
Net cash flows generated from financing activities	5,557
Net cash inflow	1,180

2010

	HK$'000
Turnover	–
Cost of sales and services	(130)
Gross loss	(130)
Marketing and promotion expenses	(574)
Administrative expenses	(14,409)
Loss on disposal of property, plant and equipment	(46)
Impairment loss on intangible assets	(174,200)
Gain on disposal of available-for-sales investment	4,930
Loss before income tax expenses	(184,429)
Income tax expenses	–
Loss for the year from discontinued operations	(184,429)
Attributable to:	
Owners of the Company *(note 13)*	(97,743)
Non-controlling interests	(86,686)
	(184,429)

	HK$'000
Loss for the year from discontinued operations included the followings:	
Auditor's remuneration	70
Depreciation	411
Staff costs	442
Operating lease charge in respect office premises	141
Loss on disposal of property, plant and equipment	46
Impairment loss on intangible asset	174,200

Cash flow from discontinued operations

Net cash flows used in operating activities	(1,263)
Net cash flows used in investing activities	(2,963)
Net cash flows generated from financing activities	4,275
Net cash inflow	49

(ii) Analysis of assets and liabilities of the discontinued operations undertaken by Inno Gold Mining Limited at the date of disposal on 9 May 2011 was as follows:

	HK$'000
Net assets disposed of	
Property, plant and equipment *(note 15)*	5,571
Intangible assets *(note 16)*	41,913
Inventories	192
Prepayment, deposits and other receivables	1,809
Cash and cash equivalents	1,168
Trade payables	(32,456)
Shareholder's loan	(3,531)
Net assets	14,666
Non-controlling interests	(7,651)
	7,015
Release of cumulative exchange differences on translation of foreign operations	88
Assignment of shareholder's loan	3,531
Gain on disposal of subsidiary	4,366
	15,000
Satisfied by:	
Cash received	15,000
Analysis of net cash inflow in respect of disposal of subsidiaries	
Cash received	15,000
Cash and cash equivalents disposed of	(1,168)
Net cash inflow on disposal	13,832

11. Directors' and senior management's emoluments

Directors' emoluments

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

	2011	**2010**
	HK$'000	*HK$'000*
Fees	360	409
Basic salaries, allowances and other benefits	1,995	4,560
Share-based payments	–	48
Retirement scheme contribution	26	47
	2,381	5,064
Number of directors	9	10

The emoluments of directors for the year ended 30 June 2011 are set out below:

Name of director	**Fees**	**Salary, allowance and other benefits**	**Share-based payments**	**Retirement scheme contribution**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. Ang Wing Fung	–	447	–	12	459
Mr. Chen Chuan *(a)*	–	50	–	–	50
Mr. Wong Yao Wing, Robert *(b)*	–	770	–	7	777
Ms. Wong Yuen Yee *(c)*	–	728	–	7	735
Independent non-executive directors					
Ms. Au Yuk Kit *(k)*	110	–	–	–	110
Mr. Cheng King Hung *(i)*	10	–	–	–	10
Mr. Chu Woon Yuen *(j)*	50	–	–	–	50
Ms. Lu Di *(d)*	70	–	–	–	70
Ms. Wong On Yee	120	–	–	–	120
	360	1,995	–	26	2,381

Notes:

(a) Mr. Chen Chuan was appointed on 19 January 2011

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

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

(d) Ms. Lu Di was appointed on 15 December 2010

(e) Mr. Lam Shiu San resigned on 1 June 2010

(f) Mr. Wong Kwok Sing resigned on 23 March 2010

(g) Mr. Lai Ying Sum resigned on 1 April 2010

(h) Mr. Wong Tak Leung, Charles resigned on 3 May 2010

(i) Mr. Cheng King Hung resigned on 2 August 2010

(j) Mr. Chu Woon Yuen resigned on 15 December 2010

(k) Ms. Au Yuk Kit was appointed on 2 August 2010

The emoluments of directors for the year ended 30 June 2010 are set out below:

Name of director	**Fees**	**Salary, allowance and other benefits**	**Share-based payments**	**Retirement scheme contribution**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. Ang Wing Fung	–	59	–	3	62
Mr. Lam Shiu San *(e)*	–	581	–	11	592
Mr. Wong Kwok Sing *(f)*	–	1,280	–	9	1,289
Mr. Wong Yao Wing, Robert *(b)*	–	1,320	–	12	1,332
Ms. Wong Yuen Yee *(c)*	–	1,320	–	12	1,332
Independent non-executive directors					
Ms. Au Yuk Kit *(k)*	–	–	–	–	–
Mr. Cheng King Hung *(i)*	120	–	16	–	136
Mr. Chu Woon Yuen *(j)*	19	–	–	–	19
Mr. Lai Ying Sum *(g)*	90	–	16	–	106
Ms. Wong On Yee	30	–	–	–	30
Mr. Wong Tak Leung, Charles *(h)*	150	–	16	–	166
	409	4,560	48	47	5,064

The directors held share options under the Company's share option schemes. The details of the share options are disclosed under the paragraph "share option schemes" in the report of the directors and note 34.

Individuals with highest emoluments

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

	2011	**2010**
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits	3,511	5,486
Share-based payments	–	247
Retirement scheme contribution	50	57
	3,561	5,790

During the year, 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 year include three (2010: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2010: two) individuals during the year are as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits	1,566	1,566
Share-based payments	–	247
Retirement scheme contribution	24	24
	1,590	1,837

The emoluments of the two (2010: two) individual with the highest emolument fall within the following bands:

	Number of individual	
	2011	**2010**
Emoluments band		
HK$Nil – HK$1,000,000	1	1
HK$1,000,001 – HK$1,500,000	1	1

12. (Loss) attributable to owners of the company

The consolidated (loss) attributable to owners of the Company includes a loss of HK$34,608,000 (2010: loss of HK$153,102,000) which has been dealt with in the financial statements of the Company.

13. (Loss) per share

For continuing and discontinued operations

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

	2011	**2010**
	HK$'000	*HK$'000*
		(restated)
Loss attributable to owners of the Company	(82,478)	(140,706)

	2011	**2010**
	'000	*'000*
Weighted average number of ordinary shares in issue *(note)*	42,657	12,611

The basic and diluted loss per share are the same for years ended 30 June 2011 and 2010 respectively as the Group recorded loss attributable to owners of the Company. Hence, the effect of any incremental shares from the assumed exercises of share options and convertible notes and contingently issuable shares outstanding as at 30 June 2011 and 2010 would be anti-dilutive and was not included in the calculation of diluted loss per share.

From continuing operations

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

	2011	**2010**
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	(82,478)	(140,706)
Less: profit/(loss) for the year from discontinued operations *(note 10)*	2,519	(97,743)
Loss for the purposes of basic loss per share from continuing operations	(79,959)	(42,963)

	2011	**2010**
	'000	*'000*
Weighted average number of ordinary shares in issue *(note)*	42,657	12,611

The basic and diluted loss per share from continuing operations are the same for years ended 30 June 2011 and 2010 respectively, as the Group recorded loss attributable to owners of the Company. Hence, the effect of any incremental shares from the assumed exercises of share options, convertible bonds and contingently issuable shares outstanding as at 30 June 2011 and 2010 would be anti-dilutive and was not included in the calculation of diluted loss per share.

From discontinued operations

Basic earnings per share from discontinued operations is HK$0.059 per share (2010: loss per share of HK$7.75) based on the profit for the year from the discontinued operations of HK$2,519,000 (2010: loss of HK$97,743,000) and the denominators detailed above.

Diluted earnings per share (2010: loss per share) from discontinued operations is the same as basic earnings per share (2010: basic loss per share) from discontinued operations as the share options, convertible bonds and contingently issuable shares are anti-dilutive.

Note: The weighted average number of ordinary shares for the purposes of calculating basic and diluted earning/loss per share has been retrospectively adjusted for the effect of the capital reorganisation effective on 9 December 2010 and 28 June 2011 respectively *(notes 33(viii) and 33(xi))*. In addition, it has also been adjusted for the effect of rights issue effective on 12 January 2011 *(note 33(ix))*.

14. Segment information

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment.

The Group has the following continuing operating segments during the year. These segments are managed separately. No operating segments have been aggregated to form the following reportable segments.

(1) Intelligent system: the development and sale of intelligent home electronic application system

(2) Outdoor advertising: outdoor advertising operations in the PRC

In prior years, the Group was involved in following segment which was discontinued during the year ended 30 June 2011. The segment information does not include any amounts for this discontinued operation.

(3) Gold mining: mining and processing of gold mines

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment loss represents the loss from each segment without allocation of central administration costs (e.g. directors' emoluments, share of profit of associates and finance costs). This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. Taxation (credit)/charge is not allocated to reportable segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Sales between segments are carried out on arm's length basis. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the profit or loss.

All assets are allocated to reportable segments other than interest in associates, trading securities, promissory notes receivable and unallocated assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and all liabilities are allocated to reportable segments other than deferred tax liabilities and convertible notes. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Continuing operations

(a) Business segments

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker is set out below:

	Intelligent system		Outdoor advertising		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue						
Revenue from external customers	1,103	9,345	29,037	–	30,140	9,345
Reportable segment (loss) before income tax	(42,082)	(22,361)	(14,302)	–	(56,384)	(22,361)
Depreciation and amortisation	(16,572)	(19,747)	(12,112)	–	(28,684)	(19,747)
Other material non-cash items:						
– Impairment loss on property, plant and equipment	(4,151)	–	–	–	(4,151)	–
– Impairment loss on intangible assets	(12,941)	(1,477)	–	–	(12,941)	(1,477)
– Write-down of inventories	(1,251)	(893)	–	–	(1,251)	(893)
Reportable segment assets	12,366	60,399	116,670	–	129,036	60,399
Reportable segment liabilities	13,418	5,087	5,141	–	18,559	5,087
Additions to non-current assets	7	568	71,439	–	71,446	568

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	2011	2010
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Revenue		
Total reportable segment revenues	30,140	9,345
Elimination of inter-segment revenue	–	–
Consolidated turnover	30,140	9,345
Loss		
Reportable segment (loss) derived from Group's external customers	(56,384)	(22,361)
Share of profits less losses of associates	(2)	2,512
Other revenue and other net income	7,317	6,942
Finance costs	(7,628)	(6,702)
Unallocated head office and corporate expenses	(32,957)	(32,410)
(Loss) before income tax	(89,654)	(52,019)
Assets		
Total reportable segment assets	129,036	60,399
Elimination of inter-segment receivables and discontinued operations	–	(16,488)
	129,036	43,911
Interests in associates (accounted for by the equity method) *(note 19)*	1,790	1,792
Trading securities *(note 21)*	12,731	7,495
Promissory notes receivable *(note 25)*	38,700	38,573
Discontinued operations and others	129,108	64,954
Consolidated total assets	311,365	156,725

	2011	2010
	HK$'000	*HK$'000*
		(restated)
Liabilities		
Total reportable segment liabilities	18,559	5,087
Elimination of inter-segment payables and discontinued operations	–	–
	18,559	5,087
Deferred tax liabilities *(note 31)*	14,843	1,403
Convertible notes *(note 32)*	4,241	66,752
Discontinued operations and others	16,610	28,239
Consolidated total liabilities	54,253	101,481

Note: Interests in associates, trading securities, promissory notes receivable are not included in the measure of segment assets and deferred tax liabilities and convertible notes are not included in the measure of segment liabilities but are regularly provided to the chief operating decision maker.

(c) Geographic information

As all segments of the Group are operating in the People's Republic of China ("the PRC"), including Hong Kong, no geographic information has further been disclosed.

(d) Information about major customers

For the year ended 30 June 2011, there was no customer accounted for over 10% of total revenue.

For the year ended 30 June 2010, the Group's customer base is diversified but include three customers from intelligent system, with each of whom transactions have exceeded 10% of the Group's total revenue. Aggregate revenue from sales to these customers amounted to approximately HK$7,370,000.

15. Property, plant and equipment

	The Group						
	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Equipment *HK$'000*	Motor vehicle *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost:							
At 1 July 2009	–	1,424	426	39,555	210	–	41,615
Additions through acquisition of a subsidiary *(note 36)*	1,054	–	75	1,152	146	445	2,872
Additions	–	–	16	43	876	1,766	2,701
Disposals	–	–	(6)	(15)	(235)	–	(256)
Exchange realignment	30	–	2	36	5	25	98
At 30 June 2010	1,084	1,424	513	40,771	1,002	2,236	47,030
At 1 July 2010	1,084	1,424	513	40,771	1,002	2,236	47,030
Additions through acquisition of a subsidiary *(note 36)*	–	–	187	–	134	–	321
Additions	–	65	50	590	6	2,808	3,519
Transfer to intangible assets *(note 16)*	232	–	–	–	–	(2,292)	(2,060)
Derecognised on disposal of subsidiaries *(note 10)*	(1,395)	–	(77)	(1,501)	(460)	(2,857)	(6,290)
Disposals	–	–	(7)	(7)	(581)	–	(595)
Exchange realignment	79	–	14	104	38	105	340
At 30 June 2011	–	1,489	680	39,957	139	–	42,265
Accumulated depreciation and impairments:							
At 1 July 2009	–	1,092	404	15,152	101	–	16,749
Charge for the year	85	286	17	7,687	230	–	8,305
Written back on disposals	–	–	–	–	(140)	–	(140)
Exchange realignment	1	–	–	4	1	–	6
At 30 June 2010	86	1,378	421	22,843	192	–	24,920
At 1 July 2010	86	1,378	421	22,843	192	–	24,920
Charge for the year	91	54	107	7,048	190	–	7,490
Written back on disposals	–	–	(1)	(2)	(182)	–	(185)
Derecognised on disposal of subsidiaries *(note 10)*	(183)	–	(20)	(339)	(177)	–	(719)
Impairment	–	–	–	4,151	–	–	4,151
Exchange realignment	6	–	8	20	29	–	63
At 30 June 2011	–	1,432	515	33,721	52	–	35,720
Net book value:							
At 30 June 2011	–	57	165	6,236	87	–	6,545
At 30 June 2010	998	46	92	17,928	810	2,236	22,110

In year 2010, the buildings were situated in the People's Republic of China under long-term lease which were disposed of during the year through disposal of subsidiaries.

Impairment of equipment

During the year, as the result of the unsatisfactory performance of intelligent system business, the Group carried out a review of the recoverable amount of its related equipment. These assets are used in the Group's intelligent system reportable segment. The review led to the recognition of an impairment loss of HK$4,151,000 for equipment which have been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 10%. The impairment losses have been included in the consolidated income statement.

	The Company Equipment *HK$'000*
Cost:	
At 1 July 2009, 30 June 2010 and 1 July 2010	–
Additions	305
At 30 June 2011	305
Accumulated depreciation and impairment:	
At 1 July 2009, 30 June 2010 and 1 July 2010	–
Charge for the year	46
At 30 June 2011	46
Net book value:	
At 30 June 2011	259
At 30 June 2010	–

16. Intangible assets

	The Group				
	Licenses	Patents and trademarks	Computer software	Mining right	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1 July 2009	–	4,300	74,905	–	79,205
Addition through acquisition of a subsidiary *(note 36)*	–	–	–	212,535	212,535
Additions	–	–	–	1,374	1,374
Disposals	–	(1,075)	–	–	(1,075)
At 30 June 2010	–	3,225	74,905	213,909	292,039
At 1 July 2010	–	3,225	74,905	213,909	292,039
Addition through acquisition of a subsidiary *(note 36)*	71,085	–	–	–	71,085
Transfer from property, plant and equipment *(note 15)*	–	–	–	2,060	2,060
Derecognised on disposal of subsidiaries *(note 10)*	–	–	–	(216,113)	(216,113)
Exchange realignment	–	–	–	144	144
At 30 June 2011	71,085	3,225	74,905	–	149,215
Accumulated amortisation and impairment:					
At 1 July 2009	–	1,840	41,300	–	43,140
Charge for the year	–	287	11,606	–	11,893
Written back on disposals	–	(907)	–	–	(907)
Impairment	–	778	699	174,200	175,677
At 30 June 2010	–	1,998	53,605	174,200	229,803
At 1 July 2010	–	1,998	53,605	174,200	229,803
Charge for the year	11,977	132	9,454	–	21,563
Derecognised on disposal of subsidiaries *(note 10)*	–	–	–	(174,200)	(174,200)
Impairment	–	1,095	11,846	–	12,941
At 30 June 2011	11,977	3,225	74,905	–	90,107
Net book value:					
At 30 June 2011	59,108	–	–	–	59,108
At 30 June 2010	–	1,227	21,300	39,709	62,236

The amortisation charge for the year is included in "cost of sales" in the consolidated income statement.

Impairment of computer software and patents and trademarks during the year 2011

During the year, as the result of the unsatisfactory performance of intelligent system business, the Group carried out a review of the recoverable amount of its related computer software and patents and trademarks. These assets are used in the Group's intelligent system reportable segment. The review led to the recognition of an impairment loss of HK$11,846,000 for computer software and impairment approximately of HK$1,095,000 for patents and trademarks, which have been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 10%. The impairment losses have been included in the consolidated income statement.

Impairment of mining right in the year 2010

The mining right is owned by a subsidiary of the Group namely Zhang Jia Fan Gold Mine. As a result of a revision of business strategy and focus due to tightening of the regulatory environment in relation to the acquisition of mining business by listed companies resulting uncertainties as to the time required to complete the acquisition, the increased cost of acquisition due to the changes in the regulations and market sentiment in respect of companies engaging in gold mining business on a small scale and delay in making progress in increasing the output of the Zhang Jia Fan Gold Mine, the Group has scaled down the expected annual production of Zhang Jia Fan Gold Mine.

In view of the above, the directors of the Company considered that the mining right of the Zhang Jia Fan Gold Mine should be impaired. A valuation was performed by an independent valuer, on a cash flow projections basis. The recoverable amount of the mining right of the Zhang Jia Fan Gold Mine has been determined based on a value in use calculation. That calculation uses cash flow projections covering a 20-year period until the resources run out based on financial forecasts approved by management, and discounting rate of 18.69%. Key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the mining right of the Zhang Jia Fan Gold Mine to exceed the aggregate recoverable amount of the mining right of the Zhang Jia Fan Gold Mine. Accordingly, an amount of approximately HK$174,200,000 was recognised as impairment loss in profit or loss during the year.

17. Goodwill

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Cost:		
At the beginning of year	–	4,322
Acquisition of a subsidiary *(note 36)*	48,979	–
Written-off during the year	–	(4,322)
At the end of year	48,979	–
Impairment:		
At the beginning of year	–	4,322
Written-off during the year	–	(4,322)
At the end of year	–	–
Carrying amounts:	48,979	–

Goodwill during the year was allocated to the cash-generating unit ("CGU") outdoor advertising operations for impairment tests purposes. 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 14.73% per annum. Cash flows beyond a five-year period approved by senior management have been extrapolated using a zero growth rate for an indefinite period. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

In previous year, goodwill was resulted from the acquisition of the entire issued capital of Dragon Emperor International Limited. The assets of Dragon Emperor International Limited are primarily available-for-sale investment which was already measured at its fair value at year end date. Impairment loss was recognised by reference to the recoverable amount of the available-for-sale investment which is its fair value less costs to sell. The fair value is determined using a discounted cash flow analysis. The entire amount of goodwill was allocated to the cash-generating unit ("CGU") Autoscale Resources Limited for impairment tests purposes. 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	
	2011	**2010**
	HK$'000	*HK$'000*
Unlisted investments, at cost	96,291	5,637
Less: Impairment loss	–	–
	96,291	5,637

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 the subsidiary	Particulars of issued/registered capital	Principal activity and place of operation
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 *(i)*	The 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 Investment & Management Holdings Limited	BVI	100%	–	100%	100 shares of US$1 each	Investment holding
Superior Luck Investments Limited	BVI	100%	100%	–	1 share of US$1 each	Investment holding
Jade Phoenix Holdings Limited	BVI	100%	100%	–	1 share of US$1 each	Investment holding
Active Link Investments Limited	BVI	100%	100%	–	10,000 shares of US$1 each	Investment holding
Fast Team International Investment Limited	Hong Kong	100%	–	100%	1 share of HK$1 each	Investment holding
Shiny Step Investments Limited	BVI	100%	100%	–	1 share of US$1 each	Investment holding
Super Venus Media International Limited	Hong Kong	100%	–	100%	10,000 shares of HK$1 each	Investment holding
石家莊市迅華德高公交廣告有限公司 *(ii)*	The PRC	80%	–	80%	Registered capital of RMB1,000,000	Design production and publication of outdoor advertisements in PRC
石家莊市恩健傳媒有限公司 *(ii)*	The PRC	100%	–	100%	Registered capital of RMB3,000,000	Design production and publication of outdoor advertisements in PRC

(i) Registered under the laws of the PRC as a wholly foreign owned enterprise.

(ii) Registered under the laws of the PRC as a limited liability company.

19. Interests in associates

	The Group 2011 HK$'000	The Group 2010 HK$'000
Unlisted shares, at cost	4,920	4,920
Share of post-acquisition loss	(3,130)	(3,128)
	1,790	1,792

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results, assets or liabilities of the Group.

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 the 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

Summary financial information of the Group's associates:

	The Group 2011 HK$'000	The Group 2010 HK$'000
Assets	3,910	3,910
Liabilities	(257)	(253)
Revenues	–	–
(Loss) after tax	(5)	(185)

20. Amounts due from/to subsidiaries and directors

(a) Amounts due from subsidiaries

	The Company	
	2011	**2010**
	HK$'000	*HK$'000*
Amounts due from subsidiaries	495,485	562,877
Less: Impairment loss	(409,511)	(494,694)
	85,974	68,183

The impairment as at 30 June 2011 includes impairment provision of HK$409,511,000 (2010: HK$494,694,000) for amounts due from subsidiaries. The provision was determined on the basis of the amounts recoverable from the subsidiaries with reference to the estimated fair value of the underlying assets held by subsidiaries.

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

(b) Amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

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

21. Trading securities

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities listed in Hong Kong	12,731	7,495

Trading securities are stated at fair values which are determined with reference to closing market bid prices.

22. Inventories

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Finished goods	–	301
Work in progress	–	864
Raw materials	–	294
	–	1,459

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

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Carrying amount of inventories sold	549	6,791
Write-down of inventories	1,251	893
	1,800	7,684

23. Accounts receivable

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Trade debtors	3,667	37
Less: Allowance for doubtful debts	–	–
	3,667	37
Receivable from associates	146	145
	3,813	182

Receivable from associates are unsecured, interest-free and repayable on demand.

(a) Ageing analysis

Included in accounts receivable are trade debtors (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Current	2,710	–
Less than 1 month past due	903	34
1 to 3 months past due	–	–
Over 3 months past due	54	3
	3,667	37

The Group's trading terms with customers are mainly on credit. The credit period is generally from nil to 120 days. No interest is charged on accounts receivable and the Group does not hold any collateral over these balances. Further details on the Group's credit policy are set out in note 38(d).

(b) Impairment of trade debtors

At 30 June 2011, no trade debtor was individually determined to be impaired.

(c) Trade debtors that are not impaired

The ageing analysis of the receivables that are past due but not impaired, along with receivables that are neither past due nor impaired, is as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Past due but not impaired:		
– Less than three months past due	903	34
– Over 3 months past due	54	3
	957	37
Neither past due nor impaired	2,710	–
	3,667	37

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

Included in the Group's trade debtors as at 30 June 2011 are debtors with an aggregate carrying amount of approximately HK$957,000 (2010: HK$37,000) which are past due but not impaired at the end of the reporting period, as the directors have assessed these debtors to be recoverable based on their good settlement track records with the group. The Group does not hold any collateral over these balances.

Trade debtors that are neither past due nor impaired related to a number of independent customers who have no recent history of default. The Group does not hold any collateral over these balances.

(d) Movement in the allowance for doubtful debts for trade debtors

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
At the beginning of year	–	122,219
Trade debtors written-off	–	(114,592)
Reversal of allowance of bad debts *(note 6)*	–	(7,627)
At the end of year	–	–

24. Prepayments, deposits and other receivables

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Prepayments	1,012	726
Rental and utility deposits	210	210
Other deposits	3,267	29
Other receivables	1,038	1,587
	5,527	2,552

	The Company	
	2011	**2010**
	HK$'000	*HK$'000*
Prepayments	489	159
Rental and utility deposits	67	–
Other deposits	1,397	–
Other receivables	163	157
	2,116	316

25. Promissory notes receivable

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Balance at the beginning of the year	38,573	–
At the date of inception	–	38,137
Repayment	(2,150)	–
Interest credited *(note 6)*	2,277	436
Balance at the end of the year	38,700	38,573

On 3 May 2010, two promissory notes in the principal amounts of HK$2,150,000 and HK$38,700,000 were issued from an independent third party to the Group as part of the consideration for the disposal of Group's interest in Great China Media Holdings Limited.

The two promissory notes are guaranteed by the director of the note issuer, and are non-interest bearing. Promissory note for HK$2,150,000 was repaid during the year.

The promissory note for HK$38,700,000 matured on 3 May 2011 was fully settled in September 2011.

26. Cash and cash equivalents

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	114,172	10,326	104,373	8,173

At the end of the reporting period, the cash and bank balances of the Group, which are denominated in Renminbi ("**RMB**"), amounted to approximately HK$2,224,000 (2010: HK$55,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through bank authorised to conduct foreign exchange business.

The interest rates on the cash at bank and deposits with banks ranged from 0.01% to 0.5% per annum (2010: from 0.01% to 0.36% per annum).

27. Trade payables, accrued expenses and other payables

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	1,054	979	–	–
Accrued expenses and other payables	21,031	31,779	4,466	1,443
Receipts in advance	718	–	–	–
	22,803	32,758	4,466	1,443

The following is an age analysis of trade payables presented based on invoice date as at the end of the reporting period:

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Less than 1 month	122	979	–	–
1 to 3 months	26	–	–	–
Over 3 months	906	–	–	–
	1,054	979	–	–

28. 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 employer. 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.

The Group also participates in a state-managed retirement benefit scheme for its PRC employees. The Group contributes on a monthly basis to various defined contribution retirement benefit plans and the Group has no further obligation beyond the contributions made.

29. Long service payments

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Included in accrued expenses and other payables are the following long services payments payable:		
Balance at the beginning of the year	233	233
Addition during the year	–	–
Balance at the end of the year	233	233

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.

30. Income tax in the statement of financial position

Current taxation in the statement of financial position represents:

	The Group		The Company	
	2011	2010	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Provision for the year				
– PRC Enterprise Income tax	429	–	–	–
Tax paid				
– PRC Enterprise Income tax	(111)	–	–	–
	318	–	–	–

31. Deferred taxation

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

The Group

	Tax loss	Accelerated depreciation allowances	Intangible assets	Convertible notes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax on temporary differences arising from:					
At 1 July 2009	–	7,954	–	–	7,954
Recognised directly in equity	–	–	–	2,505	2,505
(Credited) to profit or loss *(note 9(a))*	(4,866)	(3,088)	–	(1,102)	(9,056)
At 30 June 2010	(4,866)	4,866	–	1,403	1,403
At 1 July 2010	(4,866)	4,866	–	1,403	1,403
Acquisition of subsidiaries *(note 36)*	–	–	17,771	–	17,771
Charged/(credited) to profit or loss *(note 9(a))*	4,866	(4,823)	(2,994)	(1,380)	(4,331)
At 30 June 2011	–	43	14,777	23	14,843

The Company

	Accelerated depreciation allowance	**Convertible notes**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax on temporary differences arising from:			
At 1 July 2009	–	–	–
Recognised directly in equity	–	2,505	2,505
(Credited) to profit or loss	–	(1,102)	(1,102)
At 30 June 2010	–	1,403	1,403
At 1 July 2010	–	1,403	1,403
(Credited) to profit or loss	43	(1,380)	(1,337)
At 30 June 2011	43	23	66

At the end of the reporting period, the Group has unused tax losses of around HK$54,892,000 (2010: HK$41,742,000) available to offset against future profits. No deferred tax assets has been recognised in respect of the tax losses (2010: HK$29,489,000).

No deferred tax assets has been recognised in respect of the remaining tax losses of HK$54,892,000 (2010: HK$12,253,000) due to unpredictability of future profit stream. The tax losses do not expire under current tax legislation except for an amount of HK$4,462,000 (2010: HK$2,744,000), which will be expired in three to five years.

32. Convertible notes/derivative financial instruments

The movement of the liability component of the convertible notes for the year is set out below:

	The Group and the Company	
	2011	**2010**
	HK$'000	*HK$'000*
Liability component at the beginning of the year	66,752	22,106
Issue of convertible notes	20,373	59,816
Early Redemption	(90,512)	–
Conversion to ordinary shares	–	(21,587)
Interest charged *(note 7)*	7,628	6,417
Liability component at the end of the year	4,241	66,752
Less: Amount due within one year shown under current liabilities	(4,241)	(14,076)
Amount due after one year	–	52,676

HK$75,000,000 Convertible Note due 2011

On 27 October 2009, the Company issued 2-year HK$75,000,000 unsecured and non-interest-bearing convertible note. Subsequent to capital reorganisation and a rights issue *(see note 33)*, the holders of convertible note have the option to convert the note into ordinary shares of the Company of HK$0.001 each at a conversion price of HK$20.14, subject to adjustments in accordance with the instrument constituting the convertible note, at any time from 27 October 2009, the issue date, up to and excluding the fifth business day immediately before 27 October 2011, the maturity date. Unless previously redeemed and cancelled, the note will be redeemed at par on the maturity date.

The convertible note was split between liability and equity components of approximately HK$59,816,000 and HK$15,184,000 respectively upon initial recognition by recognising the liability component at fair value and attributing the residual amount as the equity component.

The interest charged for the year is calculated using the effective interest method by applying the effective interest rate of 11.97% to the liability component.

During the year ended 30 June 2011, part of the convertible note of face value of approximately HK$56,800,000 was early redeemed as follows:

On 31 January 2011, part of the convertible note was early redeemed by the Company. A gain of approximately HK$460,000 derived from the early redemption of the convertible note calculated as the difference between the carrying amount of the liability component of approximately HK$23,001,000 and fair value of approximately HK$22,541,000 was recognised in profit or loss.

On 21 June 2011, part of the convertible note was early redeemed by the Company. A gain of approximately HK$1,072,000 derived from the early redemption of the convertible note calculated as the difference between the carrying amount of the liability component of approximately HK$30,563,000 and its fair value of approximately HK$29,491,000 was recognised in profit or loss.

Upon early redemption of the convertible notes as mentioned above, the difference between the carrying amounts of the corresponding equity components as included in convertible notes reserve and the fair values of the equity components upon redemption was released to accumulated losses.

HK$43,384,000 Convertible Note due 2011

On 28 February 2009, the Company issued 2-year HK$43,384,000 unsecured and non-interest-bearing convertible note. Subsequent to the capital reorganisation and rights issue effective on 9 December 2010 and 12 January 2011 respectively *(see note 33)*, the holders of convertible note have the option to convert the note into ordinary shares of the Company of HK$0.01 each at a conversion price of HK$0.319, subject to adjustments in accordance with the instrument constituting the convertible note, at any time from 28 February 2009, the issue date, up to and excluding the fifth business day immediately before 28 February 2011, the maturity date. Unless previously redeemed and cancelled, the note will be redeemed at par on the maturity date.

The convertible note was split between liability and equity components of approximately HK$30,256,000 and HK$13,128,000 respectively upon initial recognition by recognising the liability component at fair value and attributing the residual amount as the equity component.

The interest charged for the year is calculated using the effective interest method by applying the effective interest rate of 19.75% to the liability component.

The convertible notes were fully repaid upon maturity during the year.

HK$25,560,000 Convertible Notes due 2012

On 5 October 2010, the Company issued 2-year HK$25,560,000 unsecured and non-interest-bearing convertible notes. Subsequent to capital reorganisation and rights issue effective on 9 December 2010 and 12 January 2011 respectively *(see note 33)*, the holders of convertible note have the option to convert the note into ordinary shares of the Company of HK$0.01 each at a conversion price of HK$0.549, subject to adjustments in accordance with the instrument constituting the convertible note, at any time from 5 October 2010, the issue date, up to and excluding the business day immediately before 5 October 2012, the maturity date. Unless previously redeemed and cancelled, the notes will be redeemed at par on the maturity date.

The conversion price will be adjusted with effect from the date falling 6 months from the issue date to the effect that it shall be the average of the closing price per share of the Company for the last five stock exchange trading days on which dealings in the shares on the stock exchange took place, ending on such trading day last preceding the date falling from 6 months from the issue date. No adjustment on conversion had been made as the convertible note was fully settled before the price adjustment date.

The convertible note contains two components: a liability and embedded derivatives arising from (1) the call option and (2) the conversion option. The liability element is classified as current liabilities and carried at amortised cost using the effective interest method. The embedded derivative element is classified as current liabilities and carried at fair value.

For valuation of the conversion portion, Monte-Carlo, Simulation Method was used. This technique estimates a probable outcome using multiple simulations with random variables. It is used to evaluate investments or financial derivatives by generating numerous probable investment scenarios that might occur in the future.

In valuing the call option, the Black-Scholes Option Pricing Model was used.

The liability component of the convertible note is recognised as the excess of proceeds over the amount initially recognised as the derivative component. The initial carrying amount of the liability component is the residual amount after separating the embedded derivatives.

The fair value of the liability component, call option and conversion option on initial recognition was estimated to be approximately as follows:

	HK$'000
Liability component	20,854
Call option	(481)
Conversion option	5,187
	25,560

The inputs used for the calculation of the fair values of the conversion options were as follows:

	5/10/2010	**31/1/2011**
Share price	HK$0.099	HK$0.071
Conversion price	HK$0.160	HK$0.549
Risk-free rate	0.555%	0.466%
Expected dividend yield	0%	0%
Annualised volatility	100.769%	119.091%

The inputs used for the calculation of the fair values of the call options were as follows:

	5/10/2010	**31/1/2011**
Aggregate Principal Amount *(Stock Price) (HK$)*	25,560,000	25,560,000
Aggregate Redemption Amount *(Exercise Price) (HK$)*	25,560,000	25,560,000
Risk Free Rate	0.556%	0.467%
Expected Volatility	2.235%	1.797%

The movement of the liability component and embedded derivatives of the convertible note for the year is set out below:

		Derivative component		
	Liabilities component	Call option	Conversion option	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fair value on initial recognition	20,854	(481)	5,187	4,706
Interest expense charged for the year	698	–	–	–
Fair value change of embedded derivatives	–	149	1,384	1,533
Early redemption on 31 January 2011	(21,552)	332	(6,571)	(6,239)
At 30 June 2011	–	–	–	–

On 31 January 2011, the whole convertible note was early redeemed by the Company. A gain of approximately HK$3,508,000 was derived from the gain on early redemption of liability component of the convertible note which was derived from the difference between the carrying amount of liability component of approximately HK$21,552,000 and the fair value of liability component of approximately HK$18,044,000, such gain was charged to the profit or loss.

33. Share capital

Ordinary shares

	2011	2010
	HK$'000	*HK$'000*
(a) Authorised		
300,000,000,000 shares of HK$0.001 each (2010: 3,000,000,000 shares of HK$0.1 each)	300,000	300,000
Issued and fully paid		
95,062,123 shares of HK$0.001 each (2010: 742,032,182 shares of HK$0.1 each)	95	74,203

(b) A summary of the movements of the Company's issued share capital is as follows:

	Note	**Number of shares** *'000*	**Nominal value** *HK$'000*
At 1 July 2009		2,144,178	42,884
Shares issued under share option scheme	*(ii)*	2,000	40
Conversion of convertible notes	*(iv)*	265,458	5,309
Share consolidation	*(i)*	(1,929,309)	–
Shares issued under share option scheme	*(ii)*	35,240	3,524
Placement of shares	*(iii)*	214,465	21,446
Conversion of convertible notes	*(iv)*	10,000	1,000
At 30 June 2010		742,032	74,203
Placement of shares	*(vi)*	318,000	31,800
Issue of shares for acquisition *(note 36)*	*(vii)*	140,250	14,025
Capital reduction	*(viii)*	–	(118,828)
Share consolidation	*(viii)*	(1,080,254)	–
Rights issue	*(ix)*	1,200,282	12,003
Placement of shares	*(x)*	264,062	2,641
Capital reduction	*(xi)*	–	(15,765)
Share consolidation	*(xi)*	(1,505,154)	–
Placement of shares	*(xii)*	15,844	16
At 30 June 2011		95,062	95

Note:

(i) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 11 November 2009, every five issued and unissued shares of HK$0.02 each were consolidated into one new share of HK$0.1 with effect from 12 November 2009. Upon the share consolidation becoming effective on 12 November 2009, the authorised share capital of the Company was HK$100,000,000 divided into 1,000,000,000 shares of HK$0.1 each, of which 482,327,000 shares were in issue and fully paid. The shares after the share consolidation rank pari passu in all respects with each other.

(ii) Before the share consolidation became effective on 12 November 2009, options were exercised to subscribe for 2,000,000 ordinary shares in the Company at a consideration of HK$152,000 of which HK$40,000 was credited to share capital and the balance of HK$112,000 was credited to the share premium account. HK$134,000 has been transferred from the share option reserve to the share premium account.

After the share consolidation became effective on 12 November 2009, options were exercised to subscribe for 35,240,000 new ordinary shares in the Company at a consideration of HK$8,340,000 of which HK$3,524,000 was credited to share capital and the balance of HK$4,816,000 was credited to the share premium account. HK$6,270,000 has been transferred from the share option reserve to the share premium account.

(iii) On 13 January 2010, the Company placed and issued 94,465,000 new ordinary shares of HK$0.24 each in the Company at a cash consideration of HK$22,672,000. The excess of the aggregate cash consideration over the nominal value of shares of HK$9,446,000 was credited to the share premium account of the Company.

On 23 March 2010, the Company placed and issued 120,000,000 new ordinary shares of HK$0.25 each in the Company at a cash consideration of HK$30,000,000. The excess of the aggregate cash consideration over the nominal value of shares of HK$12,000,000 was credited to the share premium account of the Company.

(iv) On 7 July 2009, a convertible note holder exercised his conversion right to convert part of the principal amount of HK$900,000 into 15,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of the shares of HK$300,000 was credited to the share premium account of the Company.

On 10 July 2009, a convertible note holder exercised his conversion right to convert part of the principal amount of HK$6,380,000 into the 100,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of the shares of HK$2,000,000 was credited to the share premium account of the Company.

On 22 July 2009, a convertible note holder exercised his conversion right to convert the whole part of the principal amount of HK$2,233,000 into the 35,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of the shares of HK$700,000 was credited to the share premium account of the Company.

On 28 July 2009, a convertible note holder exercised his conversion right to convert the whole part of the principal amount of HK$927,000 into the 15,458,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$309,000 was credited to the share premium account of the Company.

On 23 October 2009, a convertible note holder exercised his conversion right to convert the whole part of the principal amount of HK$6,900,000 into the 50,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of the shares of HK$1,000,000 was credited to the share premium account of the Company.

On 4 November 2009, a convertible note holder exercised his conversion right to convert part of the principal amount of HK$3,199,000 into the 50,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of shares of HK$1,000,000 was credited to the share premium account of the Company.

On 17 November 2009, a convertible note holder exercised his conversion right to convert part of the principal amount of HK$6,900,000 into the 10,000,000 ordinary shares in the Company. The excess of the aggregate cash consideration over the nominal value of new shares of HK$1,000,000 was credited to the share premium account of the Company.

(v) The Company's authorised share capital was increased from HK$100,000,000 to HK$300,000,000 by the creation of additional 2,000,000,000 ordinary shares of HK$0.1 each. The resolution for the increase in authorised share capital of the Company was duly passed by the shareholders at the special general meeting held on 11 May 2010. The ordinary shares rank pari passu with the then existing ordinary shares of the Company in all respects.

(vi) On 7 July 2010, the Company placed and issued 148,000,000 new ordinary shares at an issue price of HK$0.186 each.

On 12 October 2010, the Company placed and issued 170,000,000 new ordinary shares at an issue price of HK$0.10 each.

(vii) On 5 October 2010, the Company allotted and issued 140,250,000 new ordinary shares at an issue price of HK$0.1 each as part of the consideration for acquisition of the entire equity interest of Active Link Investments Limited *(Note 36)*.

(viii) The Company's first capital reorganisation during the year 2011 (the "First Capital Reorganisation") was effective on 9 December 2010 which involved the following:

- the issued share capital of the Company was reduced by canceling the paid up capital to the extent of HK$0.099 on each share such that the nominal value of all issued shares was reduced from HK$0.1 each to HK$0.001 each (the "Capital Reduction"). The reduction of issued share capital to the extent of HK$0.099 per share of HK$0.1 was applied to offset the accumulated losses of the Company;

- the authorised but unissued shares of HK$0.10 each in the share capital of the Company were subdivided into 100 subdivided shares of HK$0.001 each;

- every 10 issued and unissued subdivided shares with par value of HK$0.001 each was consolidated into one new share of HK$0.01 each (the "Share Consolidation");

- the entire amount standing to the credit of the share premium account of the Company was cancelled (the "Share Premium Cancellation"). The credit arising from the Capital Reduction and Share Premium Cancellation was transferred to the contributed surplus account and a sum of HK$504,779,000 therein was applied to set off against the total accumulated losses of the Company.

(ix) On 12 January 2011, the Company allotted and issued a total number of 1,200,282,180 new ordinary shares by way of rights issue at a subscription price of HK$0.18 per rights share on the basis of ten rights shares for every share then held.

(x) On 16 March 2011, the Company placed and issued 264,062,079 new ordinary shares at an issue price of HK$0.059 each.

(xi) The Company's second capital reorganisation during the year 2011 (the "Second Capital Reorganisation") was effective on 28 June 2011 which involved the following:

- the par value of each issued share of HK$0.01 in the capital of the Company was reduced to HK$0.00005 by canceling the paid up capital to the extent of HK$0.00995 on each issued share (the "Capital Reduction");
- each authorised but unissued share in the capital of the Company was subdivided into 200 subdivided shares of HK$0.00005 each;
- every 20 issued and unissued subdivided shares with par value of HK$0.00005 each was consolidated into one new share of HK$0.001 each (the "Share Consolidation");
- the credit arising from the Capital Reduction was transferred to the contributed surplus account.

(xii) On 29 June 2011, the Company placed and issued 15,843,500 new ordinary shares at an issue price of HK$0.44 each.

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

34. 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 total numbers of shares in issue.

During the year, the Company had undertaken two capital reorganisations namely First Capital Reorganisation effective on 9 December 2010 and Second Capital Reorganisation effective on 28 June 2011 (together referred as to the "Capital Reorganisation"), details of which are disclosed in notes 33(viii) and 33(xi). In addition, the Company had also allotted and issued shares by way of rights issue (the "Rights Issue"), details of which are disclosed in note 33(ix).

(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"), options were granted to the grantees to subscribe for shares in the Company.

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

			Number of shares issuable under options				
Name or category of participate	**Exercise Price per share**	**Adjusted exercise price per share after Capital Reorganisations and Rights Issue**	**Outstanding and exercisable at 1 July 2010**	**Granted during the year**	**Exercised during the year**	**Adjusted during the year upon completion of Capital Reorganisations and Rights Issue**	**Outstanding and exercisable at 30 June 2011**
	HK$	*HK$*					
Senior management	1.400	106.540	480,000	–	–	(473,693)	6,307
Other employees and consultants	1.400	106.540	480,000	–	–	(473,693)	6,307
			960,000	–	–	(947,386)	12,614

(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. Options were granted by the Company under the Post-IPO Share Option Scheme on 6 January 2004.

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

Name or category of participate	Exercise Price per share *HK$*	Adjusted exercise price per share after Capital Reorganisations and Rights Issue *HK$*	Number of shares issuable under options Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
Other employees and consultants	1.100	83.720	2,100	–	–	(2,072)	28
			2,100	–	–	(2,072)	28

(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. Options were granted by the Company under the Post-IPO Share Option Scheme on 20 September 2005.

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

Name or category of participate	Exercise Price per share *HK$*	Adjusted exercise price per share after Capital Reorganisations and Rights Issue *HK$*	Number of shares issuable under options Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
Other employees and consultants	0.570	43.380	200,000	–	–	(197,372)	2,628
			200,000	–	–	(197,372)	2,628

(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. Options were granted by the Company under the Post-IPO Share Option Scheme on 23 August 2007.

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

			Number of shares issuable under options				
Name or category of participate	Exercise Price per share	Adjusted exercise price per share after Capital Reorganisations and Rights Issue	Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
	HK$	*HK$*					
Former Directors#	3.150	239.740	6,944,000	–	–	(6,852,759)	91,241
Senior management	3.150	239.740	4,438,000	–	–	(4,379,687)	58,313
Other employees and consultants	3.150	239.740	2,574,000	–	–	(2,540,179)	33,821
			13,956,000	–	–	(13,772,625)	183,375

The directors holding the share options resigned during the year ended 30 June 2011.

(v) 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. Options were granted by the Company under the Post-IPO Share Option Scheme on 9 September 2008.

The following share options with an exercisable period from 9 September 2008 to 8 September 2018 were outstanding under the Post-IPO Share Option Scheme during the year:

Name or category of participate	Exercise Price per share HK$	Adjusted exercise price per share after Capital Reorganisations and Rights Issue HK$	Number of shares issuable under options: Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
Senior management	0.870	66.220	2,072,749	–	–	(2,045,514)	27,235
Other employees and consultants	0.870	66.220	4,097,124	–	–	(4,043,290)	53,834
			6,169,873	–	–	(6,088,804)	81,069

(vi) 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. Options were granted by the Company under the Post-IPO Share Option Scheme on 11 September 2008.

The following share options with an exercisable period from 11 September 2008 to 10 September 2018 were outstanding under the Post-IPO Share Option Scheme during the year:

Name or category of participate	Exercise Price per share HK$	Adjusted exercise price per share after Capital Reorganisations and Rights Issue HK$	Number of shares issuable under options: Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
Other employees and consultants	0.975	74.200	4,400,000	–	–	(4,342,186)	57,814
			4,400,000	–	–	(4,342,186)	57,814

(vii) 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. Options were granted by the Company under the Post-IPO Share Option Scheme on 16 December 2008.

The following share options with an exercisable period from 16 December 2008 to 15 December 2018 were outstanding under the Post-IPO Share Option Scheme during the year:

			Number of shares issuable under options				
Name or category of participate	Exercise Price per share	Adjusted exercise price per share after Capital Reorganisations and Rights Issue	Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
	HK$	*HK$*					
Senior management	0.381	29.000	950,000	–	–	(937,518)	12,482
Other employees and consultants	0.381	29.000	3,450,000	–	–	(3,404,668)	45,332
			4,400,000	–	–	(4,342,186)	57,814

(viii) 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. Options were granted by the Company under the Post-IPO Share Option Scheme on 17 February 2009.

The following share options with an exercisable period from 17 February 2009 to 16 February 2019 were outstanding under the Post-IPO Share Option Scheme during the year:

Name or category of participate	Exercise Price per share HK$	Adjusted exercise price per share after Capital Reorganisations and Rights Issue HK$	Number of shares issuable under options: Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
Other employees and consultants	0.495	37.680	2,400,000	–	–	(2,368,465)	31,535
			2,400,000	–	–	(2,368,465)	31,535

(ix) 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. Options were granted by the Company under the Post-IPO Share Option Scheme on 29 May 2009.

The following share options with an exercisable period from 29 May 2009 to 28 May 2019 were outstanding under the Post-IPO Share Option Scheme during the year:

Name or category of participate	Exercise Price per share HK$	Adjusted exercise price per share after Capital Reorganisations and Rights Issue HK$	Number of shares issuable under options: Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
Other employees and consultants	0.440	33.480	2,400,000	–	–	(2,368,465)	31,535
			2,400,000	–	–	(2,368,465)	31,535

(x) 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. Options were granted by the Company under the Post-IPO Share Option Scheme on 31 December 2009.

The following share options with an exercisable period from 31 December 2009 to 30 December 2019 were outstanding under the Post-IPO Share Option Scheme during the year:

			Number of shares issuable under options				
Name or category of participate	Exercise Price per share	Adjusted exercise price per share after Capital Reorganisations and Rights Issue	Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
	HK$	*HK$*					
Senior management	0.225	17.120	700,000	–	–	(690,802)	9,198
Other employees and consultants	0.225	17.120	568,895	–	–	(561,420)	7,475
Former directors	0.225	17.120	100,000	–	–	(98,686)	1,314
			1,368,895	–	–	(1,350,908)	17,987

(xi) 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. Options were granted by the Company under the Post-IPO Share Option Scheme on 15 January 2010.

The following share options with an exercisable period from 15 January 2010 to 14 January 2020 were outstanding under the Post-IPO Share Option Scheme during the year:

			Number of shares issuable under options				
Name or category of participate	Exercise Price per share *HK$*	Adjusted exercise price per share after Capital Reorganisations and Rights Issue *HK$*	Outstanding and exercisable at 1 July 2010	Granted during the year	Exercised during the year	Adjusted during the year upon completion of Capital Reorganisations and Rights Issue	Outstanding and exercisable at 30 June 2011
Other employees and consultants	0.365	27.780	12,000,000	–	–	(11,842,326)	157,674
			12,000,000	–	–	(11,842,326)	157,674

The fair values of the options granted on 20 September 2005, 23 August 2007, 9 September 2008, 11 September 2008, 16 December 2008, 17 February 2009 and 29 May 2009 determined using the Binomial Option Pricing Model were HK$2,459,600, HK$32,590,077, HK$13,654,408, HK$5,868,400, HK$4,093,100, HK$1,071,600 and HK$948,000 respectively.

The fair values of the options granted on 31 December 2009 and 15 January 2010 determined using the Black-Scholes Option Pricing Model were HK$5,495,000 and HK$3,255,000 respectively. The significant inputs and assumptions to the model were as follows:

Grant date	20 September 2005	23 August 2007	9 September 2008	11 September 2008	16 December 2008	17 February 2009	29 May 2009	31 December 2009	15 January 2010
Stock assets price	HK$0.110	HK$0.63	HK$0.174	HK$0.195	HK$0.075	HK$0.099	HK$0.087	HK$0.23	HK$0.37
Exercise price	HK$0.114	HK$0.63	HK$0.174	HK$0.195	HK$0.0762	HK$0.099	HK$0.088	HK$0.225	HK$0.365
Expected volatility	107%	77.37%	95.077%	95.255%	100.409%	102.323%	102.323%	96.04%	97.35%
Expected life	5 years	10 years	10 years	10 years	10 years	10 years	10 years	5 years	5 years
Risk free interest rate	4.012%	4.480%	2.848%	2.799%	1.530%	1.586%	2.767%	1.93%	1.86%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%

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

The Binomial Option Pricing Model and the Black-Scholes Option Pricing Model require 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.

35. 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*	Investment revaluation reserve *HK$'000*	(Accumulated losses) *HK$'000*	Attributable to owners of the Company *HK$'000*	Non-controlling interest *HK$'000*	Total *HK$'000*
At 1 July 2009	441,580	36,398	8,631	5,625	43	(205)	(640)	(451,332)	40,100	–	40,100
Loss for the year	–	–	–	–	–	–	–	(140,706)	(140,706)	(86,686)	(227,392)
Issuance of shares	31,226	–	–	–	–	–	–	–	31,226	–	31,226
Fair value of options granted	–	8,720	–	–	–	–	–	–	8,720	–	8,720
Equity component of convertible notes issued	–	–	15,184	–	–	–	–	–	15,184	–	15,184
Exercise of share options	11,332	(6,404)	–	–	–	–	–	–	4,928	–	4,928
Deferred taxation	–	–	(2,505)	–	–	–	–	–	(2,505)	–	(2,505)
Share issuance costs	(1,257)	–	–	–	–	–	–	–	(1,257)	–	(1,257)
Exercise of convertible notes, net of transaction costs	21,898	–	(6,620)	–	–	–	–	–	15,278	–	15,278
Reclassification adjustment relating to available-for-sale investment disposal during the year	–	–	–	–	–	–	640	–	640	–	640
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	96,135	96,135
Exchange difference on consolidation	–	–	–	–	–	(16)	–	–	(16)	–	(16)
At 30 June 2010	504,779	38,714	14,690	5,625	43	(221)	–	(592,038)	(28,408)	9,449	(18,959)
At 1 July 2010	504,779	38,714	14,690	5,625	43	(221)	–	(592,038)	(28,408)	9,449	(18,959)
Exchange difference on consolidation	–	–	–	–	–	(286)	–	–	(286)	–	(286)
Reclassification adjustment upon disposal of subsidiaries	–	–	–	–	–	88	–	–	88	–	88
	–	–	–	–	–	(198)	–	–	(198)	–	(198)
Loss for the year	–	–	–	–	–	–	–	(82,478)	(82,478)	(2,553)	(85,031)
Total comprehensive (loss) for the year	–	–	–	–	–	(198)	–	(82,478)	(82,676)	(2,553)	(85,229)
Issue of new shares on acquisition	–	–	–	–	–	–	–	–	–	–	–
Issuance of shares	236,670	–	–	–	–	–	–	–	236,670	–	236,670
Release upon disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(7,651)	(7,651)
Share issuance costs	(10,895)	–	–	–	–	–	–	–	(10,895)	–	(10,895)
Redemption of convertible notes	–	–	(13,948)	–	–	–	–	12,018	(1,930)	–	(1,930)
Capital reorganisation	(504,779)	–	–	47,334	–	–	–	592,038	134,593	–	134,593
Acquisition of a subsidiary *(note 36)*	–	–	–	–	–	–	–	–	–	10,418	10,418
At 30 June 2011	225,775	38,714	742	52,959	43	(419)	–	(70,460)	247,354	9,663	257,017

(b) The Company

	Share premium *HK$'000*	Share option reserve *HK$'000*	Convertible notes reserve *HK$'000*	Contributed surplus *HK$'000*	Capital redemption reserve *HK$'000*	(Accumulated losses) *HK$'000*	Total *HK$'000*
At 1 July 2009	441,580	36,398	8,631	5,625	43	(475,872)	16,405
Loss for the year	–	–	–	–	–	(153,102)	(153,102)
Issuance of shares	31,226	–	–	–	–	–	31,226
Fair value of options granted	–	8,720	–	–	–	–	8,720
Equity component of convertible notes issued	–	–	15,184	–	–	–	15,184
Exercise of share options	11,332	(6,404)	–	–	–	–	4,928
Deferred taxation	–	–	(2,505)	–	–	–	(2,505)
Share issuance costs	(1,257)	–	–	–	–	–	(1,257)
Exercise of convertible notes, net of transaction costs	21,898	–	(6,620)	–	–	–	15,278
At 30 June 2010	504,779	38,714	14,690	5,625	43	(628,974)	(65,123)
At 1 July 2010	504,779	38,714	14,690	5,625	43	(628,974)	(65,123)
Loss for the year	–	–	–	–	–	(34,608)	(34,608)
Issuance of shares	236,670	–	–	–	–	–	236,670
Share issuance costs	(10,895)	–	–	–	–	–	(10,895)
Redemption of convertible notes	–	–	(13,948)	–	–	12,018	(1,930)
Capital reorganisation	(504,779)	–	–	47,334	–	592,038	134,593
At 30 June 2011	225,775	38,714	742	52,959	43	(59,526)	258,707

(c) Nature and purpose of reserves

(i) Share premium and Capital redemption reserve

The application of the share premium account and capital redemption reserve are governed by Section 40 of the Companies Act 1981 of Bermuda ("Companies Act").

(ii) Share option reserve

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 3(p)(ii).

(iii) Convertible notes reserve

Convertible notes reserve have been set up and will be dealt with in accordance with the Group's accounting policies in note 3(t).

(iv) Contributed surplus

Pursuant to the group reorganisation prior to obtaining a listing, 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 group reorganisation was transferred to contribute surplus. Contributed surplus also includes the credit arising from the capital reorganisations effective on 9 December 2010 and 28 June 2011 respectively.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(aa).

(vi) Investment revaluation reserve

The investment revaluation reserve represents accumulated gains and losses arising on the revaluation of available-for-sale investment that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those investment have been disposed of or are determined to be impaired.

(vii) Distributable of reserves

At 30 June 2011, no reserve was available for distribution as dividends to shareholders of the Company (2010: HK$Nil).

36. Acquisition of a subsidiary

Active Link acquisition

On 5 October 2010, the Group acquired 100% equity interest of Active Link Investments Limited ("Active Link") at a consideration of HK$105,600,000. Active Link holds 100% equity interest of Super Venus Media International Limited ("Super Venus"), a company incorporated in Hong Kong with limited liability, which in turns hold 100% equity interest of Ningbo Venus Kids Furniture Company Limited ("Ningbo Venus"), a wholly foreign-owned enterprise incorporated in the PRC. Ningbo Venus owns 80% equity interest of Shijiazhuang Municipal Xun Hua De Gao Bus Advertising Company Limited ("Shijiazhuang Xunhua"), a company incorporated in the PRC with limited liability. Active Link, Super Venus and Ningbo Venus are investment holding companies. The principal activities of Shijiazhuang Xunhua are the design, production and publication of outdoor advertisements in the PRC. The directors consider that the acquisition of Active Link provides an opportunity for the Group to expand its business in outdoor advertising and display industry in the PRC which will contribute to the earnings base of the Group.

The Consideration of HK$105,600,000 was payable as follows:

1. HK$40,000,000 in cash;

2. 140,250,000 new ordinary shares of HK$0.1 each by the Company at an issue price of HK$0.16 per share. All the said consideration shares were issued on 5 October 2010;

3. 2-years zero coupon unsecured convertible notes in an aggregate principal sum of HK$25,560,000; and

4. issue and allotment of 55,000,000 new ordinary shares of HK$0.1 in each of the two years ending 31 December 2011 and 31 December 2012 respectively by the Company at an issue price of HK$0.16 per share if the Company is satisfied that the guaranteed profit for the relevant year of Shijiazhuang Xunhua has been met. The vendor has guaranteed to the Company that the audited net profits after tax of Shijiazhuang Xunhua for each of the two years ending 31 December 2011 and 31 December 2012 shall not be less than HK$11 million.

In case of any shortfall between the actual net profit after tax earned by Shijiazhuang Xunhua for each of the two years ending 31 December 2011 and 31 December 2012, the Company shall only issue such number of new ordinary shares at an issue price of HK$0.16 per share to the vendors which are in monetary value equivalent to the amount of actual net profit after tax earned by Shijiazhuang Xunhua in such years. No new ordinary share shall be issued to the vendors if Shijiazhuang Xunhua has not earned any net profit after tax or has made a loss for the two years ending 31 December 2012.

The fair value of the net assets acquired and the goodwill arising from the acquisition of Active Link are as follows:

	2011
	HK$'000
Assets and liabilities acquired:	
Property, plant and equipment *(note 15)*	321
Intangible assets *(note 16)*	71,085
Accounts receivables, deposits and other receivables	3,134
Cash and cash equivalents	206
Trade payables, accrued expenses and other payables	(4,882)
Deferred taxation *(note 31)*	(17,771)
	52,093
Less: Non-controlling interest	(10,418)
	41,675
Goodwill arising from the acquisition *(note 17)*	48,979
Consideration	90,654
Represented by	
Cash*	40,000
Issue of shares at fair value	14,025
Convertible notes issued	25,560
Contingent consideration	11,069
	90,654
Net cash outflow arising from acquisition:	
Cash consideration paid	(30,000)
Bank balances and cash acquired	206
	(29,794)

* *Including the deposit of HK$10,000,000 paid during the year ended 30 June 2010*

Notes:

(i) Intangible assets represents sub-license advertising right of single-decker buses, double-decker buses and bus stations in Shijiazhuang City, Hebei Province, the PRC. The fair value of the intangible assets acquired HK$71,085,000 was determined by the directors by reference to the valuation report prepared by RHL Appraisals Limited, an independent qualified professional valuer. The valuers have adopted an income approach and fair value is estimated based on discounted cash flow model using a long-term growth rate of 10% and a discount rate of 14.73% as inputs.

(ii) The non-controlling interests in Active Link recognised at the acquisition date was measured by reference to non-controlling interest's proportionate share of the Active Link's net identifiable assets.

(iii) The fair value of the 140,250,000 new ordinary shares issued as part of the consideration of the acquisition of Active Link was based on the closing bid price of the Company's share as at 5 October 2010, the date of completion, which is HK$0.1 per share. The total fair value of HK$14,025,000 was credited to share capital *(note 33(b))*.

(iv) Details of the 2-year zero coupon unsecured convertible notes are detailed in note 32.

(v) As contingent consideration, the Group is to issue to the vendors 55,000,000 shares at an issue price of HK$0.16 per share in each of the two years ending 31 December 2011 and 31 December 2012 provided that Shijiazhuang Xunhua will earn a net profit after tax of not less than HK$11,000,000 for each of the two years ending 31 December 2011 and 31 December 2012. In case of any shortfall between the actual net profit tax earned by Shijiazhuang Xunhua and the guaranteed amount, the Group shall only issue such number of shares at an issue price of HK$0.16 per share to the vendors (in such proportion as notified by the vendors to the Group) which will in monetary value be equivalent to the amount of the actual net profit after tax earned by Shijiazhuang Xunhua for each of the two years ending 31 December 2011 and 31 December 2012. No share shall be issued to the vendors if Shijiazhuang Xunhua has not earned any net profit after tax or has made a loss for each of the two years ending 31 December 2011 and 31 December 2012. The amount of HK$11,069,000 represents the estimated fair value of this obligation as at the date of acquisition. Fair value is estimated based on Monte-Carlo Simulation Model, using an average net profit-to-revenue ratio of 12.88% for 2011 and 2012.

As at 30 June 2011, the amortised costs of the purchase consideration payable based on the above inputs would be stated at fair value of the aggregate discounted contingent consideration payable of HK$12,048,000, which is the sum of the contingent consideration attributable to 2011 of HK$5,684,000 and 2012 of HK$6,364,000. The difference between the fair value of HK$12,048,000 and the amortised cost of the aggregate purchase consideration payable of HK$11,069,000 was charged in consolidated income statement for the year ended 30 June 2011.

(vi) The directors of the Company considered that goodwill is attributable to the revenue growth and future market development, the anticipated profitability of the business in outdoor advertising in the PRC and the premium paid for acquisition of the control.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Acquisition related costs amounting to approximately HK$910,000 have been excluded from consideration transferred and have been recognised as an expense for the year, within the “Administrative expenses” in the consolidated income statement.

Included in the loss for the year ended 30 June 2011 from continuing operations is HK$10,982,000 attributable to the acquisition of Active Link. Revenue for the year ended 30 June 2011 includes approximately HK$29,036,000 in respect of Active Link.

If the acquisition of Active Link had been completed on 1 July 2010, the Group’s revenue would have been increased to approximately HK$40,368,000 and loss for the year ended 30 June 2011 from continuing operations would have been decreased to approximately HK$71,434,000.

HK Gaofeng acquisition

On 27 October 2009, the Group acquired 47.2% equity interest in Gaofeng Holding Co., Limited (“HK Gaofeng”) at a consideration of HK$75,000,000 (the “Acquisition”). HK Gaofeng directly owns 100% equity interest of Jiu Jiang Gaofeng Mining Company Limited (“Jiu Jiang Gaofeng”), a company established in the PRC. Jiu Jiang Gaofeng owns 81.5% equity interest of Zhang Jia Fan Gold Mine, a company established in the PRC and is engaged in the business of gold mine in Zhang Jia Fan, the PRC and has not commenced production activities. Prior to the acquisition, the Group held 15.4% equity interest of HK Gaofeng and this has been accounted for as an available-for-sale investment. As a result, HK Gaofeng became 62.6% owned subsidiary of the Group subsequent to the Acquisition.

Jiu Jiang Gaofeng’s 81.5% equity interest in Zhang Jia Fan Gold Mine was yet to be approved by the Jiangxi Commerce Administrative Bureau when the Company made its announcement for the Acquisition. The consideration of the Acquisition was made by reference to a management agreement entered into between Jiu Jiang Gaofeng and Zhang Jia Fan Gold Mine (the “Management Agreement”). The Management Agreement was automatically terminated, in accordance with the term, when the approval was obtained from Jiangxi Commerce Administrative Bureau on 9 July 2009. On the date of completion of the Acquisition on 27 October 2009, Zhang Jia Fan Gold Mine is already a subsidiary of HK Gaofeng.

The assets and liabilities of HK Gaofeng acquired at the date of completion of the Acquisition are as follows:

	2010
	HK$'000
Assets and liabilities acquired:	
Property, plant and equipment and construction in progress	2,872
Intangible assets	212,535
Accounts receivable, deposits and other receivables	3,089
Cash and cash equivalents	159
Inventories	85
Trade payables, accrued expenses and other payables	(23,135)
	195,605
Less: Non-controlling interest	(96,135)
Less: Interest in available-for-sale investment held prior to the acquisition	(24,470)
Consideration	75,000
Represented by	
Convertible notes issued	75,000
Net cash outflow arising from acquisition	
Bank balances and cash acquired	159

The subsidiary acquired did not contribute significantly to the Group's reserve and results during the year 2010.

37. 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 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 year of 2011 and 2010.

The Group monitors capital using a gearing ratio. The Group's policy is to keep the gearing ratio at a reasonable level.

During the year 2010, the Group's gearing ratios exceeds 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt.

The Group's gearing ratios at 30 June 2011 and 30 June 2010 were as follows:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Debt *(note i)*	4,241	66,752
Cash and cash equivalents	(114,172)	(10,326)
Net debt	(109,931)	56,426
Equity *(note ii)*	247,449	45,795
Net debt-to-equity ratio	N/A	123.2%

(i) Debt comprises total bank borrowings and convertible notes

(ii) Equity includes all capital and reserves of the Group

Neither the company nor any of its subsidiaries is subject to externally imposed capital requirements.

38. Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

Categories of financial instruments

	The Group		**The Company**	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Fair value through profit or loss	12,731	7,495	–	–
Loans and receivables (including cash and cash equivalents)	177,933	61,633	190,577	86,672
Financial liabilities				
Amortised cost	38,374	100,078	30,145	81,826

Financial risk management objectives and policies

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 seeks 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 balance as at 30 June 2011. 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.

The Group has no interest-bearing borrowing and variable-rate bank balances as at 30 June 2010. The directors consider that the exposure on cash flow interest rate risk is insignificant. Accordingly, no sensitivity analysis has been prepared for the year ended 30 June 2010.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate borrowing and bank balances, the analysis is prepared assuming the amount of liability and balance outstanding at the end of the reporting period were 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 30 June 2011, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss after tax would decrease/increase by approximately HK$16,500 (2010: HK$Nil). This is mainly attributable to the Group's exposure to interest rates on its bank balances.

(b) Liquidity risk

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity and going concern of the Group in light of the loss for the year ended 30 June 2011 of approximately HK$85,031,000 (2010: HK$227,392,000). The directors of the Company are satisfied that the Group has so far meet all the financial obligations as and when they fall due and 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 future.

The following table details the remaining contractual maturities at the end of the reporting period 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 end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2011						2010					
	Carrying Amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Carrying Amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*
Trade payables, accrued expenses and other payables	22,085	22,085	22,085	–	–	–	32,758	32,758	32,758	–	–	–
Purchase consideration payable	12,048	12,048	5,684	6,364	–	–	–	–	–	–	–	–
Amounts due to directors	–	–	–	–	–	–	568	568	568	–	–	–
Convertible notes	4,241	4,400	4,400	–	–	–	66,752	77,078	15,878	61,200	–	–
	38,374	38,533	32,169	6,364	–	–	100,078	110,404	49,204	61,200	–	–

The Company

	2011						2010					
	Carrying Amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Carrying Amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*
Amounts due to subsidiaries	9,390	9,390	9,390	–	–	–	13,471	13,471	13,471	–	–	–
Amounts due to directors	–	–	–	–	–	–	160	160	160	–	–	–
Trade payables, accrued expenses and other payables	4,466	4,466	4,466	–	–	–	1,443	1,443	1,443	–	–	–
Purchase consideration payable	12,048	12,048	5,684	6,364	–	–	–	–	–	–	–	–
Convertible notes	4,241	4,400	4,400	–	–	–	66,752	77,078	15,878	61,200	–	–
	30,145	30,304	23,940	6,364	–	–	81,826	92,152	30,952	61,200	–	–

(c) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities *(see note 21)* as at 30 June 2011 and 2010 respectively.

Sensitivity analysis

At 30 June 2011, if equity prices at that date had been 5% higher/lower with all other variables held constant, loss after taxation would decrease/increase by HK$532,000 (2010: HK$313,000) as a result of the changes in fair value of trading securities.

(d) Credit risk

The Group 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 rating 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 23.

In respect of the amounts due from a subsidiary and a related company, the management has closely monitored and reviewed the recoverability of the amounts and the directors consider such credit risk is considered manageable.

In 30 June 2011, the Group had certain concentration of credit risk as 69% (2010: 93%) of the total trade receivables of the Group were due from 5 customers (2010: 4 customers). In addition, the Group had a concentration of credit risk by geographical area since its total trade debtors consists of customers entirely in the PRC as at 30 June 2011 (2010: 100%) at the end of reporting period.

(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 the entities' own functional currencies. Accordingly, no sensitivity analysis has been prepared.

(f) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

	As at 30 June 2011							
	The Group				The Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value though profit or loss								
Non-derivative financial assets held for trading	12,731	–	–	12,731	–	–	–	–
Total	12,731	–	–	12,731	–	–	–	–

	As at 30 June 2010							
	The Group				The Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value though profit or loss								
Non-derivative financial assets held for trading	7,495	–	–	7,495	–	–	–	–
Total	7,495	–	–	7,495	–	–	–	–

There were no transfers between instruments in Level 1 and Level 2 during the two years ended 30 June 2011 and 2010.

39. Commitments

(a) Operating leases commitment

At 30 June 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Within 1 year	379	961
After 1 year but within 5 years	95	–
After 5 years	–	–
	474	961

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

	The Company	
	2011	**2010**
	HK$'000	*HK$'000*
Within 1 year	63	–
After 1 year but within 5 years	–	–
After 5 years	–	–
	63	–

(b) Capital commitments

Capital commitments outstanding at 30 June 2011 not provided for in the financial statements of the Group were as follows:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Contracted but not provided for:		
Investment in available-for-sale investment	58,000	–
Investment in joint venture	19,282	18,661
Capital injection to a subsidiary	23,207	–
	100,489	18,661

	The Company	
	2011	**2010**
	HK$'000	*HK$'000*
Contracted but not provided for:		
Investment in joint venture	7,000	7,000
	7,000	7,000

40. 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, an ex-director of the Company, Mr. Wong Yao Wing, Robert, an ex-director of the Company and the Company (collective, the ("Defendants"). The Plaintiff claimed against each of the Defendant 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$15,838,000. The Defendants denied the claims of the Plaintiff and have sought level advice in this regard. The parties have agreed to an interim stay of up to 8 June 2011 to attempt mediation to settle the dispute. The mediation was not successful and the parties shall continue with the proceedings and is currently in the course of discovery.

The directors, based on legal advice, consider that the proceeding is in their early stage and the amount of ultimate liability cannot be measured with sufficient reliability. Therefore, no provision in respect of such claims was made in the consolidated financial statements.

41. Related party transaction

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

		2011	**2010**
	Note	*HK$'000*	*HK$'000*
Operating expenses paid	*(i)*	155	449
Consulting fee paid	*(ii)*	–	157
Reversal of impairment loss on loan to a former associate	*(iii)*	–	6,249

Note:

(i) The former directors, Ms. Wong Yuen Yee (resigned on 19 January 2011), Mr. Wong Yao Wing, Robert (resigned on 31 January 2011), Mr. Lam Shiu San (resigned on 1 June 2010) and Mr. Wong Kwok Sing (resigned on 23 March 2010), and related companies paid certain operating expenses on behalf of the Group.

(ii) Consultancy fee paid to Digital Bank Technology Limited, of which Mr. Lam Shiu San is a director, for the provision of technical support. Mr. Lam Shiu San resigned as a director of the Company on 1 June 2010.

(iii) Impairment was made for loans to United Premier Medical Group, a former associate of the Group in previous year and partial repayment made during the year.

(iv) On 9 January 2008, Shandong Xun Hua Media Advertising Company Limited ("Shandong Xunhua") sub-licensed its advertising rights for the single-decker buses to Shijiazhuang Xunhua, which is effective from 1 February 2008 to 31 January 2015.

Following the completion of acquisition for Active Link Investment Limited on 5 October 2010, Shandong Xunhua owns 20% equity interest in Shijiazhuang Xunhua. Active Link Investment Limited owns 80% of Shijiazhuang Xunhua.

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.

(b) Compensation of key management personnel

The emoluments of directors and other members of key management during the year was as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Basic salary, allowance and other benefits	3,921	6,535
Recognised retirement pension	50	71
Share-based payments	–	295
	3,971	6,901

42. Events after the reporting period

(a) On 8 July 2011, the Company entered into a sales and purchases agreement to acquire 100% equity interest in Redgate Ventures Limited ("Redgate") at a consideration of approximately HK$1,940,704,000. Details of the transaction are set out in the Company's announcement dated 21 July 2011. The acquisition is yet to be completed as at the date of this report.

Redgate was established on 14 October 2010 and is principally engaged in investment holding. Redgate's subsidiaries engage in the provision of outdoor advertising displays and media advertisement agency services and advertising production and design services in the PRC.

(b) On 13 July 2011, the Group completed the acquisition of a 19% equity interest in China New Media (HK) Company Limited ("China New Media") at a consideration of approximately HK$78,000,000. The Group had paid a refundable deposit of HK$20,000,000 during the year. China New Media's subsidiaries engage in outdoor advertising in Hong Kong, specialising in advertising spaces in lifts and outer walls of buildings.

43. Comparative figures

Certain comparative amounts have been restated in compliance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" from the discontinued operations of the Group's business during the year, details of which are referred to note 10.

D. FINANCIAL INFORMATION ON THE GROUP FOR THE SIX MONTHS ENDED 31 DECEMBER 2010 AND 2011

Set out below are the unaudited financial statements of the Group as extracted from pages 4 to 24 of the interim report of the Company for the six months ended 31 December 2010 and 2011, which are published on both the GEM website (www.hkgem.com) and the website of the Company (www.it-holdings.com.hk).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2010 and 2011

		Unaudited three months ended 31 December		Unaudited six months ended 31 December	
		2011	**2010**	**2011**	**2010**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations:					
Turnover	*3*	14,189	10,916	27,058	11,059
Cost of sales		(14,213)	(10,183)	(29,083)	(12,853)
Gross (loss)/profit		(24)	733	(2,025)	(1,794)
Other revenue and net income		2,340	1,355	2,346	1,355
Marketing and promotion expenses		(753)	(694)	(1,223)	(1,363)
Administrative expenses		(5,239)	(11,847)	(11,398)	(19,484)
Finance costs		(163)	(2,767)	(1,162)	(4,945)
Share of losses of associates		(5)	(2)	(5)	(2)
Changes in fair value of derivative financial instruments		(1,384)	–	(1,384)	–
Gain/(loss) on disposal of trading securities		1,678	(727)	(5,453)	(1,589)
Gain/(loss) on fair value change in trading securities		641	(243)	(1,088)	100
Loss before tax from continuing operations	*4*	(2,909)	(14,192)	(21,392)	(27,722)
Income tax expenses	*5*	601	(387)	1,273	(387)
Loss for the period from continuing operations		(2,308)	(14,579)	(20,119)	(28,109)
Discontinued operations:	*6*				
Loss for the period from discontinued operations		–	(843)	–	(1,687)
Loss for the period		(2,308)	(15,422)	(20,119)	(29,796)

	Notes	Unaudited three months ended 31 December 2011 HK$'000	Unaudited three months ended 31 December 2010 HK$'000	Unaudited six months ended 31 December 2011 HK$'000	Unaudited six months ended 31 December 2010 HK$'000
Loss for the period		(2,308)	(15,422)	(20,119)	(29,796)
Other comprehensive (loss)/ income for the period					
Exchange difference acting on translation of foreign operations		(20)	26	(68)	(8)
Total comprehensive loss for the period		(2,328)	(15,396)	(20,187)	(29,804)
Loss for the period attributable to:					
Owners of the Company		(2,377)	(15,278)	(19,879)	(29,248)
Non-controlling interests		69	(144)	(240)	(548)
		(2,308)	(15,422)	(20,119)	(29,796)
Total comprehensive loss attributable to:					
Owners of the Company		(2,397)	(15,252)	(19,947)	(29,256)
Non-controlling interests		69	(144)	(240)	(548)
		(2,328)	(15,396)	(20,187)	(29,804)
Loss per share attributable to owners of the Company	*7*				
From continuing and discontinued operations			(Restated)		(Restated)
– Basic and diluted		(0.03)	(0.26)	(0.22)	(0.51)
From continuing operations					
– Basic and diluted		(0.03)	(0.25)	(0.22)	(0.48)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	Unaudited 31 December 2011 HK$'000	Audited 30 June 2011 HK$'000
Non-current assets			
Property, plant and equipment	*9*	3,726	6,545
Intangible assets	*10*	51,122	59,108
Goodwill	*11*	48,979	48,979
Available-for-sale investments	*12*	78,000	–
Interest in associates	*13*	1,785	1,790
Deposit for acquisition of subsidiaries		80,000	–
Deposit for acquisition of available-for-sale investments		–	20,000
		263,612	136,422
Current assets			
Trading securities	*14*	6,138	12,731
Inventories	*15*	861	–
Accounts receivable	*16*	2,843	3,813
Prepayments, deposits and other receivables		14,565	5,527
Promissory notes receivable	*17*	–	38,700
Cash and cash equivalents		8,730	114,172
		33,137	174,943
Current liabilities			
Trade payables, accrued expenses and other payables	*18*	34,426	22,803
Purchase consideration payable		5,684	5,684
Tax payable		569	318
Convertible notes	*19*	–	4,241
		40,679	33,046
Net current (liabilities)/assets		(7,542)	141,897
Total assets less current liabilities		256,070	278,319

	Notes	Unaudited 31 December 2011 HK$'000	Audited 30 June 2011 HK$'000
Non-current liabilities			
Deferred taxation		12,781	14,843
Purchase consideration payable		6,364	6,364
		19,145	21,207
NET ASSETS		236,925	257,112
EQUITY			
Equity attributable to owners of the Company			
Share capital	*20*	95	95
Reserve		227,407	247,354
		227,502	247,449
Non-controlling interest		9,423	9,663
TOTAL EQUITY		236,925	257,112

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Share options reserve *HK$'000*	Convertible notes reserve *HK$'000*	Contributed surplus *HK$'000*	Capital redemption reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Attributable to owners of the Company *HK$'000*	Non-controlling interest *HK$'000*	Total *HK$'000*
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	–	–	–	–	–	–	–	(29,248)	(29,248)	(548)	(29,796)
Exchange difference on consolidation	–	–	–	–	–	–	(8)	–	(8)	–	(8)
Total comprehensive loss for the period	–	–	–	–	–	–	(8)	(29,248)	(29,256)	(548)	(29,804)
Issue of new shares on acquisition	14,025	–	–	–	–	–	–	–	14,025	–	14,025
Issue of convertible note	–	–	–	5,187	–	–	–	–	5,187	–	5,187
Issue of shares	31,800	12,728	–	–	–	–	–	–	44,528	–	44,528
Share issuance cost	–	(1,336)	–	–	–	–	–	–	(1,336)	–	(1,336)
Obtaining control of subsidiary	–	–	–	–	–	–	–	–	–	217	217
Capital reorganisation	(118,828)	(504,779)	–	–	31,569	–	–	592,038	–	–	–
At 31 December 2010	1,200	11,392	38,714	19,877	37,194	43	(229)	(29,248)	78,943	9,118	88,061
At 1 July 2011	95	225,775	38,714	742	52,959	43	(419)	(70,460)	247,449	9,663	257,112
Loss for the period	–	–	–	–	–	–	–	(19,879)	(19,879)	(240)	(20,119)
Exchange difference on consolidation	–	–	–	–	–	–	(68)	–	(68)	–	(68)
Total comprehensive loss for the period	–	–	–	–	–	–	(68)	(19,879)	(19,947)	(240)	(20,187)
Issue of convertible note	–	–	–	11,508	–	–	–		11,508	–	11,508
Redemption of convertible notes	–	–	–	(12,250)	–	–	–	742	(11,508)	–	(11,508)
At 31 December 2011	95	225,775	38,714	–	52,959	43	(487)	(89,597)	227,502	9,423	236,925

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011

	Unaudited Six months ended 31 December 2011 HK$'000	2010 HK$'000
Net cash used in operating activities	(5,712)	(664)
Net cash used in investing activities	(60,662)	(29,436)
Net cash (used in)/generated from financing activities	(39,000)	43,192
(Decrease)/increase in cash and cash equivalents	(105,374)	13,092
Cash and cash equivalents at the beginning of the period	114,172	10,283
Effect of foreign exchange rate change	(68)	(60)
Cash and cash equivalent at the end of the period	8,730	23,315
Analysis of cash and cash equivalents:		
Cash and cash equivalents in the condensed consolidated statement of financial position	8,730	23,315
Bank overdrafts	–	–
Cash and cash equivalents	8,730	23,315

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 (the "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").

During the period, the Group incurred a loss of approximately HK$20,119,000 (six months ended 31 December 2010: HK$29,796,000) and had net current liabilities of approximately HK$7,542,000 as at 31 December 2011.

In preparing the consolidated financial statements, the directors have given careful consideration to the future liquidity and financial positions of the Group in light of the conditions described in the preceding paragraph. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors are currently implement stringent cost control measures over administrative and other expenses to improve the operating and financial position of the Group.

In the opinion of the directors, the successful implementation of the above measures, the Group will have sufficient cash resources to satisfy its future working capital and other financial commitments. The directors are of the opinion that the above measures will be successful implemented. Accordingly, the directors are of the view 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 may have to be made to write down assets to their recoverable amounts. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

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 2011. The principal accounting policies adopted are disclosed in the Group's 2010/2011 Annual Report dated 30 September 2011.

These unaudited condensed consolidated financial statements should be read in conjunction with the Group's 2010/2011 Annual Report.

2. Adoption of hkfrss

(a) Adoption of new/revised HKFRSs – effective 1 July 2011

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HK(IFRIC) – Interpretation 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendment)	Disclosure – Transfers of Financial Assets
HKAS 24 (Amendment)	Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

Except as explained above, the adoption of these new/revised standards and interpretations has no significant impact on the Quarterly Results of the Group.

(b) New/revised HKFRSs that have been issued but not yet effective

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

Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[1]
HKFRS 9	Financial Instruments[2]

[1] *Effective for annual periods beginning on or after 1 January 2012*

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

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Quarterly Results of the Group.

3. Turnover

Turnover represents income from outdoor advertising operations and income from design of residential intranet, provision of home-automation services and trading of related home-automation products in the People's Republic of China (the "PRC"). The amount of each significant category of revenue recognised in turnover during the period is as follows:

	Unaudited Six months ended 31 December 2011	2010
	HK$'000	*HK$'000*
Continuing operations		
Income from outdoor advertising operations	23,075	10,882
Income from design of residential intranet, provision of home-automation services and trading of related home-automation products	3,983	177
	27,058	11,059

4. Loss before income tax expenses from continuing operations

	Unaudited Six months ended 31 December 2011	2010
	HK$'000	*HK$'000*
Finance costs		
Interest on bank loans and overdrafts wholly repayable within five years	59	3
Interest on convertible notes	1,079	4,942
Other loan interest	24	–
Staff costs	3,405	4,999
Amortisation of intangible assets	7,986	5,123
Depreciation on owned assets	3,233	3,767
Operating lease charge in respect of office premises	375	757

5. Income tax expenses

Income tax expenses in the consolidated statement of comprehensive income represents:

	Unaudited Six months ended 31 December 2011	
	2011	**2010**
	HK$'000	*HK$'000*
Continuing operations		
Current tax		
PRC Enterprise Income Tax	789	387
Deferred tax		
Current period	(2,062)	–
	(1,273)	387

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2010: HK$Nil).

Subsidiaries located in the PRC are subject to the PRC enterprise income tax at a rate of 25% on its assessable profits. No provision for PRC enterprise income tax (the "EIT") has been made in the year 2010 as the Group's PRC subsidiaries did not generate any assessable profits during that year, or had tax losses brought forward to offset that year's assessable profits.

Pursuant to Guo Fa [2007] No. 39 issued by the State Council, one of the subsidiaries of the Company, 匯創智能系統(深圳)有限公司 was granted tax concessions at a preferential tax rate of 20% for the year ended 30 June 2010, 22% for 2011, 24% for 2012 and 25% for 2013.

6. Discontinued operations

During the prior periods, the Group was engaged in the sale of dolomite, investment, consultation and mining engineering technical consultation in the PRC through the Inno Gold Mining Limited and its subsidiaries (the "Inno Gold Mine Group").

On 7 October 2010, the Company and Gold Concept Investments Limited (the "Gold Concept") entered into the sale and purchase agreement (the "Agreement") pursuant to which the Company conditionally agreed to sell and Gold Concept conditionally agreed to acquire the sale shares and the sale loan at an aggregate consideration of HK$15,000,000. The disposal was completed on 9 May 2011.

The results of the discontinued operation for the prior periods, which had been included in the profit or loss, were as follows:

	Unaudited Six months ended 31 December	
	2011	**2010**
	HK$'000	*HK$'000*
Loss for the period from discontinued operations		
Turnover	–	–
Cost of sales and services	–	(339)
Gross loss	–	(339)
Marketing and promotion expenses	–	(367)
Administrative expenses	–	(981)
Loss before income tax	–	(1,687)
Income tax	–	–
Loss for the period	–	(1,687)

The cash flow information of the discontinued operation was as follows:

	Unaudited Six months ended 31 December 2011 *HK$'000*	2010 *HK$'000*
Net cash used in operating activities	–	8
Net cash used in investing activities	–	–
Net cash used in financing activities	–	–
Decrease in cash and cash equivalents	–	8

7. 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 December 2010 and the six months ended 31 December 2010 are restated to take into effect the Company's capital reorganization and rights issue completed in the year ended 30 June 2011.

As the Company's outstanding convertible bonds, share options and warrants, 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.

From continuing and discontinued operations:

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

	Unaudited three months ended 31 December		**Unaudited six months ended 31 December**	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loss for the period attributable to:				
Owners of the Company	(2,978)	(14,891)	(21,152)	(28,861)

	Number of shares three months ended 31 December		**Number of shares six months ended 31 December**	
	2011	**2010**	**2011**	**2010**
	(Unaudited)	**(Unaudited – restated)**	**(Unaudited)**	**(Unaudited – restated)**
	'000	*'000*	*'000*	*'000*
Weight average number of ordinary shares for basic and diluted loss per share calculation	95,062	56,757	95,062	56,491

From continuing operations:

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

	Unaudited three months ended 31 December		**Unaudited six months ended 31 December**	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loss for the period attributable to:				
Owners of the Company	(2,978)	(14,048)	(21,152)	(27,174)

	Number of shares three months ended 31 December		**Number of shares six months ended 31 December**	
	2011	**2010**	**2011**	**2010**
	(Unaudited)	**(Unaudited – restated)**	**(Unaudited)**	**(Unaudited – restated)**
	'000	*'000*	*'000*	*'000*
Weight average number of ordinary shares for basic and diluted loss per share calculation	95,062	56,757	95,062	56,491

8. 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.

Outdoor advertising: Rental revenue from display of advertisements on bus bodies and stations.

Segment information about these businesses is set out as follows:

	For the six months ended 31 December 2011			
	Continuing operations	**Continuing operations**	**Discontinuing operations** *(Note 6)*	
	Outdoor advertising (unaudited)	**Intelligent system (unaudited)**	**Gold mining (unaudited)**	**Total (unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue				
Revenue from external customers	23,075	3,983	–	27,058
Reportable segment loss	(6,176)	(3,760)	–	(9,936)
Depreciation and amortization	8,058	3,082	–	11,140

	For the six months ended 31 December 2010			
	Continuing operations	**Continuing operations**	**Discontinuing operations** *(Note 6)*	
	Outdoor advertising (unaudited)	**Intelligent system (unaudited)**	**Gold mining (unaudited)**	**Total (unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue				
Revenue from external customers	10,882	177	–	11,059
Reportable segment profit/(loss)	1,558	(12,902)	(1,687)	(13,031)
Depreciation and amortization	56	8,797	139	8,992

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	Notes	Unaudited Six months ended 31 December 2011 HK$'000	2010 HK$'000
Turnover			
Continuing operations:			
Reportable segments' revenues		27,058	11,059
Elimination of inter-segment revenue		–	–
		27,058	11,059
Discontinued operations:			
Reportable segments' revenues		–	–
Elimination of inter-segment revenue		–	–
	6	–	–
		27,058	11,059

	Notes	Unaudited Six months ended 31 December 2011 HK$'000	2010 HK$'000
Loss before income tax			
Continuing operations:			
Reportable segment loss		(9,936)	(13,031)
Share of profits less losses of associates		(5)	(2)
Other revenue and other net income		4,205	1,454
Finance costs		(1,103)	(4,945)
Unallocated head office and corporate expenses		(14,553)	(11,198)
Consolidated loss before income tax		(21,392)	(27,722)
Discontinued operations:			
Reportable segment loss		–	(1,687)
	6	–	(1,687)
		(21,392)	(29,409)

	Unaudited 31 December 2011 HK$'000	2010 HK$'000
Total assets		
Reportable segment assets	119,383	180,014
Elimination of inter-segment receivables	–	–
	119,383	180,014
Interest in associates (accounted for by the equity method)	1,785	1,790
Unallocated		
– Available-for-sale investments	78,000	–
– Promissory notes receivable	–	37,777
– Others	97,581	33,772
Consolidated total assets	296,749	253,353

	Unaudited 31 December 2011 HK$'000	2010 HK$'000
Total liabilities		
Reportable segment liabilities	35,845	69,130
Elimination of inter-segment payables	–	–
	35,845	69,130
Unallocated		
– Deferred taxation	12,781	1,403
– Convertible notes	–	92,067
– Others	11,198	2,692
	59,824	165,292

(c) Geographic information

As all segments of the Group are operating in the PRC, including Hong Kong, no geographic information has further been disclosed.

9. Property, plant and equipment

	Unaudited
	2011
	HK$'000
Net book value as at 1 July	6,545
Additions	414
Depreciation	(3,233)
Net book value as at 31 December	3,726

10. Intangible assets

	Unaudited
	2011
	HK$'000
Net book value as at 1 July	59,108
Amortisation	(7,986)
Net book value as at 31 December	51,122

11. Goodwill

	Unaudited
	2011
	HK$'000
Net book value as at 1 July	48,979
Written-off during the period	–
Net book value as at 31 December	48,979

12. Available-for-sale investments

	Unaudited 31 December 2011 *HK$'000*	Audited 30 June 2011 *HK$'000*
Unlisted investments at cost	78,000	–

The Group hold 19% registered capital of China New Media (HK) Company Limited (the "China New Media"). China New Media is engage in outdoor advertising in Hong Kong, specializing in advertising spaces in lifts and outer walls of buildings.

13. Interest in associates

	Unaudited 31 December 2011 *HK$'000*	Audited 30 June 2011 *HK$'000*
Share of net assets	1,785	1,790

14. Trading securities

	Unaudited 31 December 2011 *HK$'000*	Audited 30 June 2011 *HK$'000*
Listed securities:		
– Equity securities listed in Hong Kong	6,138	12,731

Fair values are determined with reference to quoted market bid price.

15. Inventories

	Unaudited 31 December 2011 *HK$'000*	Audited 30 June 2011 *HK$'000*
Finished goods	109	–
Work in progress	501	–
Raw materials	251	–
	861	–

16. Accounts receivable

	Unaudited 31 December 2011 *HK$'000*	Audited 30 June 2011 *HK$'000*
Trade debtors	2,687	3,667
Less: allowance for doubtful debts	–	–
	2,687	3,667
Receivable from associates	156	146
	2,843	3,813

The ageing analysis of trade debtors is as follows:

	Unaudited 31 December 2011 *HK$'000*	Audited 30 June 2011 *HK$'000*
Current	1,888	2,710
Less than 1 months past due	431	903
1 to 3 months past due	112	–
Over 3 months past due	256	54
	2,687	3,667

17. Promissory notes receivable

	Unaudited 31 December 2011 *HK$'000*	Audited 30 June 2011 *HK$'000*
At the beginning of period/year	38,700	38,573
Repayment	(38,700)	(2,150)
Interest credited	–	2,277
At the end of period/year	–	38,700

18. Trade payables, accrued expenses and other payables

	Unaudited 2011 *HK$'000*	Audited 2011 *HK$'000*
Trade payables	2,017	1,054
Accrued expenses and other payables	27,963	21,031
Receipts in advance	4,446	718
	34,426	22,803

	Unaudited 2011 *HK$'000*	Audited 2011 *HK$'000*
Less than 1 month	1,565	122
1 to 3 months	452	26
Over 3 months	–	906
	2,017	1,054

19. Convertible notes

	Unaudited 2011 HK$'000
Liability component as at the 1 July 2010	66,752
Issue of convertible notes	20,373
Redemption	(90,512)
Interest charged	7,628
Liability component as at the 30 June 2011	4,241
Issue of convertible note	27,492
Redemption	(32,812)
Interest charged	1,079
Liability component as at the 31 December 2011	–

20. Share capital

	Unaudited 31 December 2011 HK$'000	Audited 30 June 2011 HK$'000
Authorised:		
300,000,000,000 shares of HK$0.001 each	300,000	300,000
Issued and fully paid:		
95,062,123 share of HK$0.001 each	95	95

21. Commitments

i) Operating lease commitments

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

	Unaudited 31 December 2011 *HK$'000*	Audited 30 June 2011 *HK$'000*
Within 1 year	366	379
Over 1 year but within 5 years	263	95
	629	474

ii) Capital commitments

	Unaudited 31 December 2011 *HK$'000*	Audited 30 June 2011 *HK$'000*
Contracted but not provided for:		
Investment on joint venture	19,566	18,333

22. 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.

E. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading prospects of the Group since 30 June 2011, being the date to which the latest published audited financial statements of the Group were made up.

F. INDEBTEDNESS

Borrowings

As at the close of business on 29 February 2012, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had unsecured borrowing of approximately HK$297,672,000. The unsecured borrowings included convertible notes and other borrowings of approximately HK$74,617,000 and HK$223,055,000 respectively.

Securities and guarantees

As at the close of business on 29 February 2012, the Enlarged Group did not pledge any assets and provide any corporate guarantees to banks.

Commitments

At the close of business on 29 February 2012, the Enlarged Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the rented premises which were falling due as follows:

	HK$'000
Within one year	2,314
In the second to fifth years, inclusive	1,700
	4,014

At the close of business on 29 February 2012, the Enlarged Group had commitments for future minimum lease payments under non-cancellable advertising media leases which were falling due as follows:

	HK$'000
Within one year	77,694
In the second to fifth years, inclusive	18,825
	96,519

Capital commitments outstanding at 29 February 2012 not provided for in the financial statement of the Enlarged Group were falling due as follows:

	HK$'000
Investment in joint venture	19,554
	19,554

Contingent liabilities

Also, the Enlarged Group had certain contingent liabilities, the details of which are set out in the section headed "LITIGATION" in Appendix VII and Note 37 of the Financial Information of Redgate Ventures Group in Appendix II to this circular.

At the close of business on 29 February 2012, the directors of Redgate Ventures Group estimated the potential maximum fines and confiscation of income amounting to approximately HK$29,146,000.

Disclaimer

Save as aforesaid and apart from intra-group liabilities at the close of business on 29 February 2012, 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 29 February 2012 and up to the Latest Practicable Date.

G. WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Enlarged Group, including the internally generated funds and the net proceeds from the Placing which will be used to finance the Acquisition, the Enlarged Group will have sufficient working capital for its present requirements, that is, for the next twelve months from the date of this circular.

(A) The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.

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24 April 2012

The Directors
Inno-Tech Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Redgate Ventures Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2009, 2010 and 2011 (the "Relevant Periods") prepared on the basis set out in Note 2 of Section C below, for inclusion in the circular of Inno-Tech Holdings Limited ("Inno-Tech") dated 24 April 2012 (the "Circular") in connection with its proposed acquisition of 100% equity interest in the Company (the "Acquisition").

The Company was incorporated in the British Virgin Islands (the "BVI") as a limited liability company on 14 October 2010. Pursuant to a corporate reorganisation (the "Reorganisation") as further explained in Note 1 of Section C below, which was completed on 31 December 2010, the Company became the holding company of the companies now comprising the Group. Details of the Company's interests in its subsidiaries are set out in Note 1 of Section C below.

The Group is principally engaged in the provision of outdoor advertising displays and media advertisement agency services and advertising production and design services in the People's Republic of China (the "PRC", which excludes for the purpose of this report, the Hong Kong Special Administrative Region of the PRC).

The Company and its subsidiaries have adopted 31 December as their financial year end date, except for a subsidiary, Pacific Asia Mode Cube Ltd., which has adopted 31 March as its financial year end date. As at the date of this report, no audited financial statements have been prepared for the Company and its subsidiary incorporated in the BVI since their respective dates of incorporation as there is no statutory requirement for them to prepare audited financial statements under the relevant rules and regulations in their jurisdiction of incorporation. The statutory accounts or management accounts of the Group's subsidiaries incorporated or established in Hong Kong and the PRC respectively were prepared in accordance with the relevant accounting principles applicable to these companies in their respective jurisdictions and audited by respective certified public accountants, where appropriate, as detailed in Note 1 of Section C below.

BASIS OF PREPARATION

For the purpose of this report, the directors of the Company have prepared the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the Relevant Periods, the consolidated statements of financial position of the Group as at 31 December 2009, 2010 and 2011, and the statements of financial position of the Company as at 31 December 2010 and 2011, together with the notes thereto (collectively the "Underlying Financial Statements"), in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Listing Rules"). No adjustments were made to the Financial Information in preparing this report. The Financial Information set out in this report has been prepared from the Underlying Financial Statements.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The directors of Inno-Tech are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion on the Financial Information for the Relevant Periods and to report our opinion to you.

PROCEDURES PERFORMED IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements for each of the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and have examined the Financial Information of the Group, and carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION FOR THE RELEVANT PERIODS

In our opinion, the Financial Information for the Relevant Periods prepared on the basis set out in Note 2 of Section C below gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2009, 2010 and 2011 and of the Company as at 31 December 2010 and 2011, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 of Section C below in respect of the appropriateness of the going concern basis used in the preparation of the Financial Information, which indicates that the Group had net liabilities of approximately HK$50,410,000 as at 31 December 2009 and net current liabilities of approximately HK$96,276,000, HK$171,397,000 and HK$56,767,000 as at 31 December 2009, 2010 and 2011 respectively. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

B. FINANCIAL INFORMATION

1. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
		2009	**2010**	**2011**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*6*	185,070	245,072	277,797
Cost of services provided		(121,540)	(181,821)	(264,644)
Gross profit		63,530	63,251	13,153
Other income	*7*	1,118	1,867	4,853
Selling and distribution costs		(963)	(1,193)	(5,933)
Administrative expenses		(13,790)	(54,290)	(8,750)
Finance costs	*8*	(29,561)	(19,827)	(13,199)
Fair value change in contingent consideration payable	*26*	(34,425)	87,831	–
Impairment loss on available-for-sale investments	*20*	(8,183)	(1,008)	(422)
(Loss)/profit before income tax expense	*9*	(22,274)	76,631	(10,298)
Income tax expense	*12*	(13,830)	(14,410)	(676)
(Loss)/profit for the year		(36,104)	62,221	(10,974)
Other comprehensive income				
Exchange differences on translating foreign operations		91	(213)	326
Total comprehensive income for the year		(36,013)	62,008	(10,648)
(Loss)/profit for the year attributable to:				
– Owners of the Company	*13*	(43,267)	72,134	(13,729)
– Non-controlling interests		7,163	(9,913)	2,755
		(36,104)	62,221	(10,974)

		Year ended 31 December		
		2009	2010	2011
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Total comprehensive income for the year attributable to:				
– Owners of the Company		(43,197)	71,043	(14,184)
– Non-controlling interests		7,184	(9,035)	3,536
		(36,013)	62,008	(10,648)
(Loss)/earnings per share	*14*			
– Basic		(4.3267)	7.2134	(0.0028)
– Diluted		(4.3267)	7.2134	(0.0028)

2. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2009	2010	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*16*	751	506	388
Intangible assets	*17*	14,197	9,830	6,472
Goodwill	*18*	165,854	172,129	178,122
Available-for-sale investments	*20*	1,857	892	497
Prepaid advertising placement service costs	*22*	2,333	1,813	–
Deferred tax assets	*29*	273	283	293
Total non-current assets		185,265	185,453	185,772
Current assets				
Trade and bill receivables	*21*	71,018	63,673	67,806
Prepaid advertising placement service costs	*22*	64,477	93,878	30,737
Held-to-maturity investment		–	–	1,222
Deposits, prepayments and other receivables		4,493	4,886	19,933
Amount due from ultimate holding company	*33(a)*	140	–	1,759
Amount due from immediate holding company	*33(a)*	164	–	–
Amounts due from fellow subsidiaries	*33(a)*	33,667	–	–
Amounts due from related parties	*33(a)*	–	54,221	104,078
Restricted bank balance	*23*	6,778	–	–
Cash and cash equivalents	*23*	50,648	36,807	36,226
Total current assets		231,385	253,465	261,761
Total assets		416,650	438,918	447,533

	Notes	As at 31 December 2009 HK$'000	2010 HK$'000	2011 HK$'000
Current liabilities				
Trade and bill payables, advance payments from customers, accruals and other payables	*24*	39,478	57,758	49,255
Amount due to ultimate holding company	*33(a)*	118,689	–	–
Amount due to immediate holding company	*33(a)*	83,387	–	–
Amounts due to fellow subsidiaries	*33(a)*	3,192	–	–
Amounts due to related parties	*33(a)*	4,751	290,733	175,159
Acquisition consideration payables	*26*	32,243	12,672	13,652
Profit distributable to non-controlling owners of acquired subsidiary	*25*	9,510	9,869	10,213
Tax payables		25,604	38,482	38,785
Bank loan, secured	*27*	10,807	15,348	–
Convertible bonds	*28*	–	–	31,464
Total current liabilities		327,661	424,862	318,528
Net current liabilities		(96,276)	(171,397)	(56,767)
Total assets less current liabilities		88,989	14,056	129,005
Non-current liabilities				
Convertible bonds	*28*	–	–	43,241
Deferred tax liabilities	*29*	3,549	2,458	1,618
Amount due to ultimate holding company	*33(a)*	135,850	–	–
Total non-current liabilities		139,399	2,458	44,859
Total liabilities		467,060	427,320	363,387
Net (liabilities)/assets		(50,410)	11,598	84,146
Equity				
Share capital	*30(a)*	1	1	780
Reserves	*30(b)*	(80,719)	(9,676)	58,557
Equity attributable to owners of the Company		(80,718)	(9,675)	59,337
Non-controlling interests		30,308	21,273	24,809
Total (net deficiency)/equity		(50,410)	11,598	84,146

3. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December	
		2010	2011
	Notes	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary	*19*	–	–
Available-for-sale investment	*20*	–	2
Total non-current assets		–	2
Current assets			
Prepayments		–	10
Amount due from ultimate holding company	*33(a)*	1	1,759
Amount due from a subsidiary	*19*	–	–
Amount due from a related party	*33(a)*	–	1,219
Total current assets		1	2,988
Total assets		1	2,990
Current liabilities			
Other payables		116	1,624
Convertible bonds	*28*	–	31,464
Amounts due to related parties	*33(a)*	–	42,874
Total current liabilities		116	75,962
Net current liabilities		(115)	(72,974)
Total assets less current liabilities		(115)	(72,972)
Non-current liabilities			
Convertible bonds	*28*	–	43,241
Total liabilities		116	119,203
Net liabilities		(115)	(116,213)
Equity			
Share capital	*30(a)*	1	780
Reserves	*30(b)*	(116)	(116,993)
Total net deficiency		(115)	(116,213)

4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Merger reserve	Additional capital contribution	Convertible bonds equity reserve	Foreign exchange reserve	Statutory surplus reserve	Accumulated losses	Equity attributable to owners of the Company	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note (i) and 30(a))	*(Note (i))*	*(Note (ii))*	*(Note (iii))*		*(Note (iv))*				
At 1 January 2009	1	(1)	–	–	447	795	(38,763)	(37,521)	22,669	(14,852)
Loss for the year	–	–	–	–	–	–	(43,267)	(43,267)	7,163	(36,104)
Other comprehensive income for the year	–	–	–	–	70	–	–	70	21	91
Total comprehensive income for the year	–	–	–	–	70	–	(43,267)	(43,197)	7,184	(36,013)
Transfer between reserves	–	–	–	–	–	1,342	(1,342)	–	–	–
Capital contribution from a non-controlling owner of a subsidiary	–	–	–	–	–	–	–	–	455	455
At 31 December 2009 and 1 January 2010	1	(1)	–	–	517	2,137	(83,372)	(80,718)	30,308	(50,410)
Profit for the year	–	–	–	–	–	–	72,134	72,134	(9,913)	62,221
Other comprehensive income for the year	–	–	–	–	(1,091)	–	–	(1,091)	878	(213)
Total comprehensive income for the year	–	–	–	–	(1,091)	–	72,134	71,043	(9,035)	62,008
Transfer between reserves	–	–	–	–	–	18	(18)	–	–	–
At 31 December 2010 and 1 January 2011	1	(1)	–	–	(574)	2,155	(11,256)	(9,675)	21,273	11,598
Loss for the year	–	–	–	–	–	–	(13,729)	(13,729)	2,755	(10,974)
Other comprehensive income for the year	–	–	–	–	(455)	–	–	(455)	781	326
Total comprehensive income for the year	–	–	–	–	(455)	–	(13,729)	(14,184)	3,536	(10,648)
Additional capital contribution	–	–	80,800	–	–	–	–	80,800	–	80,800
Issuance of ordinary shares	779	–	–	–	–	–	–	779	–	779
Issuance of convertible bonds *(Note 28)*	–	–	–	1,617	–	–	–	1,617	–	1,617
At 31 December 2011	780	(1)	80,800	1,617	(1,029)	2,155	(24,985)	59,337	24,809	84,146

Notes:

(i) The Financial Information of the Group is a continuation of the consolidated results and financial position of the Redgate Group (defined below) (comprising Redgate Global (defined below) and its subsidiaries) and is prepared as if the current group structure as a result of the Reorganisation as mentioned in Note 1 of Section C below had been in existence throughout the Relevant Periods. Accordingly the share capital presented in the report is the share capital of the Company. The difference between the carrying value of the issued capital of Redgate Global (defined below) and the nominal value of the shares issued by the Company in exchange therefor is recognised as merger reserve.

(ii) On 31 December 2011, a related company which has common shareholders of the Company as at the same date has agreed to waive its amount due by the Group in the amount of approximately HK$80,800,000, which was accounted for in the equity as an additional capital contribution to the Group for the year ended 31 December 2011, details of which are set out in Note 33(a)(i).

(iii) This reserve represents the value of the unexercised and outstanding equity component of convertible bonds issued by the Group net of related deferred tax and direct issue costs, where applicable.

(iv) As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the relevant PRC subsidiaries of the Company are required to maintain a statutory surplus reserve which is not distributable. Appropriation to the reserve is made out of profit for the year as per the statutory financial statements of the respective PRC subsidiaries and the amount and allocation basis are determined by the respective boards of directors annually.

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities			
(Loss)/profit before income tax expense	(22,274)	76,631	(10,298)
Adjustments for:			
Interest income	(178)	(189)	(252)
Finance costs	29,561	19,827	13,199
Depreciation of property, plant and equipment	415	305	129
Amortisation of intangible assets	8,876	4,775	3,648
Loss on disposal of property, plant and equipment	–	–	132
Impairment loss/(reversal of impairment loss) on trade and bill receivables	1,072	34,306	(8,090)
Impairment loss on other receivables	–	977	–
Impairment loss on prepaid advertising placement service costs	–	2,529	3,853
Fair value change in contingent consideration payable	34,425	(87,831)	–
Impairment loss on available-for-sale investments	8,183	1,008	422
Operating profit before working capital changes	60,080	52,338	2,743
(Increase)/decrease in trade and bill receivables	(46,059)	(27,932)	2,825
(Increase)/decrease in prepaid advertising placement service costs	(23,803)	(31,410)	61,101
Increase in deposits, prepayments and other receivables	(221)	(1,397)	(1,395)
Increase/(decrease) in trade and bill payables, advance payments from customers, accruals and other payables	14,128	18,280	(10,128)
Effect of foreign exchange rates changes	300	546	250
Cash generated from operations	4,425	10,425	55,396
PRC Enterprise Income Tax paid	(6,729)	(4,007)	(2,610)
Net cash (used in)/generated from operating activities	(2,304)	6,418	52,786

	Year ended 31 December		
	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from investing activities			
Purchases of property, plant and equipment	(532)	(39)	(74)
Purchase of held-to-maturity investment	–	–	(1,222)
Purchase of available-for-sale investment	–	–	(2)
(Increase)/decrease in restricted bank balance	(6,778)	6,778	–
Increase in amount due from ultimate holding company	–	–	(1,879)
Increase in amount due from immediate holding company	(50)	(86)	–
(Increase)/decrease in amounts due from fellow subsidiaries	(4,519)	1,832	–
Decrease/(increase) in amounts due from related parties	5,781	(21,990)	(49,619)
Deposit paid for acquisition consideration	–	–	(13,457)
Payment of acquisition consideration payables	(5,682)	(22,159)	–
Interest received	178	189	252
Net cash used in investing activities	(11,602)	(35,475)	(66,001)
Cash flows from financing activities			
Increase in amount due to ultimate holding company	26,935	4,072	6,748
Increase in amount due to immediate holding company	3,594	11,446	–
Increase/(decrease) in amounts due to fellow subsidiaries	2,227	(1,208)	–
(Decrease)/increase in amounts due to related parties	(5,336)	(4,397)	2,676
Proceeds from new borrowings	10,807	15,348	–
Proceeds from issue of ordinary shares	–	–	779
Proceeds from issue of convertible bonds	–	–	18,609
Repayment of borrowings	(18,190)	(10,807)	(15,348)
Capital contribution from a non-controlling owner of a subsidiary	455	–	–
Interest paid	(955)	(350)	(1,998)
Net cash generated from financing activities	19,537	14,104	11,466

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Net increase/(decrease) in cash and cash equivalents	5,631	(14,953)	(1,749)
Cash and cash equivalents at beginning of year	44,986	50,648	36,807
Effect of exchange rate changes on cash and cash equivalents	31	1,112	1,168
Cash and cash equivalents at end of year	50,648	36,807	36,226
Analysis of cash and cash equivalents balances			
Cash and cash equivalents	50,648	36,807	36,226

C. NOTES TO THE FINANCIAL INFORMATION

1. Corporate information and the reorganisation

The Company was incorporated in the BVI as a limited liability company on 14 October 2010. Its registered office and principal place of business are located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI and Room 2703, The Centrium, 60 Wyndham Street, Central, Hong Kong, respectively. The Company is an investment holding company. The Group, comprising the Company and its subsidiaries, is engaged in the provision of outdoor advertising displays and media advertisement agency services and advertising production and design services in the PRC.

Pursuant to the Reorganisation becoming effective on 31 December 2010 details of which are further detailed below, the Company became the immediate holding company of Redgate Global Limited (formerly known as Redgate Radio Limited) ("Redgate Global") and its subsidiaries (collectively the "Redgate Group").

Prior to the Reorganisation, Redgate Global is a wholly-owned subsidiary of Redgate Media (HK) Limited ("Redgate HK") and Redgate HK is a wholly-owned subsidiary of Redgate Media Group ("Redgate Cayman"). Redgate Cayman was considered as ultimate holding company of the Redgate Group as at 31 December 2009.

The Reorganisation comprised the following steps:

(i) The Company's immediate holding company, Media Chief Limited ("Media Chief"), issued all of its ordinary shares (the "Consideration Shares") to Redgate HK, in exchange for the entire issued share capital of Redgate Global to be transferred from Redgate HK to the Company;

(ii) The Consideration Shares received by Redgate HK were then entirely distributed to some individuals, companies and Redgate Cayman (the "Lenders"), for the purpose of settling the loans due by Redgate HK to the Lenders; and

(iii) The Consideration Shares received by Redgate Cayman were then entirely distributed to its shareholders and some of its employees who are entitled to its employee share option scheme.

After the Reorganisation, neither Redgate HK nor Redgate Cayman have any equity interest in Media Chief, the Redgate Group or the Group. Most of the shareholders of Media Chief are also the shareholders of Redgate Cayman. After the Reorganisation, Redgate Cayman became a related party of the Group as at 31 December 2010 and 2011.

In the opinion of the directors of the Company, after the Reorganisation (i.e. as at 31 December 2010 and 2011), the ultimate holding company of the Company and the Redgate Group is Media Chief, which is a private limited liability company incorporated in the BVI.

As at the date of this report, the Company has direct or indirect interest in the following subsidiaries, all of which are private companies with limited liability. The particulars of the subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Issued share capital/ paid-up registered capital	Attributable effective equity interest held by the Company (5) Direct	Indirect	Principal activities
Redgate Global (1)	BVI 21 September 2005	Ordinary share US$1	100%	–	Investment holding
Pacific Asia Mode Cube Ltd. (2) 太平洋傳媒有限公司	Hong Kong 30 September 2002	Ordinary share HK$200,000	–	100%	Investment holding
Redgate Interactive Advertising (Beijing) Co., Ltd.* ("Redgate Interactive") (3) 展鵬互動廣告(北京)有限責任公司	PRC 21 December 2006	Registered capital US$11,000,000 (4)	–	100%	Investment holding
Shanghai Dianguang Media Broadcasting Company Ltd.* ("Shanghai Dianguang") (3) 上海電廣媒體傳播有限公司	PRC 27 November 2001	Registered capital Renminbi ("RMB") 5,000,000	–	100%	Provision of advertising placement agency services in television channel
Beijing Yanhuang Shengshi Advertising Co., Ltd.* ("Beijing Yanhuang") (3) 北京炎黃盛世廣告有限公司	PRC 19 April 2000	Registered capital RMB5,000,000	–	51%	Provision of advertising placement agency services in outdoor displays and media advertisement
Beijing Langrui Advertising Co. Ltd.* ("Beijing Langrui") (3) 北京朗瑞廣告傳媒有限公司	PRC 16 March 2006	Registered capital RMB500,000	–	51%	Provision of advertising placement agency services in outdoor displays and media advertisement
Shanghai Langli Advertising Co. Ltd.* ("Shanghai Langli") (3) 上海朗立廣告傳媒有限公司	PRC 8 March 2005	Registered capital RMB500,000	–	51%	Provision of advertising placement agency services in outdoor displays and media advertisement
Beijing Shenzhou Advertising Co. Ltd.* ("Beijing Shenzhou") (3) 北京神州盛世廣告有限公司	PRC 1 March 2001	Registered capital RMB500,000	–	51%	Provision of advertising placement agency services in outdoor displays and media advertisement
Hangzhou Yibao Advertising Co. Ltd.* ("Hangzhou Yibao") (3) 杭州藝寶廣告有限公司	PRC 30 June 2008	Registered capital RMB1,000,000	–	41%	Provision of advertising placement agency services in outdoor displays and media advertisement
Hebei Langshen Advertising Co. Ltd.* ("Hebei Langshen") (3) 河北朗盛廣告有限公司	PRC 3 December 2008	Registered capital RMB1,000,000	–	36%	Provision of advertising placement agency services in outdoor displays and media advertisement
Wuhan Langxin Advertising Co. Ltd.* ("Wuhan Langxin") (3) 武漢朗信廣告有限公司	PRC 16 January 2009	Registered capital RMB2,000,000	–	41%	Provision of advertising placement agency services in outdoor displays and media advertisement

* *The English names are for identification purpose only.*

Notes:

(1) No statutory audited financial statements have been prepared for this company since its date of incorporation as it is not subject to any statutory audit requirements in its jurisdiction of incorporation.

(2) The statutory financial statements of this company for the years ended 31 March 2009, 2010 and 2011 were prepared under HKFRSs and audited by Ray W.H. Chan & Co, certified public accountants registered in Hong Kong.

(3) No statutory financial statements have been prepared for these companies for the years ended 31 December 2009, 2010 and 2011.

(4) As at 31 December 2009, 2010 and 2011, Redgate Interactive's paid-up registered capital amounted to US$9,500,000, US$11,000,000 and US$11,000,000 respectively.

(5) The percentage of issued capital/paid-up registered capital of the above subsidiaries held directly or indirectly by the Company remains unchanged during the Relevant Periods or since the respective date of incorporation/establishment or acquisition of the relevant equity interest by the Group.

2. Basis of presentation and preparation

Pursuant to the Reorganisation as detailed in Note 1, the consolidated statements of financial position of the Group have been prepared using merger accounting principles to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at the end of each of the Relevant Periods using the existing book values. The consolidated statements of comprehensive income, the consolidated statements of cash flows and consolidated statements of changes in equity include the results of operations of the companies now comprising the Group for each of the Relevant Periods as if the current group structure had been in existence throughout the Relevant Periods, or since the respective date of incorporation/establishment or acquisition of the relevant companies which were incorporated/established or acquired at a date later than 1 January 2009 (the earliest date presented in this Financial Information).

The Financial Information of the Group is a continuation of the consolidated results and financial position of the Redgate Group (comprising Redgate Global and its subsidiaries). No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost for the Reorganisation.

The Financial Information set out in this report has been prepared in accordance with HKFRSs (including all applicable Hong Kong Financial Reporting Standard, Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Financial Information includes applicable disclosures required by the Listing Rules. The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs throughout the Relevant Periods.

In addition, in respect of the Group's business combinations during the year ended 31 December 2008, the Group has early adopted HKFRS 3 (Revised) "Business Combinations" which is effective for annual periods beginning on or after 1 July 2009. The early adoption of this HKFRS impacts the Group's initial recognition and subsequent measurement of contingent considerations during the Relevant Periods, which have been detailed in Note 4(a) of Section C.

The Financial Information has been prepared under the historical cost basis, except for the contingent consideration payable *(see Note 26)* included in the Group's amount due to Redgate Cayman (i.e. being classified as amount due to ultimate holding company as at 31 December 2009, and amount due to a related party as at 31 December 2010 and 2011) which is carried at fair value.

The Group recorded net liabilities of approximately HK$50,410,000 as at 31 December 2009 and net current liabilities of approximately HK$96,276,000, HK$171,397,000 and HK$56,767,000 as at 31 December 2009, 2010 and 2011 respectively. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. Redgate Cayman and its subsidiaries (excluding the entities within the Group, where appropriate) and a related party have agreed that they would not demand repayment of their entire amounts due by the Group including the amounts of HK$205,268,000, HK$290,379,000 and HK$172,716,000 which were included under current liabilities of the Group as at 31 December 2009, 2010 and 2011 respectively unless and until the Group is able to meet its financial obligation as they fall due. The directors of the Company also took into accounts of (i) the advance payments from customers of approximately HK$14,066,000, HK$30,776,000 and HK$7,818,000 as at 31 December 2009, 2010 and 2011 respectively which were included in the current liabilities but no cash outflow was expected therefrom; (ii) a bondholder of the Company's convertible bonds has agreed that it would not demand repayment of its entire amounts due by the Group including the amount of HK$31,464,000 which was included under current liabilities of the Group as at 31 December 2011 unless and until the Group is able to meet its financial obligation as they fall due; and (iii) the Group's negotiation with non-controlling owners of the acquired subsidiaries to defer the Group's amounts due thereto, mainly acquisition consideration payables. Accordingly, the Financial Information has been prepared on a going concern basis.

The directors of the Company considered that the functional currency of the Company is United States Dollars ("US$"). The Financial Information is presented in Hong Kong dollars ("HK$") as the directors of the Company considered it is more beneficial to the users of the Financial Information. All values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

3. New/revised HKFRSs that have been issued but not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's Financial Information, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 32	Presentation of Offsetting Financial Assets and Financial Liabilities[5]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]
HKAS 19 (2011)	Employee Benefits[4]

[1] *Effective for annual periods beginning on or after 1 July 2011*

[2] *Effective for annual periods beginning on or after 1 January 2012*

[3] *Effective for annual periods beginning on or after 1 July 2012*

[4] *Effective for annual periods beginning on or after 1 January 2013*

[5] *Effective for annual periods beginning on or after 1 January 2014*

[6] *Effective for annual periods beginning on or after 1 January 2015*

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's Financial Information.

4. Significant accounting policies

(a) Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

All inter-company transactions, balances, income, expenses and unrealised gains on transaction between group entities are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

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.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquireeea identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity. Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement.

Any contingent consideration will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as change to other comprehensive income.

Goodwill arising on acquisition is recognised in accordance with the accounting policy for goodwill in below.

(b) Subsidiaries

Subsidiaries are entities over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's statements of financial position, investment in a subsidiary is stated at cost less impairment loss, if any. The results of subsidiary are accounted for by the Company on the basis of dividend received and receivable.

(c) Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interest over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration transferred, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial period. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold improvements	–	Over the remaining terms of the leases but not exceeding 5 years
Furniture, fixtures and office equipment	–	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the lessors are accounted for as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease periods.

(f) Intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Customer relationship	–	2 to 6 years
Non-competition agreements	–	2 to 5 years
Advertising agency agreement	–	0.5 year
Backlog orders	–	1.3 years

(g) Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell 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 the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(h) Financial instruments

(i) Financial assets

The Group classified its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

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, and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Held-to-maturity investment

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. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income.

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, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtors;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of debtor's financial difficulty;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

For loans and receivables and held-to-maturity investment

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

For available-for-sale investments that are carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

(iii) Financial liabilities

Financial liabilities at amortised cost are initially recognised at fair value, net of directly attributable costs incurred, and are subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible bonds

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry dates, the balance stated in convertible bonds equity reserve will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(j) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

(ii) Deferred tax

Deferred tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(k) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (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 end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of each reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve. Exchange differences recognised in profit or loss of group entities' separate or individual financial statements on the translation of non-current monetary items forming part of the Group's net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as the foreign exchange reserve.

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 profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

(l) Employee benefits

Full-time employees of the Group in the PRC are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Group is required to accrue for these benefits based on certain percentages of the employees' salaries. The Group is required to make contributions to the plans out of the amounts accrued and has no further payment obligations once the accruals have been paid.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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.

(n) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(o) Government subsidies

Government subsidies are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Subsidies that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services rendered in the normal course of business, net of discounts and allowance.

(i) Revenue from the provision of outdoor advertising displays and media advertisements agency services are recognised over the term of the relevant contracts and to the extent of services rendered.

(ii) Government subsidies are recognised when the right to receive such subsidies is established and the receipt thereof is probable.

(iii) Interest income is recognised on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(iv) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease term.

5. Critical accounting judgments and key sources of estimates uncertainty

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

(a) Impairment of intangible assets and goodwill

Impairment loss for intangible assets and goodwill are recognised for the amount by which the carrying amount exceeds their recoverable amount. The recoverable amount of the 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.

Value-in-use

The value-in-use calculations primarily use cash flow projections based on five-year financial budgets approved by management. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the expected growth in revenues, timing of future capital expenditures, growth rates and selection of discount rates to reflect the risks involved.

Management prepares the financial budgets reflecting actual and prior years' performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

Fair value less costs to sell

Management estimates the amount obtainable from the actual/proposed sale of the assets or the cash-generating unit in an arm's length transaction between knowledgeable willing parties, less the cost of disposal. Where the estimated fair value less costs to sell is less than expected, impairment on intangible assets and goodwill may be required.

(b) Impairment loss on trade and bill receivables and prepaid advertising placement service costs

The Group's management determines the provision for impairment loss of trade and bill receivables and prepaid advertising placement service costs based on an assessment of the recoverability of the receivables and prepayments. This assessment is based on the credit history of its customers and subsequent sales conditions and the current market condition. Management reassesses the provision at the end of each reporting period.

(c) Impairment of available-for-sale investments

Management reviews the recoverability of the Group's available-for-sale investments with reference to current market environment whenever events or changes in circumstances indicate that the carrying amounts of the assets exceeds their corresponding recoverable amounts. Appropriate impairment for estimated irrecoverable amounts is recognised in profit or loss when there is objective evidence that the asset is impaired.

In determining whether impairment on available-for-sale investments is required, the Group takes into consideration the current market environment and the estimates of future cash flows which the Group expects to receive. Impairment is recognised based on the present value of estimated future cash flows. If the market environment/circumstances changes significantly, resulting in a decrease in the recoverable amount of these available-for-sale investments, additional impairment loss may be required.

(d) Current tax and deferred tax

The Group is subject to enterprise income tax in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and current tax charges in the period in which such estimates have been changed.

(e) Estimate of the contingent consideration payable based on post-acquisition performance of the subsidiary

In connection with the acquisition of a subsidiary, the contingent consideration payable is based on post-acquisition performance of the subsidiary and other marketing conditions, details of which are set out in Note 32(b).

6. Turnover and segment information

Turnover, which is also revenue, represents the value of services rendered to customers after any allowance and discounts and recognised during the Relevant Periods.

(a) Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision makers ("CODM") that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Outdoor advertising displays

- Television advertisements

Segment assets and liabilities are not regularly reported to the CODM and therefore information of reportable segment assets and liabilities are not presented in the Financial Information.

	Outdoor advertising displays		
	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Reportable segment revenue	103,508	125,104	156,251
Reportable segment profit/(loss)	20,937	(18,540)	6,275
Interest income	122	162	135
Depreciation and amortisation	8,487	4,349	3,165
Impairment loss/(reversal of impairment loss) on trade and bill receivables	1,072	21,195	(7,476)
Impairment loss on other receivables	–	977	–
Impairment loss on prepaid advertising placement service costs	–	2,529	3,853
Income tax expense	5,773	1,580	813

	Television advertisements		
	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Reportable segment revenue	81,562	118,449	118,271
Reportable segment profit/(loss)	31,963	37,850	(644)
Interest income	48	23	113
Interest expense	955	350	1,998
Depreciation and amortisation	593	598	610
Impairment loss/(reversal of impairment loss) on trade and bill receivables	–	13,111	(614)
Income tax expense/(credit)	8,057	12,830	(137)

	Total		
	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Reportable segment revenue	185,070	243,553	274,522
Reportable segment profit	52,900	19,310	5,631
Interest income	170	185	248
Interest expense	955	350	1,998
Depreciation and amortisation	9,080	4,947	3,775
Impairment loss/(reversal of impairment loss) on trade and bill receivables	1,072	34,306	(8,090)
Impairment loss on other receivables	–	977	–
Impairment loss on prepaid advertising placement service costs	–	2,529	3,853
Income tax expense	13,830	14,410	676

(b) Reconciliation of reportable segment revenues and profit or loss

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Reportable segment revenue	185,070	243,553	274,522
Newspaper and radio advertisement revenue	–	1,519	–
Other agency services	–	–	3,275
Consolidated revenue	185,070	245,072	277,797
(Loss)/profit before income tax expense			
Reportable segment profit	52,900	19,310	5,631
Fair value change in contingent consideration payable	(34,425)	87,831	–
Impairment loss on available-for-sale investments	(8,183)	(1,008)	(422)
Unallocated corporate expenses	(3,960)	(10,025)	(4,306)
Unallocated finance costs	(28,606)	(19,477)	(11,201)
Consolidated (loss)/profit before income tax expense	(22,274)	76,631	(10,298)

(c) Geographical information

All of the external revenues of the Group during the Relevant Periods are contributable to customers established in the PRC, the place of domicile of the Group's operating entities. Since the principal non-current assets held by the Group are located in the PRC, no geographical information is presented.

(d) Information about major customers

Revenue from major customers, each of them accounted for 10% or more of the Group's outdoor advertising displays and television advertisements segments, are set out below:

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Customer A	–	33,038	30,235
Customer B	–	–	32,456

7. Other income

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Compensation received	33	–	3,132
Government subsidies	663	1,431	462
Interest income	178	189	252
Rental income (Outgoings: HK$Nil)	244	247	284
Exchange gains, net	–	–	723
	1,118	1,867	4,853

8. Finance costs

	Year ended 31 December		
	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Interest expense on borrowings wholly repayable within five years	955	350	4,863
Imputed interest on contingent consideration payable included in the amount due to ultimate holding company/related party	23,801	17,560	3,621
Interest expense for consideration payable to non-controlling owners of a subsidiary at amortised cost	4,805	1,917	531
Imputed interest on convertible bonds	–	–	4,184
	29,561	19,827	13,199

9. (Loss)/profit before income tax expense

This is arrived at after charging/(crediting):

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Auditors' remuneration *(Note)*	57	19	64
Staff costs, excluding directors' remuneration *(Note 10)*	5,561	10,465	8,922
Exchange losses/(gains), net	1	163	(723)
Depreciation of property, plant and equipment	415	305	129
Amortisation of intangible assets	8,876	4,775	3,648
Loss on disposal of property, plant and equipment	–	–	132
Impairment loss/(reversal of impairment loss) on trade and bill receivables	1,072	34,306	(8,090)
Impairment loss on other receivables	–	977	–
Impairment loss on prepaid advertising placement service costs	–	2,529	3,853

Note: Auditors' remuneration in the amounts of approximately HK$373,000 and HK$186,000 for the years ended 31 December 2009 and 2010 respectively were borne by Redgate Cayman.

10. Staff costs, excluding directors' remuneration

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and bonus	4,506	8,770	7,096
Retirement benefits scheme contributions	748	1,467	1,561
Other staff benefits	307	228	265
	5,561	10,465	8,922

11. Directors' remuneration and five highest paid individuals

Directors' remuneration

During each of the Relevant Periods, no directors received any remuneration in respect of their services to the Company.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the Relevant Periods are not directors of the Company. The emoluments paid or payable to top five individuals during the Relevant Periods are as follows:

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and bonus	1,227	3,529	1,466
Retirement benefits scheme contributions	173	190	380
	1,400	3,719	1,846

The number of non-director, highest paid individuals whose emoluments fell within the following bands:

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
HK$Nil to HK$1,000,000	5	4	5
HK$1,000,001 to HK$1,500,000	–	1	–
	5	5	5

12. Income tax expense

(a) The amount of income tax expense in the consolidated statements of comprehensive income represents:

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Current tax on the PRC Enterprise Income Tax ("EIT")			
– provision for the year	16,203	15,604	1,588
Deferred tax *(Note 29)*			
– current year	(2,373)	(1,194)	(912)
Income tax expense	13,830	14,410	676

(i) No provision has been made for Hong Kong profits tax as the Group has no assessable profits arising in Hong Kong for the Relevant Periods.

(ii) The EIT rate for the Company's subsidiaries in the PRC is 25% for the Relevant Periods.

(b) The income tax expense for each of the Relevant Periods can be reconciled to the (loss)/profit before income tax expense per the consolidated statements of comprehensive income as follows:

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit before income tax expense	(22,274)	76,631	(10,298)
Tax on (loss)/profit before income tax expense calculated at respective tax rates applicable to profits in the respective jurisdictions concerned	(5,562)	19,165	(2,040)
Tax effect of expenses not deductible for tax purpose	18,145	5,503	3,152
Tax effect of deductible temporary differences not recognised	67	9,070	–
Tax effect of income not taxable for tax purpose	–	(21,958)	(708)
Tax effect of tax losses not recognised	1,180	2,630	2,736
Utilisation of tax losses and deductible temporary differences previously not recognised	–	–	(2,464)
Income tax expense	13,830	14,410	676

13. (Loss)/profit attributable to the owners of the Company

(Loss)/profit attributable to owners of the Company for the period/year ended 31 December 2010 and 2011 includes loss of approximately HK$116,000 and HK$6,110,000 which have been dealt with in the financial statements of the Company.

14. (Loss)/earnings per share

The calculation of the basic and diluted (loss)/earnings per share attributable to the owners of the Company are based on the following data:

(Loss)/earnings	**Year ended 31 December**		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/earnings for the purposes of basic (loss)/earnings per share	(43,267)	72,134	(13,729)

Number of shares	**Year ended 31 December**		
	2009	**2010**	**2011**
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share at 31 December *(Note)*	10,000	10,000	4,936,575

Note: On 4 July 2011, the Company's existing 100 issued shares with par value of US$1.00 each were re-designated into 10,000 shares with par value of US$0.01 each. For the purpose of this Financial Information, the denominator used for the calculation of the basic and diluted (loss)/earnings per share represents the re-designated issued share capital of the Company as if these new number of shares had existed throughout each of the Relevant Periods.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the years ended 31 December 2009 and 2010 for the purpose of presenting diluted (loss)/earnings per share as the Group had no potential dilutive ordinary shares issued during these years. For the year ended 31 December 2011, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share for the year. Accordingly, the basic and diluted (loss)/earnings per share for each of the Relevant Periods are equal.

15. Dividend

The directors do not recommend any dividend in respect of any of the Relevant Periods.

16. Property, plant and equipment

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2009	429	386	815
Additions	56	476	532
Exchange realignment	–	1	1
At 31 December 2009 and 1 January 2010	485	863	1,348
Additions	–	39	39
Exchange realignment	18	34	52
At 31 December 2010 and 1 January 2011	503	936	1,439
Additions	–	74	74
Disposal	–	(427)	(427)
Exchange realignment	72	27	99
At 31 December 2011	575	610	1,185
Accumulated depreciation:			
At 1 January 2009	146	36	182
Provided for the year	210	205	415
At 31 December 2009 and 1 January 2010	356	241	597
Provided for the year	130	175	305
Exchange realignment	17	14	31
At 31 December 2010 and 1 January 2011	503	430	933
Provided for the year	–	129	129
Disposal	–	(295)	(295)
Exchange realignment	18	12	30
At 31 December 2011	521	276	797
Net book values:			
At 31 December 2011	54	334	388
At 31 December 2010	–	506	506
At 31 December 2009	129	622	751

17. Intangible assets

	Customer relationship	Non-competition agreements	Advertising agency agreement	Backlog orders	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1 January 2009	16,592	4,129	6,174	4,662	31,557
Exchange realignment	11	3	4	3	21
At 31 December 2009 and 1 January 2010	16,603	4,132	6,178	4,665	31,578
Exchange realignment	628	156	233	176	1,193
At 31 December 2010 and 1 January 2011	17,231	4,288	6,411	4,841	32,771
Exchange realignment	599	147	223	168	1,137
At 31 December 2011	17,830	4,435	6,634	5,009	33,908
Accumulated amortisation:					
At 1 January 2009	896	487	6,174	933	8,490
Charge for the year	3,300	1,848	–	3,728	8,876
Exchange realignment	3	4	4	4	15
At 31 December 2009 and 1 January 2010	4,199	2,339	6,178	4,665	17,381
Charge for the year	3,337	1,438	–	–	4,775
Exchange realignment	250	126	233	176	785
At 31 December 2010 and 1 January 2011	7,786	3,903	6,411	4,841	22,941
Charge for the year	3,496	152	–	–	3,648
Exchange realignment	320	136	223	168	847
At 31 December 2011	11,602	4,191	6,634	5,009	27,436
Net book values:					
At 31 December 2011	6,228	244	–	–	6,472
At 31 December 2010	9,445	385	–	–	9,830
At 31 December 2009	12,404	1,793	–	–	14,197

Notes:

(a) The customer relationship, non-competition agreements, advertising agency agreement and backlog orders were acquired as part of business combinations of equity interests in Beijing Yanhuang and Shanghai Dianguang during the year ended 31 December 2008 and were initially recognised at their respective fair values as at the respective dates of the completion of acquisitions based on the valuations carried out by American Appraisal China Limited, an independent firm of professionally qualified valuers.

Details of each of the identified intangible assets are set out below:

Intangible asset	**Nature**
Customer relationship	The business relationship with customers established by Shanghai Dianguang and Beijing Yanhuang
Non-competition agreements	The undertaking by the former owners of Shanghai Dianguang and the non-controlling owners of Beijing Yanhuang not to compete with the Group in any way within a specified period of time
Advertising agency agreement	The advertising agency agreement entered into by Shanghai Dianguang with a television channel
Backlog orders	The unfulfilled advertising agency service contracts entered into by Beijing Yanhuang and its customers

(b) Amortisation is provided on a straight-line basis over their finite useful lives, which are based on the estimated period in which the economic benefits can be derived from the assets.

18. Goodwill

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
At cost and carrying amount:			
As at beginning of year	165,938	165,854	172,129
Exchange realignment	(84)	6,275	5,993
As at end of year	165,854	172,129	178,122

Goodwill acquired in business combinations is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from those business combinations. The Group identified two CGUs as Beijing Yanhuang (carrying out operations of outdoor advertising displays) and Shanghai Dianguang (carrying out operations of media (mainly television advertisements) and the goodwill was allocated as follows:

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Beijing Yanhuang	41,410	42,977	44,473
Shanghai Dianguang	124,444	129,152	133,649
	165,854	172,129	178,122

The Group tests goodwill for impairment close to the end of each reporting period, or more frequently if there is indication that goodwill might be impaired.

For the years ended 31 December 2009 and 2010, the recoverable amounts of the CGUs are determined from value-in-use calculations based on the most recent financial budgets approved by management for the next five years. The key assumptions for the value-in-use calculations are gross margins, growth rates and discount rates during the forecast period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the respective CGUs. The gross margins and growth rates are based on industry growth forecasts.

Key assumptions used for value-in-use calculations in 2009 and 2010 are:

	Year ended 31 December	
	2009	**2010**
	%	*%*
Gross margin	32 to 46	14 to 27
Growth rate	8 to 26	13 to 17
Discount rate	11 to 13	11 to 12

The gross margin is estimated by the directors based on the economic environment of the PRC advertising market in the main cities of the PRC such as Beijing and Shanghai. The gross margins and growth rates are driven by strong economic growth in the PRC from 2009 onwards.

The recoverable amounts of the goodwill relating to the above CGUs determined by value-in-use calculations suggested that there be no impairment in the value of goodwill during the years ended 31 December 2009 and 2010.

The directors of the Company believe that any reasonably possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amounts of the CGUs (including the attributable goodwill) to exceed the respective recoverable amounts of the respective CGUs.

For the year ended 31 December 2011, the recoverable amounts of the CGUs are determined from fair value less costs to sell using the observable market price. As detailed in Inno-Tech's announcements dated 21 July 2011 and 21 February 2012, on 8 July 2011 and 21 February 2012, the shareholders of the Company and Inno-Tech have entered into a sales and purchase agreement pursuant to which the shareholders of the Company have conditionally agreed to sell, and Inno-Tech has conditionally agreed to purchase, the entire equity interest in the Company. Since Inno-Tech is considered as an independent knowledgeable willing third party, the consideration to be received from Inno-Tech for the Acquisition is regarded as an appropriate indicator of the fair value of the Group's CGUs.

The recoverable amounts of the goodwill attributable to the respective CGUs determined by fair value less costs to sell calculations suggested that there be no impairment in the value of goodwill during the year ended 31 December 2011.

19. Investment in a subsidiary and amount due from a subsidiary

	As at 31 December	
	2010	**2011**
	HK$'000	*HK$'000*
Unlisted shares, at cost	145,794	145,794
Amount due from a subsidiary *(Note (i))*	–	112,384
Less: Impairment *(Note (ii))*	(145,794)	(258,178)
	–	–

Notes:

(i) The amount due from a subsidiary is unsecured, interest-free and repayable on demand.

(ii) For the years ended 31 December 2010 and 2011, the Company evaluated its investment in a subsidiary and amount due from a subsidiary, and provided an aggregate impairment loss of approximately HK$145,794,000 and HK$112,384,000 respectively because their respective recoverable amounts fall below the carrying values by that amount.

20. Available-for-sale investments

The Group

		As at 31 December	
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted, at cost less impairment loss :			
Shanghai FLOG Culture Communication Co., Ltd. *(Note (i))*	–	–	–
Shanghai Hongmen Advertising Co. Ltd. *(Note (ii))*	1,857	892	495
Global Media Productions Limited *(Note (iii))*	–	–	2
	1,857	892	497

Notes:

(i) Shanghai FLOG Culture Communication Co., Ltd. ("FLOG")

During the year ended 31 December 2008, the Group purchased 10.71% equity interests in FLOG at a total consideration of approximately HK$6,191,000. As at 31 December 2008, the carrying value of the Group's investment in FLOG is HK$Nil because the Group considered any recovery of its investment in FLOG to be remote. As at 31 December 2009, 2010 and 2011, the carrying value of FLOG is HK$Nil. The Group has no intention of disposing of this investment.

(ii) Shanghai Hongmen Advertising Co. Ltd. ("Hongmen")

In April 2008, the Group entered into agreements to acquire 18.354% equity interests in Hongmen through capital injection of approximately HK$9,835,000 made to Hongmen.

In December 2009, the Group entered into a purchase agreement that granted the right to the Group to acquire further equity interests of 25% and 15% at considerations of RMB1,000,000 and RMB600,000 respectively from two equity owners of Hongmen upon successful initial public offering of Redgate Cayman or the Group in overseas capital markets. No initial public offering of Redgate Cayman or the Group was successfully implemented up to the date of this report. As the conditions for acquiring the further equity interests in Hongmen have not been met as at end of each of the reporting periods and as of the date of this report, the Group has neither right nor obligation to acquire the additional equity interests in Hongmen and therefore no asset or liability has been recorded as at end of each of the reporting periods.

For the years ended 31 December 2009, 2010 and 2011, the Group evaluated its investment in Hongmen and provided an impairment loss of approximately HK$8,183,000, HK$1,008,000 and HK$422,000 respectively because its recoverable amount falls below the carrying value by that amount. The Group has no intention of disposing of this investment.

(iii) Global Media Productions Limited ("Global Media")

On 21 February 2011, the Group acquired 15 % equity interest in Global Media by subscription of 1,500 ordinary shares at par value of HK$1 each. As at 31 December 2011, no impairment loss has been made on this investment. The Group has no intention of disposing of this investment.

The Company

The Company's available-for-sale investment as at 31 December 2011 represents the carrying amount of the investment in Global Media.

21. Trade and bill receivables

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	72,059	99,991	93,741
Bill receivable	–	–	2,444
Less: Impairment loss on trade receivables	(1,041)	(36,318)	(28,379)
	71,018	63,673	67,806

The directors consider that the carrying amount of trade and bill receivables approximates their fair values.

Generally, the credit terms granted to customers of the Group range from 30 to 180 days. The aging analysis of trade and bill receivables (net of impairment loss) based on due date is as follows:

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Not yet past due			
Current	39,487	36,566	23,220
Past due			
Within 3 months past due	25,248	18,063	23,316
3 to 6 months past due	4,804	7,142	8,500
6 to 9 months past due	1,296	691	8,458
9 to 12 months past due	179	1,029	2,876
Over 1 year past due	4	182	1,436
	31,531	27,107	44,586
	71,018	63,673	67,806

No interest is charged on trade and bill receivables.

In determining the recoverability of the trade and bill receivables, the Group monitors any change in the credit quality of the trade and bill receivables since the credit was granted and up to the reporting dates.

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

Trade and bill 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.

The movements in the impairment loss on trade and bill receivables during the years ended 31 December 2009, 2010 and 2011 are as follows:

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	–	1,041	36,318
Impairment loss/(reversal of impairment loss)	1,072	34,306	(8,090)
Bad debts written off against gross trade receivables	(32)	–	(981)
Exchange realignment	1	971	1,132
At end of the year	1,041	36,318	28,379

As at 31 December 2009, 2010 and 2011, the Group's accumulated trade and bill receivables of approximately HK$1,041,000, HK$36,318,000 and HK$28,379,000 respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties or have delayed payments and management assessed that the receivables are not expected to be fully recovered. Consequently, the Group's accumulated specific allowances for doubtful debts of approximately HK$1,041,000, HK$36,318,000 and HK$28,379,000 were recognised as at 31 December 2009, 2010 and 2011 respectively. The Group does not hold any collateral over these balances.

22. Prepaid advertising placement service costs

	As at 31 December		
	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Prepaid advertising placement service costs	66,810	98,220	37,334
Less: impairment	–	(2,529)	(6,597)
Prepaid advertising placement service costs, net	66,810	95,691	30,737
Less: non-current portion	(2,333)	(1,813)	–
Current portion	64,477	93,878	30,737

The Group has made impairment for prepaid advertising placement service costs that were individually determined to be impaired. Allowances on prepaid advertising placement service costs are made based on estimated recoverable amounts by reference to objective evidence of impairment determined by the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate where appropriate.

23. Restricted bank balance and cash and cash equivalents

At 31 December 2009, 2010 and 2011, the aggregate restricted bank balance and cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$34,029,000, HK$33,563,000 and HK$34,468,000 respectively. RMB is not freely convertible into other currencies; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The restricted bank balance of the Group was pledged for the Group's bill payables facility of approximately HK$6,778,000 granted by a bank as at 31 December 2009. The facility expired in 2010 and therefore the pledge of the bank balance was released in the year ended 31 December 2010.

24. Trade and bill payables, advance payments from customers, accruals and other payables

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	7,416	8,049	20,248
Bill payable	6,778	–	–
Advance payments from customers	14,066	30,776	7,818
Accruals and other payables	11,218	18,933	21,189
	39,478	57,758	49,255

The directors consider that the carrying amount of trade and bill payables, advance payments from customers, accruals and other payables approximates their fair values.

Included in trade and bill payables, advance payments from customers, accruals and other payables are trade creditors with the following ageing analysis based on invoice date as of the end of each of the reporting periods.

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Within 3 months	7,119	8,007	19,794
3 to 6 months	227	–	–
6 to 12 months	31	–	–
Over 1 year	39	42	454
	7,416	8,049	20,248

25. Profit distributable to non-controlling owners of acquired subsidiary

Pursuant to the relevant purchase agreement of Beijing Yanhuang, the non-controlling owners of Beijing Yanhuang were entitled to payment from the Group amounting to the pre-acquisition retained earnings of Beijing Yanhuang. The balance is unsecured, interest-free and repayable on demand.

26. Acquisition consideration payables

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Payable to:			
Non-controlling owners of Beijing Yanhuang *(Note (i) and Note 32(a))*	32,243	12,672	13,652
Former owners of Shanghai Dianguang *(Note (ii))*	–	–	–
	32,243	12,672	13,652

Notes:

(i) The acquisition consideration payable to non-controlling owners of Beijing Yanhuang bore interest at Nil%, 14.6% and 14.6% per annum as at 31 December 2009, 2010 and 2011 respectively.

(ii) As at 31 December 2009, 2010 and 2011, the aggregate acquisition consideration for equity interests in Shanghai Dianguang consisted of fixed consideration (payable by the Group) and contingent acquisition consideration (payable by Redgate Cayman on behalf of the Group) and the terms and calculation method of the contingent consideration payable were stipulated in the related acquisition agreements, details of which are set out in Note 32(b).

As at the date of acquisition of equity interests in Shanghai Dianguang, the aggregate discounted contingent consideration payable was estimated at HK$133,349,000 based on nominal contingent consideration payable of HK$192,165,000 at the date of acquisition and initial discount rate of 19% per annum with reference to the estimated due dates under the original settlement agreement *(Note 32(b))*.

Such contingent consideration payable by Redgate Cayman on behalf of the Group is settled through the Group's amount due to Redgate Cayman at end of each of the Relevant Periods.

As at 31 December 2009, 2010 and 2011, the contingent consideration payables (included in the Group's amount due to Redgate Cayman) based on the above inputs would be stated at the fair value of the aggregate discounted contingent consideration payable as at the respective end of reporting periods, and the (increase)/decrease between the respective fair value and the amortised cost of the aggregate contingent consideration payable of HK$(34,425,000), HK$87,831,000 and HK$Nil *(Note 33(a)(i))* for the years ended 31 December 2009, 2010 and 2011 respectively was (charged)/credited to profit or loss for the respective reporting periods.

27. Bank loan, secured

	As at 31 December		
	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Bank loan, secured	10,807	15,348	–

As at 31 December 2009 and 2010, the Group's bank loan was denominated in RMB, due for settlement within 12 months, and secured by a residential property owned by a former owner of a subsidiary and personal guarantees from one and two former owners of a subsidiary respectively. The interest rates of the bank loan as at 31 December 2009 and 2010 were The People's Bank of China's benchmark loan interest rate plus 5% and 10% per annum respectively.

The directors of the Company considered that the carrying amount of the Group's bank loan approximates its fair value.

28. Convertible bonds

With effect on 6 July 2011, the Company issued Redeemable Convertible Bonds (the "CBs") in the aggregate principle amount of US$9,747,633 (equivalent to approximately HK$75,837,000). The maturity date (the "Maturity Date") of the CBs ranged from 30 April 2012 to the second anniversary of the date of issuance, i.e. 5 July 2013.

The bondholders shall have the right to convert all or any part of the principal amount of the CBs into new ordinary shares which are fully paid, unencumbered, duly authorised and validly issued by the Company ("Conversion Shares") at any time and from time to time up to the close of business on the Maturity Date. In the event of and conditional upon closing of the offer for all or substantially all of the ordinary shares of the Company in issue at any time (the "Relevant Acquisition"), the entire principal amount of the CBs and all interests attributable thereto shall be automatically converted upon the terms and conditions herein into Conversion Shares immediately before completion of the Relevant Acquisition, and all such Conversion Shares shall be sold and transferred on the same terms and conditions as those applicable to the sale of the other ordinary shares then in issue pursuant to the Relevant Acquisition. Unless previously converted, the CBs will be redeemed on the Maturity Date at the outstanding principal amount.

The initial number of Conversion Shares to be delivered by the Company to the bondholders upon conversion is 781,690 shares subject to a pre-determined anti-dilutive formula as stipulated in the CBs subscription agreements.

The CBs are unsecured, interest-bearing at 10% per annum and the interest shall be payable on 31 December and 30 June of each year and on the Maturity Date if the Relevant Acquisition does not occur on or before 31 December 2011.

The fair values of the liability component and the equity component were determined at the issuance of the CBs. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity component, is included in shareholders' equity.

The convertible bonds recognised in the statements of financial position are calculated as follows:

	As at 31 December 2011
	HK$'000
Face value of convertible bonds upon issuance	75,837
Equity component	(1,617)
Liability component of convertible bonds upon issuance	74,220
Imputed interest expense	4,184
Interest payable reclassified into other payables under current liabilities	(1,625)
Interest payable reclassified into amounts due to related parties	(2,074)
Liability component at 31 December 2011	74,705
Less: non-current portion	(43,241)
Current portion	31,464

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

Imputed interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of ranging from 11.634% to 12.002% per annum to the liability component.

29. Deferred taxation

The movements in deferred tax assets/(liabilities) during the years ended 31 December 2009, 2010 and 2011, taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets

	Tax losses	**Impairment on receivables**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	–	105	105
Credit to profit or loss for the year *(Note 12)*	168	–	168
At 31 December 2009 and 1 January 2010	168	105	273
Exchange realignment	6	4	10
At 31 December 2010 and 1 January 2011	174	109	283
Exchange realignment	6	4	10
At 31 December 2011	180	113	293

Deferred tax liabilities

	Amortisation of intangible assets
	HK$'000
At 1 January 2009	(5,767)
Credit to profit or loss for the year *(Note 12)*	2,205
Exchange realignment	13
At 31 December 2009 and 1 January 2010	(3,549)
Credit to profit or loss for the year *(Note 12)*	1,194
Exchange realignment	(103)
At 31 December 2010 and 1 January 2011	(2,458)
Credit to profit or loss for the year *(Note 12)*	912
Exchange realignment	(72)
At 31 December 2011	(1,618)

As at 31 December 2009, 2010 and 2011, the Group had unused tax losses of approximately HK$7,342,000, HK$18,410,000 and HK$28,241,000 respectively, which would expire in five years from the respective dates of incurrence. No deferred tax asset has been recognised in relation to such unused tax losses as it is not probable that taxable profits would be available against which the unused tax losses can be utilised.

No deferred tax liability has been recognised on temporary differences of approximately HK$Nil, HK$36,477,000 and HK$38,325,000 in relation to the undistributed earnings of the subsidiaries in the PRC as at 31 December 2009, 2010 and 2011 because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such difference will not reverse in the foreseeable future.

At 31 December 2009, 2010 and 2011, the Group did not have other material recognised deferred tax.

30. Share capital and reserves

(a) Share capital

	The Company	
	Number of shares	**Amount**
		HK$'000
Ordinary shares		
Authorised:		
At 31 December 2011 (par value of US$0.01 each)	20,000,000	1,560
At 31 December 2010 (par value of US$1.00 each)	50,000	390
Issued and fully paid:		
At 31 December 2011	10,000,000	780
At 31 December 2010	100	1

Pursuant to a resolution passed on 4 July 2011, the Company's authorised share capital was increased from US$50,000 divided into 50,000 shares of US$1.00 each to US$200,000 divided into 20,000,000 shares of US$0.01 each, and accordingly the existing 100 issued shares with par value of US$1.00 each were divided into 10,000 shares with par value of US$0.01 each. On 5 July 2011, 9,990,000 shares of the Company were issued for cash at par.

(b) Reserves

The Group

Details of the movements in the reserves of the Group during the Relevant Periods are set out in the consolidated statements of changes in equity.

The Company

The movements in the reserves of the Company during the Relevant Periods were as follows:

	Convertible bonds equity reserve	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
At the date of incorporation	–	–	–	–
Loss for the period	–	–	(145,910)	(145,910)
Issue of Media Chief's shares in exchange for interest in Redgate Global	–	145,794	–	145,794
At 31 December 2010 and 1 January 2011	–	145,794	(145,910)	(116)
Loss for the year	–	–	(118,494)	(118,494)
Issuance of convertible bonds *(Note 28)*	1,617	–	–	1,617
At 31 December 2011	1,617	145,794	(264,404)	(116,993)

Note: Contributed surplus represented the aggregate par value of Media Chief's Consideration Shares which is regarded as Media Chief's investment in the Company.

31. Operating leases

As a lessor

Operating lease receivables represent rental receivables by the Group for its advertising media leases and offices. Leases are negotiated and rentals are fixed for an average term of one to five years.

The future minimum lease receivables of advertising media leases under non-cancellable lease contracts are as follow:

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	51,872	34,032	23,905
Later than one year and not later than five years	12,185	7,813	7,043
	64,057	41,845	30,948

The future minimum lease receivables of office rental under non-cancellable lease contract are as follow:

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	163	–	201
Later than one year and not later than five years	81	–	100
	244	–	301

As a lessee

Operating lease payments represent rental payables by the Group for its advertising media leases and offices. Leases are negotiated and rentals are fixed for an average term of one to five years.

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Minimum lease payments recognised as expenses			
– advertising media leases	48,470	96,468	133,221
– office rentals	2,034	2,084	2,192
	50,504	98,552	135,413

The future minimum lease payments of advertising media leases under non-cancellable lease contracts are as follow:

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	36,675	57,881	64,805
Later than one year and not later than five years	68,120	84,977	37,385
	104,795	142,858	102,190

The total future minimum lease payments of office rentals under non-cancellable lease contracts are as follow:

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	821	1,516	1,642
Later than one year and not later than five years	1,517	1,411	1,889
	2,338	2,927	3,531

32. Significant contracts

In addition to the acquisition of available-for-sale investments as detailed in Note 20, the Group entered into the following significant agreements in respect of (i) certain completed business combinations and (ii) certain proposed business combinations which have not been concluded up to the date of this report.

(a) Acquisition of Beijing Yanhuang

On 3 August 2008, the Group entered into a purchase agreement to acquire 51% equity interests in Beijing Yanhuang, an unlisted company established in the PRC which is principally engaged in provision of advertising placement agency services in outdoor displays and media advertisement, for gross consideration of approximately HK$70,295,000 (equivalent to RMB61,960,000), of which HK$36,382,000 was paid during the year ended 31 December 2008. The remaining considerations of HK$21,941,000 and HK$11,972,000 were due on 6 October 2009 and 5 October 2010 respectively, which were accounted for as the acquisition consideration payables of the Group as further detailed in Note 26.

The purchase agreement granted the Group the right to return the 51% equity interests in Beijing Yanhuang to the vendors at the initial consideration paid if Beijing Yanhuang was loss-making in year 2008. As Beijing Yanhuang was profit-making in year 2008, the Group's equity interests in Beijing Yanhuang remained at 51% as at 31 December 2008.

In addition, the purchase agreement also granted the Group a right to receive up to an additional 49% equity interests in Beijing Yanhuang for nil consideration if Beijing Yanhuang fails to achieve certain pre-determined profit performance targets in 2008, 2009 and 2010 on a year-by-year basis. The directors are of the opinion that the fair value of this right cannot be reliably measured because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, and accordingly the right was initially recognised as a derivative financial instrument upon the date of acquisition at transaction price of HK$Nil less impairment loss. As Beijing Yanhuang has achieved the 2008 and 2009 performance targets, the Group's equity interests in Beijing Yanhuang remained at 51% as of 31 December 2008 and 2009. Although Beijing Yanhuang did not meet the 2010 performance target, as stipulated in the acquisition agreement, certain procedures in determination of the achievement of the 2010 performance have not been completed up to the date of the report, including but not limited to, the issuance of the audited singleton financial statements of Beijing Yanhuang required for the determination of the achievement of the performance target which has not been issued up to the date of the report. As of the end of each of the Relevant Periods and the date of this report, the 49% equity interest in Beijing Yanhuang has not been transferred to the Group. The directors considered that the Group's equity interests in Beijing Yanhuang remained at 51% as of 31 December 2010 and 2011.

(b) Acquisition of Shanghai Dianguang

Original settlement arrangement

Pursuant to acquisition agreements dated 8 April 2008 entered into among (a) the Group, (b) Redgate Cayman, and (c) the former equity owners of Shanghai Dianguang, the Group purchased 100% equity interests in Shanghai Dianguang, an unlisted company established in the PRC which is principally engaged in provision of advertising placement agency services in television channel. The aggregate consideration consisted of (i) cash payment of approximately HK$5,709,000 (equivalent to RMB5,000,000) due on the first anniversary of the acquisition date; and (ii) contingent consideration calculated primarily using the net income as reported in Shanghai Dianguang's audited financial statements for the years ended 31 December 2008, 2009 and 2010 with the weights at 40%, 40%, and 20%, respectively (which are payable by three instalments, namely the 2008 Consideration, 2009 Consideration and 2010 Consideration due on estimated due dates of 30 June 2009, 2010 and 2011, respectively) and a specified price-to-earnings multiple upon Shanghai Dianguang achieving certain pre-determined profit performance targets in the years ended 31 December 2008, 2009 and 2010 as stipulated in the acquisition agreements. The specified price-to-earnings multiple for the contingent consideration payable is equal to 7 if the contingent consideration is settled in cash or equal to the higher of (a) the price-to-earnings multiple used in determining Redgate Cayman's or the Group's initial public offering share price, or (b) a multiple equal to average of Redgate Cayman's or the Group's average daily forward price earnings multiples for ten days subsequent to the public announcement of Redgate Cayman's or the Group's 2008, 2009 and 2010 audited financial statements if the contingent consideration is settled by issuing the Redgate Cayman's or the Group's listed common shares. The contingent consideration may be settled in cash or by issuing Redgate Cayman's or the Group's listed common shares depending on the completion date of Redgate Cayman's or the Group's initial public offering process.

At the acquisition date, the best estimate of the undiscounted amount of the contingent consideration is amounted to HK$192,165,000. As the contingent consideration is based on the net income of Shanghai Dianguang for the years ended 31 December 2008, 2009 and 2010, the potential undiscounted amount of the contingent consideration adjustment that the Group could be required to make under this arrangement is unlimited.

The fixed consideration as mentioned in (i) above is payable by the Group and the contingent consideration as mentioned in (ii) above is payable by Redgate Cayman on behalf of the Group.

Revised settlement arrangement

On 12 August 2009, Redgate Cayman, the Group and the former equity owners of Shanghai Dianguang entered into two supplemental agreements to the acquisition agreements. Pursuant to the supplemental agreements, contingent consideration weights for years 2008, 2009 and 2010 were changed to 30%, 30% and 40%, respectively. Additionally, the Group agreed to make a contingent bonus payment upon Shanghai Dianguang achieving the pre-determined performance target, which will be determined based on the incremental net income amount from the audited financial statements of Shanghai Dianguang from 2008 to 2009 and the incremental net income amount as reported in the audited financial statements of Shanghai Dianguang from years 2009 to 2010. The above contingent amounts are considered as the revised contingent consideration payable by Redgate Cayman on behalf of the Group, which is settled through the Group's amount due to Redgate Cayman as at 31 December 2008, 2009 and 2010, details of which are set out in Note 26 and Note 33(a)(i).

Up to the date of this report, Redgate Cayman or the Group has not completed its initial public offering process, and therefore, the 2008, 2009 and 2010 Considerations are required to be settled in cash only.

(c) Proposed acquisition of Shanghai Yarun Culture Communications Company Limited ("Yarun")

On 12 June 2009, Redgate Cayman and the Group entered into acquisition agreements to acquire 100% equity interests in Yarun. Redgate Cayman and the Group previously entered into agreements in April 2008 to acquire 100% equity interests in Yarun subject to certain conditions set forth in the purchase agreement. All parties have agreed to terminate such agreements entered into in April 2008 and entered into the said acquisition agreements. The aggregate consideration consisted of (i) cash payment of approximately HK$3,665,000 (equivalent to RMB3,000,000); and (ii) contingent consideration calculated primarily using the net income as reported in Yarun's audited financial statements for each of the three consecutive years from the year of public listing of Redgate Cayman's or the Group's shares (the "Contingent Periods") with the weights at 40%, 40%, and 20% respectively and a specified price-to-earnings multiple range of 6 to 8 depending on the annual increase in Yarun's net income during the Contingent Periods, provided that Yarun's annual net income during the Contingent Periods meets the pre-determined profit performance targets as stipulated in the acquisition agreements. The contingent consideration may be settled in cash or by issuing Redgate Cayman's or the Group's listed common shares upon the sole discretion of the Group. It is agreed that the completion of the acquisition is within 30 working days of Redgate Cayman's or the Group's initial public offering if all other legal or operation preconditions are met. No initial public offering exercise of Redgate Cayman or the Group was successfully implemented up to the date of this report. As the conditions for acquiring the equity interests in Yarun have not been met as at each of the reporting periods and as of the date of this report, the Group has neither right nor obligation to acquire the equity interests in Yarun and therefore no asset or liability has been recorded as at end of each of the reporting periods.

(d) Letters of intent for formation of joint ventures

On 2 December and 3 December 2010, the Group entered into two non-legally binding letters of intent with independent third parties for formation of joint ventures for an aggregate capital injection of HK$46,426,000 (equivalent to RMB38,000,000) attributable to the Group. There is no legally binding agreement entered into for the above formation of joint ventures as of the date of this report.

33. Related party transactions

In addition to the transactions detailed elsewhere in the Financial Information, the Group entered into the following transactions with related parties:

(a) Amounts due are unsecured, interest-free and repayable on demand, except for the following amounts:

(i) Contingent consideration payable which is included in the amount due to Redgate Cayman which is unsecured, with imputed interest at 16%, 11% and 11% per annum for the years ended 31 December 2009, 2010 and 2011 respectively. The aggregate contingent consideration amount (including imputed interest) are payable by three instalments due on estimated due dates of 30 June 2009, 2010 and 2011.

On 31 December 2011, Redgate Cayman has agreed to waive partial amount of the contingent consideration payable due to it by the Group in the amount of approximately HK$80,800,000. As detailed in Note 1, since most of the shareholders of the Group's ultimate holding company, Media Chief, are also the shareholders of Redgate Cayman, the waived amount was accounted for as an additional capital contribution to the Group during the year ended 31 December 2011.

The movements in the contingent consideration payable during each of the years ended 31 December 2009, 2010 and 2011 are set out below.

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	155,165	188,507	123,460
Settlement	(25,011)	–	–
Imputed interest on contingent consideration	23,801	17,560	3,621
Fair value change in contingent consideration payable	34,425	(87,831)	–
Waiver by a related company in respect of an amount due thereto credited to the equity	–	–	(80,800)
Exchange realignment	127	5,224	4,352
At end of the year	188,507	123,460	50,633
Less: non-current portion	(135,850)	–	–
Current portion	52,657	123,460	50,633
Charged/(credited) to profit or loss relating to financial instruments held by the Group at the end of reporting period	58,226	(70,271)	3,621

(ii) Amount of approximately HK$38,900,000 due to a related party as at 31 December 2011 which is secured by common shares of Media Chief, interest-bearing at 10% per annum, and repayable at the earliest of (i) 27 July 2012; (ii) the date that Media Chief completes its initial public offering where the gross proceeds to Media Chief are no less than approximately HK$311,200,000 (equivalent to US$40,000,000) with a minimum market capitalisation attributable to Media Chief of approximately HK$1,089,200,000 (equivalent to US$140,000,000); (iii) the date that Media Chief completes the merger of its common shares and consolidation with a company listed on a recognised stock exchange where the net proceeds to Media Chief, pre-merger, are no less than approximately HK$311,200,000 (equivalent to US$40,000,000) with a minimum market capitalisation attributable to Media Chief of approximately HK$1,089,200,000 (equivalent to US$140,000,000), or any sale of Media Chief or any of its subsidiaries for no less than HK$500,000,000; and (iv) the sales of a majority of the common shares of Media Chief to a third party where the net realised value of Media Chief, as if it were sold in its entirety exceeds approximately HK$1,089,200,000 (equivalent to US$140,000,000). Whilst the above related party has a right to convert the entire outstanding amount into common shares of Media Chief at US$4.91 per share or lower price if Media Chief issues any class of equity or debt at a lower price, upon the notification to exercise the conversion right, the Company, at its sole discretion, may repay the entire outstanding amount in lieu of the share conversion. During the year ended 31 December 2011, interest expense of approximately HK$2,865,000 has been charged by the related party.

(iii) Amount of approximately HK$1,897,000 due to a related party as at 31 December 2011 which is unsecured, interest-free and repayable at the earliest of (i) 27 July 2012; (ii) the date that Media Chief completes its initial public offering; and (iii) the occurrence of certain qualified business consolidation events, or collectively, maturity events.

(b) During the year ended 31 December 2011, rental expense for an advertising media amounted to approximately HK$1,856,000 has been charged by a related party.

(c) In the year ended 31 December 2011, the ultimate holding company's then shareholders subscribed convertible bonds in the principal amounts of approximately HK$75,837,000 issued by the Company, and interest expense of approximately HK$2,353,000 has been charged by those remained as related parties as at 31 December 2011 for the year then ended.

(d) During the year ended 31 December 2011, amounts due from ultimate holding company and related parties of approximately HK$48,349,000 and HK$981,000 respectively have been offset against amounts due to ultimate holding company and related parties of approximately HK$6,748,000 and HK$42,582,000 respectively.

(e) Redgate Cayman and its subsidiaries (excluding the entities within the Group, where applicable) and a related party have agreed that they would not demand the repayment of their entire amounts due by the Group unless and until the Group is able to meet its financial obligations as they fall due, further details of which are set out in Note 2.

(f) Redgate Cayman and its subsidiaries (excluding the entities within the Group, where applicable) have agreed to indemnify the Group if the amounts due from fellow subsidiaries and related parties as at 31 December 2009, 2010 and 2011 of approximately HK$33,667,000, HK$53,825,000 and HK$102,858,000 respectively become irrecoverable.

(g) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the Relevant Periods are as follows:

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Fees	–	–	–
Other emoluments:			
Salaries and bonus	2,058	4,591	2,635
Retirement benefits scheme contributions	244	383	589
	2,302	4,974	3,224

34. Capital risk management

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

As consistent with industry practice, the Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total assets. Total debts are calculated as total liabilities as shown in the consolidated statements of financial position.

The gearing ratio at the end of each year was as follows:

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Total liabilities	467,060	427,320	363,387
Total assets	416,650	438,918	447,533
Gearing ratio	112%	97%	81%

35. Financial risk management

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2009, 2010 and 2011, the Group has a certain concentration of credit risk as 14%, 21%, 29% and 49%, 65%, 69% of the total trade and bill receivables were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any impairment allowance. The Group does not provide any other guarantee which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bill receivables are set out in Note 21.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. The Group maintains a reasonable level of cash and cash equivalents. The Group's primary cash requirements have been for payment to suppliers on the operating leases of outdoor advertising displays and payment of debts. The Group finances its working capital requirements through funds generated from operations and borrowings as well as the financing provided by other group companies. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected future cash flows.

The following table details the remaining contractual maturities at the end of each reporting period of the Group'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 end of each reporting period) and the earliest date the Group can be required to pay.

	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
At 31 December 2009					
Trade and bill payables, accruals and other payables	17,827	17,827	17,827	–	–
Amount due to ultimate holding company	254,539	279,995	121,124	158,871	–
Amount due to immediate holding company	83,387	83,387	83,387	–	–
Amounts due to fellow subsidiaries	3,192	3,192	3,192	–	–
Amounts due to related parties	4,751	4,751	4,751	–	–
Acquisition consideration payables	32,243	33,935	33,935	–	–
Profit distributable to non-controlling owners of acquired subsidiary	9,510	9,510	9,510	–	–
Bank loan, secured	10,807	11,377	11,377	–	–
	416,256	443,974	285,103	158,871	–

	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
At 31 December 2010					
Trade and bill payables, accruals and other payables	13,496	13,496	13,496	–	–
Amounts due to related parties	290,733	294,283	294,283	–	–
Acquisition consideration payables	12,672	13,203	13,203	–	–
Profit distributable to non-controlling owners of acquired subsidiary	9,869	9,869	9,869	–	–
Bank loan, secured	15,348	16,209	16,209	–	–
	342,118	347,060	347,060	–	–

	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
At 31 December 2011					
Trade and bill payables, accruals and other payables	29,271	29,271	29,271	–	–
Amounts due to related parties	175,159	177,386	177,386	–	–
Acquisition consideration payables	13,652	13,652	13,652	–	–
Profit distributable to non-controlling owners of acquired subsidiary	10,213	10,213	10,213	–	–
Convertible bonds	74,705	83,581	37,066	46,515	–
	303,000	314,103	267,588	46,515	–

(c) Interest rate risk

The Group's exposure to changes in interest rate is mainly attributable to its interest-bearing borrowings. The interest rate is subject to changes as determined by banks. The Group currently does not have an interest rate hedging policy and will consider enter into interest rate hedging should the need arise.

At 31 December 2009, 2010 and 2011, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would have insignificant effect on the results or other components of equity of the Group for the years ended 31 December 2009, 2010 and 2011.

(d) Currency risk

The functional currencies of the Company and of its subsidiaries are US$ and RMB respectively. While most of the Group's operations are transacted in the functional currencies of the respective group companies, the management considered the Group has no significant exposure to risk resulting from changes in foreign exchange rates.

(e) Fair values

(i) The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	31 December 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contingent consideration payable portion *(Note)*	–	–	188,507	188,507

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contingent consideration payable portion *(Note)*	–	–	123,460	123,460

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contingent consideration payable portion *(Note)*	–	–	50,633	50,633

Note:

Contingent consideration payable portion is included in the amount due to ultimate holding company as at 31 December 2009. As a result of the Reorganisation as detailed in Note 1, the contingent consideration payable portion is included in the amounts due to related parties as at 31 December 2010 and 2011.

(ii) The reconciliations for contingent consideration payable portion measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3) are set out in Note 33(a)(i).

(iii) At 31 December 2009, it is estimated that an increase/decrease of 5% in forecasted net income of Shanghai Dianguang for the year ended 31 December 2010, with all other variables held constant, would increase/decrease the fair value of contingent consideration payable portion as at 31 December 2009 by approximately HK$24,763,000 and HK$8,243,000 respectively.

The 5% increase or decrease represents directors' assessment of a reasonably possible alternative assumption in the forecasted net income of Shanghai Dianguang as at 31 December 2009.

As at 31 December 2010 and 2011, the fair value of the contingent consideration payable portion has been measured based on the actual net income of Shanghai Dianguang for the years ended 31 December 2008, 2009 and 2010, and therefore the directors are of the opinion that there are no reasonably possible alternative assumptions to the inputs in the fair value measurement.

36. Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2009, 2010 and 2011 may be categorised as follows:

	As at 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets:			
Available-for-sale investments at cost	1,857	892	497
Held-to-maturity investment at amortised cost	–	–	1,222
Loans and receivables (including cash and cash equivalents and restricted bank balance) at amortised cost	166,457	159,671	229,716
Financial liabilities:			
Contingent consideration payable at fair value	188,507	123,460	50,633
Financial liabilities at amortised cost	227,749	218,658	252,367

37. Contingent liability

According to relevant regulations in the PRC, all outdoor advertisements must be registered with the local branches of the State Administration for Industry and Commerce ("SAIC") to obtain a licence for such advertisement. As some of the Group's outdoor advertisements for which the Group is responsible to obtain such licences under contract have not been obtained, the respective local SAIC may impose administrative sanctions on the Group, such as fines and confiscation of the Group's income generated from these unregistered outdoor advertisements minus the relevant costs of rental and relevant taxes. The Group entered into supplemental agreements with certain respective suppliers of the outdoor advertising media to specify that the said suppliers would assume the responsibilities for the examination and approval of their respective outdoor advertisements. The Group has sought legal advice and the directors have assessed that it is possible but not probable that the Group may be subject to those sanctions. The directors have estimated the potential maximum fines and confiscation of income approximately HK$42,944,000, HK$72,787,000 and HK$31,909,000 as at 31 December 2009, 2010 and 2011 respectively. In addition, the respective local SAIC may also request the Group to discontinue the operation of the unregistered outdoor advertisements. In such circumstances, the Group's customers may claim against the Group for breach of contracts. Since it cannot be reliably predicted whether a claim will be made by the customers against the Group and the potential damages to be claimed highly depend on how much damage would have been made to the customers and the Group does not have such information. In the opinion of the directors, the potential liabilities of Group in relation to the above potential breach of contracts cannot be reliably estimated.

38. Major non-cash transactions

(a) As at 31 December 2010, the Group's aggregate amounts due from and due to Redgate Cayman and the Group's then fellow subsidiaries of approximately HK$32,231,000 and HK$290,379,000 respectively have been reclassified into amounts due with related parties pursuant to the Reorganisation.

(b) During the year ended 31 December 2011, amounts due from ultimate holding company and related parties of approximately HK$48,349,000 and HK$981,000 respectively have been offset against amounts due to ultimate holding company and related parties of approximately HK$6,748,000 and HK$42,582,000 respectively.

(c) During the year ended 31 December 2011, partial proceeds from issue of convertible bonds in the amount of approximately HK$57,228,000 were settled through amount due from ultimate holding company, amounts due from related parties and amounts due to related parties of approximately HK$48,229,000, HK$1,219,000 and HK$7,780,000 respectively.

(d) During the year ended 31 December 2011, interest expenses payable on convertible bonds amounted to approximately HK$1,625,000 and HK$2,074,000, which were due for repayment during the year ended 31 December 2011, have been reclassified into other payables and amounts due to related parties respectively.

(e) On 31 December 2011, a related party has agreed to waive its amount due by the Group in the amount of approximately HK$80,800,000, which has been accounted for as an additional capital contribution to the Group *(Note 33(a)(i))*.

39. Subsequent financial statements

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of the any period subsequent to 31 December 2011.

Yours faithfully
For and on behalf of
BDO Limited
Certified Public Accountants
Hong Kong

Lam Siu Fung
Practising Certificate number: P05308

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Shareholders or Investors should read the following discussion and analysis in conjunction with the consolidated financial information of Group for the three years ended 30 June 2011 and the six months period ended 31 December 2011, of which are included in the annual reports of the Company for the years ended 30 June 2009, 2010 and 2011 and the interim report of the Company for the six months ended 31 December 2011.

For the six months ended 31 December 2011

Business review

For the six months ended 31 December 2011, the Group's unaudited consolidated turnover amounted to approximately HK$27,058,000 (2010: HK$11,059,000). The Group recorded a net loss of approximately HK$19,879,000 for the six months ended 31 December 2011 (2010: net loss HK$29,248,000). Basic loss per share for the six months ended 31 December 2011 was HK$ 0.22 (2010: basic loss per share: HK$0.51 (restated)).

Outdoor advertising business in PRC

In order to broaden the source of income and expand the business operations, the Group diversified its business into the advertising and display industry in the PRC in October 2010. Outdoor advertising business includes the design, production and publication of outdoor advertisements in PRC.

The Shijiazhuang City General Public Transportation Company Limited (the "**Local Bus Company**") has granted the advertising rights on all the single-decker buses, double-decker buses and bus stations operated which owned by the Local Bus Company to the Group. The licensing agreements of single-decker buses, double-decker buses and bus stations will expire on 30 April 2019, 31 August 2015 and 30 June 2017 respectively. It is the common understanding between the Local Bus Company and the Group that the granting of such advertising rights is on an exclusive basis.

For the six months ended 31 December 2011, the Group recorded revenue of approximately HK$23 million from the outdoor advertising operations and accounted for approximately 85% of the Group's turnover (2010: 98%). 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.

Advertising business in Hong Kong

On 18 February 2011, Superior Luck Investments Limited, a wholly owned subsidiary of the Company, entered into an agreement with Win Today Limited for the acquisition of 19% issued share capital in China New Media (HK) Company Limited (the "**CNM**"). CNM is principally engaged in outdoor advertising in Hong Kong, specializing in advertising spaces in lifts and outer walls of buildings. The consideration for the acquisition is HK$78 million which shall be satisfied as to HK$20 million in cash to be paid upon signing of the agreement; as to HK$19 million in cash to be paid upon completion of the acquisition; and the remaining HK$39 million to be satisfied by the issue of convertible bonds by the Company to Win Today Limited upon completion of the acquisition. The acquisition was completed on 13 July 2011.

The acquisition of CNM represents a horizontal expansion of the media platform currently provided by the Group and allows the Group to deploy a similar business model in Hong Kong. Although the Company is only acquiring a minority interest (19%) in CNM, the acquisition will enable the Group to tap in and participate in the media industry in Hong Kong. The acquisition is the Group's first investment in Hong Kong's outdoor media industry and the Company believes that outdoor media industry in Hong Kong will continue to enjoy substantial growth as a result of the close ties with the PRC and its accompanying robust economic growth. The economic growth of the PRC will have a general positive effect on Hong Kong's economy which directly affects the local media industry.

Software application solutions

The domestic sale of i-Panel and Apbus products and the provision of intranet design for residential communities remained the core business of the Group. 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 six months ended 31 December 2011 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.

Capital Structure

There was no change in the Company's capital structure during the period. The Company's issued share capital was HK$95,062.12 and the number of its issued ordinary shares was 95,062,123 shares of HK$0.001 each (the "**Shares**").

As at 31 December 2011, the total issued share capital is 95,062,123 Shares.

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, an ex-Director, Mr. Wong Yao Wing, Robert, an ex-Director 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 Defendants denied the claims of the Plaintiff and have sought legal advice in this regard. The parties have agreed to an interim stay of up to 8 June 2011 to attempt mediation to settle the dispute. The mediation was not successful and the parties shall continue with the proceedings. The Defendants filed a defence against the claims of the Plaintiff denying having entered into such oral investment agreement and making the alleged representations and therefore denied all liability for the claims made therein. As at 31 December 2011, the parties are proceeding to discovery.

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.

Material acquisition and disposals during the period and further plans for material investments

Save as the acquisition of 19% equity interest in CNM and the proposed acquisition of 100% equity interest in Redgate Ventures Group, there were no other material acquisitions and disposals of investments by the Group during the six months ended 31 December 2011.

In 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 27 October 2009, the Company issued convertible notes with the principal amount of HK$75,000,000 as consideration for acquisition of approximately 47.2% interest in Gaofeng Holdings Co. Limited. The convertible notes, with maturity date of 27 October 2011, are convertible into Shares at an adjusted conversion price of HK$20.14 per Share during the conversion period. As at 30 September 2011, convertible notes with the principal amount of HK$13,800,000 have been converted into Shares of the Company. The Company has early redeemed the convertible notes in the principal amount of HK$25,000,000 and HK$31,800,000 on 31 January 2011 and 21 June 2011 respectively. The remaining balance of convertible notes in the principal amount of HK$4,400,000 have been fully redeemed on 27 October 2011.

On 13 July 2011, the Company issued convertible notes with the principal amount of HK$39,000,000 as consideration for acquisition of 19% interest in CNM. The convertible notes, with maturity date of 12 January 2013, are convertible into Shares at a conversion price of HK$0.6 per Share during the conversion period. The Company has early redeemed the convertible notes in the principal amount of HK$20,000,000 and HK$19,000,000 on 6 October 2011 and 13 October 2011 respectively.

Foreign currency risk

During the six months ended 31 December 2011, 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 the entities' own functional currencies. As at 31 December 2011, there were no bank borrowings which were denominated in Renminbi (2010: HK$Nil). As a result, the Group had not used any financial instruments for hedging against fluctuation in interest rate nor foreign currencies for the six months ended 31 December 2011.

Human resources

The number of employees (including Directors) was 60 as at 31 December 2011 (2010: 66), and the total staff costs (including Directors' remuneration) for the six months ended 31 December 2011 was approximately HK$3,405,000 (2010: HK$4,999,000). Other benefits provided by the Group to the employees include MPF, medical coverage and share-based payments.

For the year ended 30 June 2011

Financial Performance

The Group reported a turnover of approximately HK$30,140,000 for the year ended 30 June 2011, representing an increase of approximately 223% compared with the turnover of approximately HK$9,345,000 for the year ended 30 June 2010. During the 12 months of operation, the outdoor advertising business sector contributed a turnover of approximately HK$29,037,000 being the major source of turnover. Gross loss for the Group is approximately HK$18,628,000 (2010: gross loss of approximately HK$10,544,000 (restated)). The gross loss is mainly attributable to the amortisation of intangible assets.

The Group's loss for the year from continuing operations for the year ended 30 June 2011 was approximately HK$85,752,000 (2010: loss of approximately HK$42,963,000). Basic loss per share from continuing operations for the year ended 30 June 2011 was HK$1.87 (2010: HK$3.41 (restated)). The Directors do not recommend the payment of dividend for the year ended 30 June 2011 (2010: Nil).

Business Review

Software Application Solutions and Hotel Business Division

The domestic sale of i-Panel and Apbus products and the provision of intranet design for residential communities remained the core business of the Group. 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 2011 experienced a significant decrease. With the gradual recovery of the global economy, the performance of this business sector 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.

Due to the unsatisfactory performance of our hotel business division, we had to significantly scale down our hotel operations in the PRC in 2009 thus resulting in a significant write off of our investments in the hospitality business in PRC in previous years. The Group intended to focus on other businesses and continued to expand into industries with more prospects.

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 diversity its business into the advertising and display industry in the PRC.

The acquisition of 100% of the equity interest in Active Link Group completed on 5 October 2010. Active Link is principally engaged in investment holding which effectively holds 80% equity interest of Shijiazhuang Xun Hua. Shijiazhuang Xunhua is principally engaged in design, production and publication of outdoor advertisements in PRC.

There is a sub-licensing agreement, Shandong Xunhua has sublicensed 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 Shandong Xunhua and Shijiazhuang Xunhua that the granting of such advertising rights is on an exclusive basis. The Group is reviewing existing singledecker outdoor advertisements business with the Local Bus Company in order to operate and develop sustainable regional business in PRC. On 14 April 2011, the licensing agreement between Shandong Xunhua and Local Bus Company and the sub-licensing agreement between Shandong Xunhua and Shijiazhuang Xunhua were terminated. On 1 May 2011, Shijiazhuang En Jian, an indirect-wholly owned subsidiary of the Company, entered into a licensing agreement with Local Bus Company. The Local Bus Company has granted to Shijiazhuang En Jian the advertising rights on all 2100 singledecker buses operated and owned by the Local Bus Company. The license agreement will expire on 30 April 2019. It is the common understanding between the Local Bus Company and Shijiazhuang En Jian that the granting of such advertising rights is on an exclusive basis.

There are two licensing agreements made between the Local Bus Company and Shijiazhuang Xunhua, one of the subsidiaries 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 exclusive basis.

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

Disposal of Gold Mining Industry

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 a 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.

The Directors believe that the Group's financial position will improve subsequent to the disposal of Inno Gold Mine and its subsidiaries, because the said disposal will 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.

Acquisition of outdoor advertising business in Hong Kong

On 18 February 2011, Superior Luck Investments Limited, a wholly owned subsidiary of the Company, entered into an agreement with Win Today Limited for the acquisition of 19% issued share capital in CNM. CNM is principally engaged in outdoor advertising in Hong Kong, specialising in advertising spaces in lifts and outer walls of buildings. The consideration for the acquisition is HK$78 million which shall be satisfied as to HK$20 million in cash to be paid upon signing of the agreement; as to HK$19 million in cash to be paid upon completion of the acquisition; and the remaining HK$39 million to be satisfied by the issue of convertible bonds by the Company to Win Today Limited upon completion of the acquisition. The acquisition was completed on 13 July 2011.

Financial Review

Liquidity and Financial Resources

As at 30 June 2011, the net current assets of the Group were approximately HK$141,897,000 (2010: net current assets of HK$13,185,000). Out of the current assets as at 30 June 2011, approximately HK$114,172,000 (2010: HK$10,326,000) were cash and cash equivalents. The current ratio of the Group as at 30 June 2010 was 529% (2010: 128%).

As at 31 December 2010, the Group has no borrowings except for the unsecured and non-interest bearing convertible notes issued by the Company in 2009, amounted to HK$4,241,000 (2010: HK$66,752,000). The interest charged of the convertible notes for the year ended 30 June 2010 was calculated using the effective interest method by applying the effective interest rate ranging from 11.97% to 19.75% to the liability component of the convertible notes. The convertible notes are denominated in Hong Kong dollars and will be due in October 2011.

Net debt (i.e. total borrowings less cash and cash equivalent and pledged deposits) as at 30 June 2011 was HK$109,931,000 (2010: HK$56,426,000) and accordingly net debt gearing ratio (i.e. net debt/net assets) as at 30 June 2011 was Nil (2010: 102%).

Capital Structure

Capital Reorganisation

On 29 October 2010, the Directors, propose to reorganise (the "**Capital Reorganisation 1**") the Shares of the Company in the following manner: (a) the issued share capital of the Company was reduced by cancelling the paid up capital to the extent of HK$0.099 each on each share that the nominal value of all issued shares will be reduced from HK$0.1 to HK$0.001 each; (b) each of the authorized but unissued share of HK$0.1 each in the share capital of the Company was subdivided into 100 subdivided shares of HK$0.001 each; (c) every 10 issued and unissued subdivided shares with par value of HK$0.001 each was consolidated into one new share of HK$0.01 each and any fraction of new shares arising there from all not be allotted to shareholders but shall be aggregated and sold, if possible, for the benefit of the Company; (d) the entire amount standing to the credit of the share premium account of the Company was cancelled; and (e) the credit arising from the capital reduction and share premium cancellation was transferred to the contributed surplus account of the Company, and the application of the appropriate sum therein to set off against the total accumulated losses of the company. Following the passing of a special resolution of the Company's special general meeting on 8 December 2010, the Capital Reorganisation 1 was completed on 9 December 2010.

On 30 May 2011, the Directors, propose to reorganise (the "**Capital Reorganisation 2**") the Shares of the Company in the following manner: (a) reduction in the par value of each issued share from HK$0.01 to HK$0.00005; (b) subdivision of each authorised but unissued share into 200 subdivide shares of HK$0.00005 each; (c) consolidation of the subdivide on the basis that every 20 issued and unissued subdivide shares of HK$0.00005 each will be consolidated into one consolidated share of HK$0.001 each; (d) the credit arising from the capital reduction was transferred to the contributed surplus account. Following the passing of a special resolution of the Company's special general meeting on 27 June 2011, the Capital Reorganisation 2 was completed on 28 June 2011.

Subscription, Rights Issue and Placing Activities

On 26 June 2010, the Company entered into the conditional placing agreement with the placing agent on a best endeavour basis for the placing of 148,000,000 new ordinary shares and 148,000,000 new ordinary shares were issued and allotted on 7 July 2010. The net proceeds in the amount of approximately HK$24.8 million was intended to be as to 90% to finance the acquisition set out in the Company's announcements dated 26 June 2010 and 21 July 2010 and as to the remaining 10% as general working capital of the Group.

On 4 October 2010, the Company entered into the conditional placing agreement with the placing agent on a best endeavour basis for the placing of 170,000,000 new ordinary shares and 170,000,000 new ordinary shares were issued and allotted on 12 October 2010. The net proceeds in the amount of approximately HK$15.3 million was intended to be as to 90% to finance the acquisition set out in the Company's announcements dated 26 June 2010 and 21 July 2010 and as to the remaining 10% as general working capital of the Group.

On 5 October 2010, 140,250,000 new shares of the Company were issued and allotted by the Company to J&K TMT Investment Company Limited as partial consideration for the acquisition of the entire issued share capital of Active Link Investment Limited.

On 28 October 2010, the Company entered into the underwriting agreement with the underwriter for the rights issue of 1,200,282,180 ordinary shares (the "**Rights Issue**") and 1,200,282,180 shares were issued on 12 January 2011. The net proceeds in the amount of approximately HK$207.65 million was intended to be as to (i) up to approximately HK$103 million for repayment of outstanding convertible bonds; (ii) up to approximately HK$30 million for general working capital of the Group; (iii) up to approximately HK$30 million for developing and expanding the Group's advertising related business in the PRC and (iv) the balance for capturing future investment opportunities when the same rise.

On 7 March 2011, the Company entered into the conditional placing agreement with the placing agent on a best endeavour basis for the placing of 264,062,079 new ordinary shares and 264,062,079 new ordinary shares were issued and allotted on 16 March 2011. The net proceeds in the amount of approximately HK$15.58 million was intended to be as general working capital of the Group.

On 21 June 2011, the Company entered into the conditional placing agreement with the placing agent on a best endeavour basis for the placing of 316,870,000 new ordinary shares and 15,843,500 new ordinary shares (after adjustment of Capital Reorganisation 2) were issued and allotted on 29 June 2011. The net proceeds in the amount of approximately HK$6.53 million was intended to be as general working capital of the Group.

As at 30 June 2011, the total issued shares of the Company were 95,062,123 shares.

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, an executive director and the Chairman of the Company, Mr. Wong Yao Wing, Robert, an executive director and the Deputy Chairman 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 Defendants denied the claims of the Plaintiff and have sought legal advice in this regard. The Defendants will rigorously defend the case and will take appropriate legal action.

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.

Material Acquisitions and Disposals during the Year and Future Plans for Material Investments

Save as the acquisition of 100% equity interests in Active Link and disposal of Inno Gold Mine and its subsidiaries mentioned in "Business Review", there were no material acquisitions and disposals of investments by the Group during the year ended 30 June 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 (adjusted after Capital Reorganisation 1 and Rights Issue per share during the conversion period. During the year ended 30 June 2010, an equivalent of HK$27,506,000 convertible bonds has been converted into ordinary shares of the Company. The remaining balance of convertible bonds with an equivalent amount of HK$15,878,000 has been fully redeemed on 28 February 2011. 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$20.14 (adjusted after the Rights Issue and Capital Reorganisation 2) per share during the conversion period. During the year ended 30 June 2010, an equivalent of HK$13,800,000 convertible bonds has been converted into ordinary shares of the Company. 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 21 June 2011, the convertible notes with an equivalent amount of HK$31,800,000 were redeemed at 95% of principal amount. The remaining balance of convertible notes with an equivalent amount of HK$4,400,000 which will be converted into 218,471 shares. 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 a conversion price of HK$0.549 (adjusted after the Capital Reorganisation 1 and Rights Issue) 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

Up to 30 June 2011, there were no borrowings denominated in foreign currency. The management of the Company is of the opinion that 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 the entities' own functional currencies. As a result, the Group had not used any financial instruments for hedging against fluctuation in interest rate to reduce any currency risk for the year ended 30 June 2011.

Human Resources

The average number of employees from continuing operations (including Directors) was 60 as at 30 June 2011 (2010: 28), and the total staff costs (including Directors' remuneration) for the year ended 30 June 2011 was approximately HK$9,943,000 (2010: HK$9,784,000). The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other benefits provided by the Group to the employees include MPF, medical coverage and share-based payments.

For the year ended 30 June 2010

Financial Performance

The Group reported a turnover of approximately HK$9,345,000 for the year ended 30 June 2010, representing a decrease of approximately 88% compared with the turnover of approximately HK$78,112,000 for the year ended 30 June 2009. During the 12 months of operation, the intelligence system business sector contributed a turnover of approximately HK$9,345,000 being the major source of turnover. Gross loss for the Group is approximately HK$10,674,000 (2009: HK$2,586,000).

The loss is mainly attributable to the substantial reduction in the valuation of the gold mining business of the Group resulting from a revision of business strategy and focus due to (1) changes in the regulatory environment; (2) market sentiment in respect of companies engaging in gold mining business on a small scale; and (3) delay in making progress in increasing the output of the Zhang Jia Fan Gold Mine, the only gold mine held by the Group.

The Group's loss before taxation as at 30 June 2010 was approximately HK$236,448,000 (2009: HK$390,835,000). Basic loss per share as at 30 June 2010 was HK$(24.76) cents (2009: HK$(25.08) cents). The Directors do not recommend the payment of a final dividend for the year ended 30 June 2010 (2009: Nil).

Business Review

Software Application Solutions and Hotel Business Division

The domestic sale of i-Panel and Apbus products and the provision of intranet design for residential communities has always been the backbone of the Group. The ever-evolving market conditions in the sale of i-Panel, Apbus products and provision of intranet design for residential communication property sector in the PRC is highly competitive. Participants in the industry in the PRC market include international and domestic brands which compete in. This competition has led to leading brands continuing to gain market share at the expense of less established brands. To compete effectively and maintain our market share, we may be forced to, among other actions, optimize our production costs, increase marketing efforts, which may in turn adversely affect our profit margin.

Due to the unsatisfactory performance of our hotel business division, we had to significantly scale down our hotel operations in the PRC in 2009 thus resulting in a significant write off in our investments in the hospitality business in PRC last year. The Group intended to focus on other businesses and continued to expand into industries with more prospects.

Investment in Gold Mining Industry – Acquisition of Gaofeng Holding Co. Limited

Reference is made to the announcements of the Company dated 10 June 2009, 30 September 2009 and 6 October 2009 respectively and the circular (the "**Circular A**") of the Company dated 11 September 2009. Unless otherwise defined, terms used herein shall have the same meanings as those defined in the Circular A.

The acquisition of 47.2% of the issued share capital of HK Gaofeng was completed on 27 October 2009. Subsequent to Completion, HK Gaofeng is owned as to 60.8% by Dragon Emperor, as to 1.8% by Inno Gold Mine and as to 37.4% by the Vendor. Dragon Emperor and Inno Gold Mine are wholly owned by the Company. Accordingly, HK Gaofeng became a subsidiary of the Company and is beneficially owned as to 62.6% by the Group. As the approval for the acquisition of 81.5% equity interests in Zhang Jia Fan Gold Mine had been obtained from Jiangxi Commerce Administrative Bureau, Jiu Jiang Gaofeng became interested in 81.5% of Zhang Jia Fan Gold Mine on 9 July 2009. Accordingly, Zhang Jia Fan Gold Mine became an indirect subsidiary of the Company.

The initial plan is for the Company to (i) accelerate the production capacity of the Zhang Jia Fan ("**ZJF**") Gold Mine to 360,000 tons each year after completion of acquisition and (ii) invest in numerous gold mines with low quantity reserves in addition to the ZJF Gold Mine. To increase the production output of ZJF Gold Mine, substantive resources, in the approximate amount of HK$43.5 million have to be invested in plant and equipment. On the basis that the Company will make the required capital expenditure and the ZJF Gold Mine achieves an annual output of 360,000 tons, the valuation of the ZJF Gold Mine as at October 2009 was approximately HK$212 million.

In October 2009, approval of the right to increase the exploration and extend the excavation depth of the mining area was obtained. A geological feasibility study on the extended excavation depth of the mining area was commissioned which at 8 September 2009 has not yet completed. The purpose of commissioning the geological feasibility study is part of the initiative to increase the production output of the ZJF Gold Mine.

At the same time, the Group also commenced to identify other suitable gold mining project for acquisition. However, there has been a tightening of the regulatory environment in relation to the acquisition of mining business by listed companies resulting in uncertainties as to the time required to complete the acquisition, the increased cost of acquisition due to the changes in the regulations and market sentiment in respect of companies engaging in gold mining business.

Furthermore, no significant progress was made in increasing the output of the ZJF Gold Mine due to the delay in the completion of the geological feasibility study. In the meantime, the Group continued with the operating of one small scale gold mine with 45,000 tons output each year.

In light of change in circumstances, the management 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. In line with the revised business strategy, the Company in June 2010 approved the proposal to invest in a bus station advertising agency business with a guarantee that the business will at least earn an annual net profit after tax of HK$11 million.

In the premises, during the financial year ended 30 June 2010, the annual production capacity of ZJF Gold Mine remains at 45,000 ton, hence, the valuation of the gold mining business is substantially reduced.

Disposal of GCM

Reference is made to the announcement of the Company dated 3 May 2010, the Board anticipates that the business of provision of advertising related consultation services will be subject to fierce competition and thus the disposal of GCM will enable the Group to preserve more management efforts and financial resources to focus on existing business.

On 3 May 2010, Shiny Step Investments Limited, a wholly-owned subsidiary of the Company, Duncan Capital Limited and Mr. Shek Ka Sun, Andy entered into the sale and purchase agreement pursuant to which Shiny Step Investments Limited has agreed to sell and Duncan Capital Limited has agreed to acquire the 238 shares (representing approximately 19.19% of the issued share capital of GCM) in the share capital of GCM for the Consideration of HK$43,000,000 which had been satisfied (i) as to HK$2,150,000 in cash; (ii) as to HK2,150,000 by the issue of the first promissory notes matured on 3 August 2010; and (iii) as to HK$38,700,000 by the issue of the second promissory notes maturing on 3 May 2011 by Duncan Capital Limited.

Acquisition of Active Link

Reference is made to the announcements of the Company dated 21 July 2010 and 10 August 2010 respectively and the circular (the "**Circular B**") of the Company dated 24 August 2010. Unless otherwise defined, terms used herein shall have the same meanings as those defined in the Circular B. On 19 July 2010, the Company entered into the agreement with Chuk Ka Yi, Tam Wing Yuen, Chan Pui Shan Vivien and J&K TMT Investment Company Limited for the acquisition of the entire issued share capital in Active Link which indirectly holds 80% equity interests in Shijiazhuang Xunhua.

Upon completion, the Group will own 100% shareholding in Active Link and its subsidiaries which in return owns 80% equity interests of Shijiazhuang Xunhua. Shijiazhuang Xunhua's principal businesses include design, production and publication of outdoor advertisements in the PRC. Pursuant to two licensing agreements made between the Local Bus Company and Shijiazhuang Xunhua, 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. It is the common understanding between the Local Bus Company and Shijiazhuang Xunhua that the granting of such advertising rights is on an exclusive basis.

The Local Bus Company has also licensed to Shandong Xunhua the advertising rights on all 2,100 single-decker buses operated and owned by the Local Bus Company. Pursuant to the sub-License, Shandong Xunhua has sub-licensed its advertising rights on all such 2,100 single-decker buses to Shijiazhuang Xunhua. It is the common understanding between the Shandong Xunhua and Shijiazhuang Xunhua that the granting of such sub-license is on an exclusive basis. The Local Bus Company is a public bus operator in Shijiazhuang City, Hebei Province, the PRC, which currently operates and owns approximately 2,100 single-decker buses, 12 double-decker buses and 1,544 bus stations.

The Board is of the view that the acquisition is a good opportunity for the Group to further expand its business in outdoor advertising and display industry in the PRC.

Prospects

Advertising and Display Industry

In order to broaden its source of income and expand the business operations of the Group, the Directors believe that it is beneficial for the Group to diversity its business into the advertising industry in the PRC. An extensive research conducted by Morgan Stanley has shown that there is an 80% correlation between GDP and advertising spending. Economic downturn in 2008 has had a major effect in the media and advertising industry worldwide (MorganAnderson Consulting 2009) suffered the sharpest decline in any single year since the Great Depression, and the PRC market was no exception.

The research figures published by CTR Media Intelligence showed that the average year on year growth of PRC's advertising expenditure from 2003 to 2008 was 20.71%. The growth in 2009 had been considerably lower, but remains a 2-digit growth at 13.5%. The research conducted by Research in China shows that television remains as the most popular adverting media due to its greater competitive edge having a wider coverage and deeper penetration over the rest of the market. In 2009, the market and advertising expenditure in PRC television alone amounted to around RMB115 billion.

The overall advertising and marketing expenditure within the outdoor media sector amounts to RMB41 billion in 2009. As the stimulus policies adopted by the PRC government and the strength of domestic consumption should help propel PRC's economy in 2010, the continuing recovery of the PRC economy in 2010 and the strong correlation between GDP and advertisement spending. While competition in the outdoor advertising industry will continue to be intense, the Board remains optimistic about the mid- to long term growth prospects of the advertising industry in PRC. 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 acquisition of Active Link will enrich the earning base of the Group by introducing an additional investment platform to the Group.

Financial Review

Liquidity and Financial Resources

As at 30 June 2010, the net current assets of the Group were approximately HK$13,185,000 (2009: net current liabilities of HK$11,298,000). Out of the current assets as at 30 June, approximately HK$10,326,000 (2009: HK$10,735,000) were cash and cash equivalents. The current ratio of the Group as at 30 June 2010 was 128% (2009: 65%). As 30 June 2010, the borrowings of the Group, which comprised the unsecured and non-interest bearing convertible notes issued by the Company in 2009, amounted to HK$66,752,000 (2009: HK$34,063,000). The interest charged of the convertible notes for the year ended 30 June 2010 was calculated using the effective interest method by applying the effective interest rate ranging from 11.97% to 19.75% to the liability component of the convertible notes. The convertible notes are denominated in Hong Kong dollars and will be due in 2010 and 2011.

Net debt (i.e. total borrowings less cash and cash equivalent and pledged deposits) as at 30 June 2010 was HK$56,426,000 (2009: 23,328,000) and accordingly net debt gearing ratio (i.e. net debt/net assets) as at 30 June 2010 was 102% (2009: 28%).

Capital Structure

Share Consolidation

Reference is made to the announcement of the Company dated 2 October 2009 and the circular of the Company dated 14 October 2009 (the "**Circular C**"). Unless otherwise defined, terms used herein shall have the same meanings as those defined in the Circular C. On 12 November 2009, the Company has implemented the share consolidation on the basis that every five (5) issued and unissued shares of HK$0.02 each in the share capital of the Company will be consolidated into one (1) consolidated share of HK$0.10 each. As at 12 November 2009, the total issued shares of the Company is 482,327,135 consolidated shares.

During the period from 1 July 2009 to 11 November 2009 (before share consolidation), the Company issued 267,457,866 new ordinary shares of which 2,000,000 shares were from exercise of staff options pursuant to the post-IPO share option scheme of the Company and 265,457,866 shares were from the conversion of convertible notes.

During the period from 12 November 2009 (after share consolidation) to 30 June 2010 the Company issued: (a) 10,000,000 new ordinary shares which were from the conversion of convertible note, (b) 214,465,427 new ordinary shares which were from the placements, and (c) 35,239,620 new shares which were from the exercise of staff options pursuant to the post-IPO share option scheme of the Company. As at 30 June 2010, the total issued shares of the Company were 742,032,182 shares.

Subscription and Placing Activities

On 13 January 2010, the Company announced the Subscription of 94,465,427 new shares by independent third parties which was completed on 27 January 2010. The net proceeds in the amount of approximately HK$21.6 million was intended to be used as general working capital of the Group and for its business development. As at 8 September 2009, the entire amount of net proceeds has been utilized as general working capital for settlement of accounts payable.

On 23 March 2010, the Company announced the placing of a maximum of 120,000,000 new shares to independent third parties which was completed on 29 March 2010. The net proceeds in the amount of approximately HK$27 million was intended to be used as general working capital of the Group. As at 8 September 2009, the entire amount of proceeds has been utilized as to approximately HK$10.9 million for administration and professional expenses and approximately HK$10 million for investment in listed securities and the balance was held as bank deposit.

On 26 June 2010, the Company announced the subscription of 148,000,000 new shares by independent third parties which was completed on 7 July 2010. The net proceeds in the amount of approximately HK$24.8 million was intended to be as to 90% to finance the acquisition set out in the Company's announcements dated 26 June 2010 and 21 July 2010 and as to the remaining 10% as general working capital of the Group. As at 8 September 2009, the entire amount of proceeds has been utilized as to approximately HK$0.8 million for administration and professional expenses and the balance was held as bank deposit.

Conversion of Convertible bonds

On 28 February 2009, the Company issued convertible notes with principal amount of HK$43,384,000 as consideration for acquisition of approximately 23% interest in GCM. The convertible notes, with maturity date on 28 February 2011, are convertible into shares at a conversion price of HK$0.319 per share during the conversion period. During the year, the Company issued 37,000,000 shares (equal to 185,000,000 shares before share consolidation) being the shares converted from the convertible notes and the balance of the principal amount of the convertible notes is HK$15,878,000 which will be converted into 49,774,294 shares.

On 15 May 2009, the Company issued convertible notes with the total principal amount of HK$16,680,000 as consideration for acquisition of approximately 15.4% interest in Gaofeng Holdings Co. Limited. The convertible notes, with maturity date on 15 May 2010, are convertible into shares at a conversion price of HK$0.30 per share during the conversion period. During the year, the Company issued approximately 6,091,573 shares (equal to 30,457,866 shares after share consolidation) being the shares converted from the convertible notes.

On 27 October 2009, the Company issued convertible notes with the total principal amount of HK$75,000,000 as consideration for acquisition of approximately 47.2% interest in Gaofeng Holdings Co. Limited. The convertible notes, with maturity date on 27 October 2011, are convertible into shares at a conversion price of HK$0.69 per share during the conversion period. During the year, the Company issued 20,000,000 (50,000,000 shares before share consolidation and 10,000,000 shares after share consolidation) shares being the shares converted from the convertible notes and the balance of the principal amount of the convertible notes is HK$61,200,000 which will be converted into 88,695,652 shares.

Foreign Exchange Risk

Up to 30 June 2010, there were no borrowings denominated in foreign currency. The management of the Company is of the opinion that the Group has insignificant exposure to interest rate risk and foreign currency exchange risk. As a result, the Group had not used any financial instruments for hedging against fluctuation in interest rate nor foreign currency for the year ended 30 June 2010.

Pledge of Assets

There were no assets pledged to third parties as at 30 June 2010 (2009: time deposits of HK$10,000,000 have been pledged against banking facilities granted to the Group).

Contingent Liabilities

On 31 August 2010, a Writ of Summons was issued by Mr. Lim Yi Shenn as the Plaintiff against the Defendants, Ms. Wong Yuen Yee, an executive director and the Chairman of the Company, Mr. Wong Yao Wing, Robert, an executive director and the Deputy Chairman of the Company and the Company. 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 Defendants denied the claims of the Plaintiff and have sought legal advice in this regard. The Defendants will rigorously defend the case and will take appropriate legal action.

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.

Material Acquisitions and Disposals during the Year and Future Plans for Material Investments

Save as aforementioned, there were no material acquisitions and disposals by the Group during the year ended 30 June 2010.

Human Resources

The average number of employees (including Directors) was 52 as at 30 June 2010 (2009: 123), and the total remuneration for the year ended 30 June 2010 was approximately HK$10,226,000 (2009: HK$42,010,000). The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

For the year ended 30 June 2009

Financial Performance

The Group reported a turnover of HK$78,112,000 for the year ended 30 June 2009, representing a decrease of approximately 45.74% compared with the turnover of HK$143,971,000 for the period ended 30 June 2008. During the 12 months of operation, the intelligence system business sector contributed a turnover of approximately HK$74,374,000 and the hotel business sector contributed a turnover of approximately HK$3,738,000 to the Group respectively.

Gross loss for the Group was approximately HK$2,586,000 (2008: gross profit of HK$32,007,000).

The Group's loss before income tax as at 30 June 2009 was approximately HK$390,835,000 (2008: HK$68,743,000). Basic loss per share as at 30 June 2009 was HK25.08 cents (2008: HK6.28 cents). The Directors do not recommend the payment of a final dividend for the year ended 30 June 2009 (2008: Nil).

Business Review

Software Application Solutions

The domestic sale of i-Panel and Apbus products and the provision of intranet design for residential communities remained the core business of the Group. As it is the dual corporate strategy of the Group to strengthen its existing business and at the same time identifying and capitalizing new opportunities to achieve financial growth for the Group and to maximum shareholders' value, the Group continues expanding into industries such as outdoor advertising and display industry and gold mining industry.

Investment in China Outdoor Media Industry – Acquisition of GCM

On 10 December 2008, Shiny Step Investment Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Capital Base Holdings Limited pursuant to which Shiny Step Investment Limited acquired approximately 23% of the issued share capital of GCM at a consideration of approximately HK$44,354,000. The acquisition was completed on 28 February 2009. GCM is principally engaged in the business of the provision of advertising related consultation services.

Investment in Gold Mining Industry – Acquisition of Gaofeng Holding Co. Limited

On 6 May 2009, Inno Gold Mine, an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with Mr. Wong Chung Pong, Christopher and Ms. Ou Yang Ying to which Inno Gold Mine acquired the entire issued share capital of Dragon Emperor which was interested in 13.6% of the issued share capital of Gaofeng Holding Co. Limited at a consideration of approximately HK$22,172,000. On the same date, Inno Gold Mine acquired 1.8% of the issued share capital of Gaofeng Holding Co. Limited at a consideration of approximately HK$2,940,000. The Group through Inno Gold Mine and Dragon Emperor, became interested in an aggregated of 15.4% shareholding interests in Gaofeng Holding Co. Limited on 15 May 2009. As at 30 June 2009, Gaofeng Holding Co. Limited is interested in the entire equity interests in Jiu Jiang Gaofeng. Jiu Jiang Gaofeng is a limited liability company established in China 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. 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, the PRC covering a mining area of 0.4970 km^2. Zhang Jia Fan Gold Mine held a mining right approval 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, the overall estimated amount of resources of gold of Zhang Jia Fan Gold Mine is 1,014,895t.

Economy Hotel Business

Disposal of two hotel assets

On 26 June 2009, Inno Hotel Investment & Management Holdings Limited ("**Inno Hotel Investment**"), an indirect wholly-owned subsidiary of the Company, entered into two sale and purchase agreements with Timewon Limited and Main Move Limited in relation to the disposal of the entire issued share capital of Sunny Team Corporation Limited ("**Sunny Team**") and Homesmart Properties Limited ("**Homesmart**") for a consideration of each of them at RMB2,000,000 respectively.

The consideration of Sunny Team of RMB2,000,000 is arrived at after arm's length negotiation between the parties taking into account (i) the valuation of the Xindu Hotel Property (the property comprises certain buildings located at No. 106, Guangming Road, Kaiping, the PRC, with a floor area of 6,210.18 square metre and 635.98 square metre, respectively and car parking spaces with an area of 755.50 square metre located at No. 107 Guangming Road, Kaiping, China.) as at 19 June 2009 by BMI Appraisals Limited, in the amount of RMB10,500,000 (equivalent to approximately HK$11,666,000); and (ii) the outstanding bank loan in the principal amount of RMB8,500,000 (equivalent to approximately HK$9,444,000) borrowed by the Sunny Team (the "**Sunny Team Bank Loan**"). The parties agreed that Inno Hotel Investment shall pay an amount equal to the interest payment incurred under the Sunny Team Bank Loan from the day immediately after the last interests incurring period up to the date of completion in the amount of approximately RMB64,000 (equivalent to approximately HK$71,000) to Timewon Limited on completion. The transaction was completed on 30 June 2009.

The consideration of Homesmart of RMB2,000,000 is arrived at after arm's length negotiation between the parties taking into account (i) the valuation of the Kaiping Hotel Property (the property comprises two four-storey buildings and one seven storey building located at No. 22 Xi Jiao Road, Chang Sha, San Bu Town, Kaiping City, Guangdong Province, China, with a total gross floor area of approximately 4,387.29 square metres.) as at 19 June 2009 by BMI Appraisals Limited, in the amount of RMB13,000,000 (equivalent to approximately HK$14,444,000); and (ii) the outstanding bank loan in the principal amount of RMB11,000,000 (equivalent to approximately HK$12,222,000) borrowed by Homesmart (the "**Homesmart Bank Loan**"). The parties agreed that Inno Hotel Investment shall pay an amount equal to the interest payment under the Homesmart Bank Loan from the day immediately after the last interests incurring period up to the date of completion in the amount of approximately RMB106,000 (equivalent to approximately HK$118,000) to Main Move Limited on completion. The transaction was completed on 30 June 2009.

*Disposal of Autoscale Resources Limited ("**Autoscale**")*

On 16 February 2009, the Company entered into the sale and purchase agreement with Certain Success Holdings Limited pursuant to which the Company agreed to dispose 56% of the issued share capital of Autoscale at a consideration of HK$3,144,960 to be satisfied in cash by Certain Success Holdings Limited and was completed in March 2009.

The sole asset of Autoscale is 12,000,000 shares in China Health Care Corporation ("**CHCC**"), representing approximately 23.93% of the total issued share capital of CHCC. CHCC is principally engaged in the business of infrastructure investment in boutique units in hospitals or medical centres and providing hospital management and medical consultation services through co-operation with hospitals and medical institutions in the PRC and Macau. With the economic downturn, the Group considered that it would be more appropriate to focus its human and financial resources on the business sector with a more promising growth in the years to come. After the disposal of Autoscale, the Group will focus its resources on software application, outdoor advertising and gold mining sectors, which in the opinion of the Directors, would have a better growth potential.

Outlook

During the year under review, the Group's results were unsatisfactory especially the hotel business. Due to the worldwide economic turbulence and the closure of factories and offices in Guangdong province bring about challenges to the hotel business of which a low profitability is to be anticipated in the near future. Accordingly, the Board has reviewed the Group's portfolio of investment and the business development plans for coming years and decided to focus the Group's financial and management resources in developing its outdoor media business and the gold mining business.

During the recent years, there has been a continuous increase in demand in gold consumption in China for domestic and investment purpose. Apart from import, China has excavated and refined approximately 246 tons of gold last year.

With the recent surge in gold price and the continuous anticipation of the rise in gold price in the near future, the Board considers that the gold mining business would be promising. The Group continues to seek opportunities to acquire valuable gold mines in China so as to maintain a sustainable profitability.

Financial Review

Liquidity and Financial Resources

As at 30 June 2009, the net current liabilities of the Group were approximately HK$11,298,000 (2008: Net current assets HK$136,282,000). Out of the current assets as at 30 June 2009, approximately HK$10,735,000 (2008: HK$50,305,000) were cash and bank balances. The current ratio of the Group as at 30 June 2009 was 65% (2008: 248%).

As at 30 June 2009, the borrowings of the Group, which comprised the bank loans, bank overdrafts and convertible notes issued by the Company in 2009, amounted to HK$34,063,000 (2008: HK$14,837,000). The table below sets out the breakdown of the Group's borrowings:

	HK$'000
Bank loans	10,000
Bank overdrafts	1,957
Convertible notes	22,106
	34,063

The bank loans and bank overdrafts of the Group were denominated in Hong Kong dollar and repayable in one year, and the effective interest rates of the bank loans and bank overdrafts were 3.4% and 5.8% per annum respectively.

The convertible notes of the Group is unsecured and non-interest bearing, however, the interest charged of the convertible notes for the year ended 30 June 2009 was calculated using the effective interest method by applying the effective interest rate ranging from 16.15% to 19.75% to the liability component of the convertible notes. The convertible notes are denominated in Hong Kong dollar and will be due in 2010 and 2011.

Net debt (i.e. total bank borrowings less cash and cash equivalent and pledged deposits) as at 30 June 2009 was HK$23,328,000 (2008: Nil) and accordingly net debt gearing ratio (i.e. net debt/ net assets) as at 30 June 2009 and 30 June 2008 were 28% and nil respectively.

Capital Structure

On 29 August 2008, the Company placed 107,704,193 shares (as to 48,852,097 shares to Ms. Wong Yuen Yee and 58,852,096 shares to Mr. Wong Yao Wing, Robert) and raised approximately HK$39,850,551. On 28 November 2008, the Company placed 135,000,000 shares to an independent party and raised approximately HK$11,745,000. On 23 January 2009, the Company placed 48,000,000 shares to independent third parties and raised approximately HK$4,176,000. Those funds raised are for the development of the hotel business and to finance the research and development capability and as general working capital of the Group's principal business in the application of i-Panel and its integrated hardware and software service provision.

On 28 February 2009, the Company issued convertible notes with the principal amount of HK$43,384,000 for the acquisition of approximately 23% interest in GCM. 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. During the period from 28 February 2009 to 30 June 2009, the Company issued 246,128,527 shares being the shares converted from the convertible notes and the balance of the principal amount of the convertible notes as at 30 June 2009 was HK$27,681,000 which will be converted into 433,871,473 shares.

On 15 May 2009, the Company issued convertible notes with the total principal amount of HK$16,680,000 for the acquisition of approximately 15.4% interest in Gaofeng Holding Co. Limited. The convertible notes, with maturity date of 15 May 2010, are convertible into shares at an initial conversion price of HK$0.06 per share during the conversion period. During the period from 15 May 2009 to 30 June 2009, the Company issued 247,542,133 shares being the shares converted from the convertible notes and the balance of the principal amount of the convertible notes as at 30 June 2009 was HK$1,827,472 which will be converted into 30,457,866 shares.

Foreign Exchange Risk

Up to 30 June 2009, there were no borrowings denominated in foreign currency. 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 currency for the year ended 30 June 2009.

Charges on Group's Assets

Bank deposits of HK$10,000,000 (2008: HK$13,000,000) as at 30 June 2009 have been pledged against banking facilities granted to the Group.

Contingent Liabilities

The Company and one of its subsidiaries are defendants in a legal action involving the alleged default in one of the installment payments of purchase price to the plaintiff from which the said subsidiary of the Company acquired certain intellectual property rights in 2004.

The plaintiff claimed HK$2,550,000, being the remaining balances of the consideration payable to the plaintiff in full together with interest thereon and cost in June 2006. The defendants settled the disputed installment payment as well as the subsequent installment payments of consideration. As at 30 June 2009, 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, none of the members of the 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 Group.

Material Acquisitions and Disposals during the Year and Future Plans for Material Investments

Save as aforementioned, there were no material acquisitions and disposals by the Group during the year ended 30 June 2009.

On 9 June 2009, Dragon Emperor, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Mr. Wong Chung Pong, Christopher pursuant to which Dragon Emperor acquired approximately 47.2% of the issued share capital of Gaofeng Holding Co. Limited at a total consideration of HK$75,000,000 and to be satisfied by the issuance of the Convertible Note by the Company to Mr. Wong Chung Pong, Christopher. The completion of the Sale and Purchase Agreement is conditional upon (a) the passing at a special general meeting of the Company dated 30 September 2009 and (b) 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 notes. Upon the completion, the Group will be interested in approximately 62.6% of Gaofeng Holding Co. Limited. Details of the transaction has been disclosed in the circular to shareholders issued on 11 September 2009.

The Group will continue to look for possibilities of forming alliances or any investment opportunities in the gold mining industry in the future.

Human Resources

The average number of employees (including Directors) was 123 as at 30 June 2009 (2008: 52), and the total remuneration for the year ended 30 June 2009 was approximately HK$42,010,000 (2008: HK$55,075,000). The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

MANAGEMENT DISCUSSION AND ANALYSIS OF REDGATE VENTURES GROUP

Overview

The management of Redgate Ventures Group considers the following to be important factors when evaluating Redgate Ventures Group's business, prospect and financials:

(1) The overall market for advertising in China;

(2) The growth of advertising expenditures in China;

(3) The macroeconomic growth of China, as evidenced by GDP growth; and

(4) The scarcity of listed Chinese media companies.

Advertising expenditures in China are amongst the highest in the world, with Zenith Optimedia estimating that China will spend approximately US$30 billion on advertising this year, making it the third-largest market for advertising spending in the world. Of the five largest markets in the world for advertising spending, China is by far the fastest-growing, with 16% growth forecast for next year. In addition, GDP is growing quickly, and advertising expenditures in China as a percentage of GDP trail greatly their counterparts in other major markets, like the US and Japan. Lastly, the scarcity of publicly-traded Chinese media companies means that there is less competition for investors in the public markets for the Company, once the acquisition of Redgate Ventures Group is completed.

In terms of risks and challenges, the major risk to Redgate Ventures Group is that it is unable to source capital to fuel its expansion, and this would result in a tremendous missed opportunity for Redgate Ventures' shareholders and investors, and the Redgate Ventures Group company would have to rely solely on organic growth rather than be afforded the complement of acquisitions. The management of plans to market the Enlarged Group's businesses to current and potential investors, as well as research analysts from financial services firms, as part of its investor relations program, in an effort to facilitate the ability of the Company to raise additional expansion capital as needed.

Major Operating Date

The number of billboards and other display spaces operated by Redgate Ventures Group as at 31 December 2009, 2010 and 2011 were:

	As at 31 December		
	2011	**2010**	**2009**
Billboards	69	67	63
Beijing	–	2	10
Wuhan & Hangzhou	26	30	21
Other Cities	43	35	32
Other display spaces (including Light-boxes)	43	282	1,644
Beijing	3	1	1,506
Wuhan & Hangzhou	12	3	109
Other Cities	28	278	29

Note: A single advertisement placed on more than one billboard is counted as one billboard for the purposes of the above table.

The utilization rate of such outdoor advertising inventory during the relevant period was:

	For the year ended 31 December		
	2011	**2010**	**2009**
Utilization rate	87%	100%	100%

The amount of television advertising airtime sold (in minutes) during the relevant period was:

	For the year ended 31 December		
(in minutes)	**2011**	**2010**	**2009**
Airtime sold	1,466	2,607	2,028

Discussion of Results of Operations

1. Financial results for the year ended 31 December 2010 compared to financial results for the year ended 31 December 2011

Turnover

For the year ended 31 December 2011, Redgate Ventures Group's turnover was amounted to approximately HK$277.8 million, representing an increase of approximately 13.3% when compared to that of the previous year (2010: approximately HK$245.1 million). The increase in turnover was mainly attributable to the increase in the revenue generated by the outdoor advertising business.

During the years ended 31 December 2010 and 2011, Redgate Ventures Group's turnover was derived from the PRC. Set out below is the breakdown of Redgate Ventures Group's turnover for the years ended 31 December 2010 and 2011:

	For the year ended 31 December	
	2011	**2010**
	HK$'000	*HK$'000*
Outdoor advertising display revenue	156,251	125,104
Television advertising revenue	118,271	118,449
Newspaper and radio advertising revenue	–	1,519
Other agency services	3,275	–
	277,797	245,072

Gross Profit

Gross profit decreased by approximately 79.1% to approximately HK$13.2 million for the year ended 31 December 2011 from approximately HK$63.3 million in the corresponding period of 2010. The gross profit margin was approximately 4.7% for the year ended 31 December 2011 (2010: approximately 25.8%).

Revenue, Cost of Sale, Gross profit and gross profit margin by segment is illustrated in the following table:

Segment	Year ended 31 December 2010				Year ended 31 December 2011			
	Revenue	Cost of sale	Gross profit	Gross profit margin	Revenue	Cost of sale	Gross profit	Gross profit margin
Outdoor advertising displays	HK$125.1 million	HK$113.9 million	HK$11.2 million	9.0%	HK$156.3 million	HK$151.3 million	HK$5.0 million	3.2%
Television advertisement	HK$118.4 million	HK$66.7 million	HK$51.7 million	43.7%	HK$118.3 million	HK$110.4 million	HK$7.9 million	6.7%

In the outdoor advertising segment, the decrease in gross profit margin was mainly attributed to lower margins during the Shanghai Auto Show in 2001 as compared to the Beijing Auto Show in 2010. The reason is that the company was not the exclusive advertising agent in Shanghai as it was in Beijing. In the television advertisement segment, the decrease in gross profit margin was mainly attributable to the significant increase in the cost of television advertising time slots, while Redgate Ventures Group is gradually adjusting the pricing mix to compensate for the cost increase. Typically, significant price increases take up to 6 months to be accepted by clients as the new normal.

Other Income

Other income increased by approximately 159.9% to approximately HK$4.9 million when compared to that of the previous year (2010: approximately HK$1.9 million). The major source of other income was the compensation of media cost by Beijing Yanhuang's supplier of approximately HK$3.1 million, based on the fact that the supplier resold advertising space in the airport that they had already sold to Beijing Yanhuang.

Selling and Distribution Costs

Selling and distribution costs increased by approximately HK$4.7 million to approximately HK$5.9 million when compared to that of previous year (2010: approximately HK$1.2 million), which is in line with turnover increase in order to develop market and maintain the relationship with clients.

Administrative Expenses

Administrative expenses decreased by approximately 83.8% to approximately HK$8.8 million when compared to that of the previous year (2010: approximately HK$54.3 million). The decrease in administrative expenses was mainly attributable to the recovery of impairment loss on trade and bill receivables of approximately HK$8.1 million. Excluding the effect of impairment loss on trade and bill receivables, the administrative expenses in 2011 were approximately HK$16.9 million compared to approximately HK$20.0 million for the previous year, a decrease of approximately 15.5%. The decrease was due to our continuous efforts in expense control.

Finance Costs

For the year ended 31 December 2011, finance costs included mainly imputed interest on convertible bonds and contingent consideration payable in relation to acquisition of Shanghai Dianguang. Finance costs decreased by approximately 33.3% to approximately HK$13.2 million when compared to that of the previous year (2010: approximately HK$19.8 million). The decrease in finance costs was mainly attributable to the decrease in imputed interest derived from the contingent consideration payable.

Fair Value Change in Contingent Consideration Payable

The Redgate Ventures Group's contingent consideration payable are stated at their fair value as at each reporting period. There was no fair value change in the contingent consideration payable for the year ended 31 December 2011 (2010: gain of approximately HK$87.8 million as the earn-out period ended at 31 December 2010).

Taxation

Income tax expense decreased by approximately 95.1% to approximately HK$10.7 million when compared with that of the previous year (2010: approximately HK$14.4 million). The effective tax rate was approximately -6.6% (2010: approximately 18.8%). The significant change in effective tax rate from 2010 to 2011 was mainly attributable to a significant account of non-taxable income (such as gain in fair value change in contingent consideration payable) being recognised during the year ended 31 December 2010.

Loss for the Period

Loss for the year ended 31 December 2011 was approximately HK$11.0 million (2010: profit of approximately HK$62.2 million).

2. Financial results for the year ended 31 December 2009 compared to financial results for the year ended 31 December 2010

Turnover

For the year ended 31 December 2010, Redgate Ventures Group's turnover was amounted to approximately HK$245.1 million, representing an increase of approximately 32.4% when compared to that of the previous year (2009: approximately HK$185.1 million). The increase in turnover was mainly attributable to the growth in both outdoor advertising display revenue and newspaper and radio advertisement business of Redgate Ventures Group.

For the year ended 31 December 2009 and 2010, Redgate Ventures Group's turnover was derived from the PRC. Set out below is the breakdown of Redgate Ventures Group's turnover for the year ended 31 December 2009 and 2010:

	For the year ended 31 December	
	2010	**2009**
	HK$'000	*HK$'000*
Outdoor advertising display revenue	125,104	103,508
Television advertising revenue	118,449	81,562
Newspaper and radio advertising revenue	1,519	–
	245,072	185,070

Gross Profit

Gross profit decreased by approximately 0.5% to approximately HK$63.2 million when compared to that of the previous year (2009: approximately HK$63.5 million), the gross profit has no significant fluctuation. The gross profit margin was approximately 25.8% for the year ended 31 December 2010 (2009: approximately 34.3%). The drop in the gross profit margin was mainly attributable to increased agency business with lower margins for outdoor segment, resulting in the lower average gross margin. Set out below is the breakdown of Redgate Ventures Groups's goss profit for the year ended 31 December 2009 and 2010:

Revenue, Cost of Sale, Gross profit and gross profit margin by segment is illustrated in the following table:

Segment	Year ended 31 December 2009				Year ended 31 December 2010			
	Revenue	Cost of sale	Gross profit	Gross profit margin	Revenue	Cost of sale	Gross profit	Gross profit margin
Outdoor advertising displays	HK$103.5 million	HK$75.0 million	HK$28.5 million	27.5%	HK$125.1 million	HK$113.9 million	HK$11.2 million	9.0%
Television advertisement	HK$81.6 million	HK$46.6 million	HK$35.0 million	42.9%	HK$118.4 million	HK$66.7 million	HK$51.7 million	43.7%

The decrease in gross profits in the outdoor advertising displays was due to the fact that the cost of services grew by 52% while turnover only increased 21% during the period.

Other Income

Other income increased by approximately 72.7% to approximately HK$1.9 million when compared to that of the previous year (2009: approximately HK$1.1 million). The major source of other income was government subsidies of approximately HK$1.4 million. The government subsidies comprising business tax and income tax refunds are discretionary in nature, usually once a year rather than one-off. The tax refunds were from the Shanghai tax bureaus to encourage the development of local enterprises according to the annual economic environment, and there is no specific eligibility requirement.

Selling and Distribution Costs

Selling and distribution costs increased by approximately 20% to approximately HK$1.2 million when compared to that of the previous year (2009: approximately HK$1.0 million). The increase in selling and distribution costs was mainly attributable to the increase in travelling expenses as the Group expanded its business to other provincial locations.

Administrative Expenses

Administrative expenses increased by approximately 293.5% to approximately HK$54.3 million when compared to that of the previous year (2009: approximately HK$13.8 million). The increase in administrative expenses was mainly attributable to the impairment loss on trade receivables of approximately HK$34.3 million and staff costs of approximately HK$10.5 million.

Finance Costs

For the year ended 31 December 2010, finance costs included mainly imputed interest on contingent consideration payable in relation to acquisition of Shanghai Dianguang. Finance costs decreased by approximately 33.1% to approximately HK$19.8 million when compared to that of the previous year (2009: approximately HK$29.6 million). The decrease in finance costs was mainly attributable to the decrease in interest-bearing principal.

Fair Value Change in Contingent Consideration Payable

The Redgate Ventures Group's contingent consideration payable are stated at its fair value as at each reporting period. The upward fair value change in the contingent consideration payable of approximately HK$87.8 million was recognized as a gain for the year ended 31 December 2010 (a 2009 loss of approximately HK$34.4 million was due to the actual net profit in 2009 being higher than the estimate made in 2008). The reason for the significant change in the fair value of the contingent consideration was that part of the calculation was based upon estimating the 2010 net profit of Shanghai Dianguang in 2009. However, by the end of 2010, the actual audited net profit was lower than the estimate made in 2009, and hence the fair value of the contingent consideration payables was reduced accordingly.

Taxation

Income tax expense increased by approximately 4.3% to approximately HK$14.4 million when compared with that of the previous year (2009: approximately HK$13.8 million). The effective tax rate was approximately 18.8% (2009: approximately -62.1%). The significant change in effective tax rate from 2009 to 2010 was mainly attributable to the significant increase of non-taxable income, such as gain on fair value change in contingent consideration payable.

Profit for the Year

Profit for the year ended 31 December 2010 was approximately HK$62.2 million (2009: loss of approximately HK$36.1 million).

Financial Review

Goodwill

Goodwill of Redgate Ventures Group was approximately HK$165.9 million, HK$172.1 million and HK$178.1 million as at 31 December 2009, 2010 and 2011 respectively. The goodwill arose from acquisition of two cash generating units, i.e. Beijing Yanhuang and Shanghai Dianguang. The goodwill was allocated as follows:

	As at 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Beijing Yanhuang	44,473	42,977	41,410
Shanghai Dianguang	133,649	129,152	124,444
	178,122	172,129	165,854

Redgate Ventures Group tests for goodwill impairment close to the end of each reporting period, or more frequently if there were indications that goodwill might be impaired. The recoverable amounts of goodwill relating to the aforementioned cash generating units determined by the higher of value-in-use calculations and fair value less cost to sell suggested that there be no impairment in the value of goodwill during the years ended 31 December 2009, 2010 and 2011.

Trade and bill receivables

The trade and bill receivables of Redgate Ventures Group was approximately HK$71.0 million, HK$63.7 million and HK$67.8 million as at 31 December 2009, 2010 and 2011 respectively. The ageing analysis of the trade and bill receivables (net of impairment loss), based on the due date at the end of each year, were as follows:

	As at 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Not yet past due			
Current	23,220	36,566	39,487
Past due			
Within 3 months past due	23,316	18,063	25,248
3 to 6 months past due	8,500	7,142	4,804
6 to 9 months past due	8,458	691	1,296
9 to 12 months past due	2,876	1,029	179
Over 1 year past due	1,436	182	4
	44,586	27,107	31,531
	67,806	63,673	71,018

Redgate Ventures Group imposes a strict control over its trade receivables. Individual credit evaluations are performed on all customers requiring credit over a certain amount. The credit evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, Redgate Ventures Group does not obtain collateral from customers.

Redgate Ventures Group's management determines the provisions, if any, for impairment loss of trade receivables based on an assessment of the recoverability individually. The assessment is based on the credit history of customers and subsequent sales conditions and the current market condition. The individually impaired receivables related to customers that were in financial difficulties or have delayed payment, and management does not, therefore, expect those receivables to be fully recovered. In 2011, some customers settled part of the arrearage which were not expected in the year 2010, therefore the reversal of the impairment loss on trade receivables approximately HK$8.1 million has been made for the year ended 31 December 2011 accordingly.

Redgate Ventures Group generally grants its customers credit terms ranging from 30 days to 180 days. The trade receivable turnover days were 97 days, 128 days and 129 days for the year ended 31 December 2009, 2010 and 2011 respectively. The increase of trade receivable turnover days was mainly attributable to long credit terms being offered by Redgate Ventures Group to its clients, the average credit terms granted increased from approximately 90 days in 2009 to 120 days in 2011. Redgate Ventures Group believes that the trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with Redgate Ventures Group.

Prepaid advertising placement service costs

Prepaid advertising placement service costs of Redgate Ventures Group amounted to approximately HK$66.8 million, HK$95.7 million, HK$30.7 million as at 31 December 2009, 2010 and 2011 respectively.

The Prepaid advertising placement service costs of Redgate Ventures Group comprise mainly the prepaid advertising placement service costs of the television segment and their outdoor segment. Prepaid advertising placement service costs of the television segment amounted to approximately HK$44.9 million, HK$69.2 million and HK$Nil million as at 31 December 2009, 2010 and 2011. The increase in prepayment of advertising placement service costs of the television segment in 2010 was mainly due to the prepayment of the advertising placement service costs made pursuant to Redgate Ventures Group's contract with Shanghai Media Group. The decrease in prepayment of advertising placement service costs of the television segment in 2011 was mainly due to the fact that Redgate Ventures Group decided not to renew its contract with Shanghai Media Group. Prepaid advertising placement service costs of the outdoor segment amounted to approximately HK$21.9 million, HK$26.5 million, HK$30.7 million as at 31 December 2009, 2010 and 2011, respectively. The increase in prepayment of advertising placement service costs of the outdoor segment from 2009 to 2011 was mainly due to the fact that the Beijing Yanhuang's subsidiary prepaid a large amount to purchase media resources for a longer contract period.

Amounts due from ultimate holding company, immediate holding company, fellow subsidiaries and related parties

The following table sets out Redgate Ventures Group's amounts due from ultimate holding company, immediate holding company, fellow subsidiaries and related parties as at 31 December 2009, 2010 and 2011:

	As at 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from			
– ultimate holding company	1,759	–	140
– immediate holding company	–	–	164
– fellow subsidiaries	–	–	33,667
– related parties	104,078	54,211	–
	105,837	54,211	33,971

Amounts due from related parties as at 31 December 2010 included approximately HK$32.2 million from Redgate Media Group and its subsidiaries, who have common shareholders with the shareholders of Redgate Ventures, and approximately HK$20.7 million from Mr. Fan Jin Yu who is the general manager and a former owner of Shanghai Dianguang. Amounts due from related parties as at 31 December 2011 included approximately HK$35.0 million from companies under Redgate Media Group and its subsidiaries, and approximately HK$64.8 million from Mr. Fan Jin Yu. The increase from 2009 to 2011 was mainly attributable to an increase in interest-free lending to Mr. Fan Jin Yu. This interest-free loan was provided to Mr. Fan Jin Yu in consideration of his cooperation and understanding in deferring the receipt of the acquisition consideration for Shanghai Dianguang payable to him for an extended period of time. Redgate Media Group is an investment company and the former holding company of Redgate Global. Redgate Media Group is also a shareholder in Shanghai Hongmen, an outdoor media company invested in by Redgate Ventures Group. Redgate Media Group's other subsidiaries are largely dormant, and Redgate Media Group does not compete with Redgate Ventures Group because its main operation is a minority stake in Shanghai Hongmen, a company it jointly controls with Redgate Ventures Group, and which is run by the management of Redgate Ventures Group.

Cash and cash equivalents and restricted bank balance

Cash and cash equivalents of Redgate Ventures Group amounted to approximately HK$50.6 million, HK$36.8 million and HK$36.2 million as at 31 December 2009, 2010 and 2011 respectively. The cash and cash equivalents were denominated in RMB, HK$ and US$.

As at 31 December 2009, a restricted bank balance of approximately HK$6.8 million was pledged for Redgate Ventures Group's bill payable facility granted by a bank. The facility expired in January 2010 and therefore the pledge of the bank balance has been released for the year ended 31 December 2010.

Trade and bill payables, advance payments from customers, accruals and other payables

Trade and bill payables, advance payments from customers, accruals and other payables of Redgate Ventures Group amounted to approximately HK$39.5 million, HK$57.8 million, HK$49.3 million as at 31 December 2009, 2010 and 2011 respectively. The decrease in the balance was mainly due to fewer advance payments from customers in the television segment.

The trade payable turnover days were approximately 16 days, 17 days and 20 days for the year ended 31 December 2009, 2010 and 2011. There were no significant changes of trade payables turnover days in the relevant period.

Acquisition consideration payables

The aggregate acquisition consideration for equity interests in Shanghai Dianguang and Beijing Yanhuang consisted of fixed consideration and contingent acquisition consideration. The acquisition consideration payables represented the fixed consideration payable for the interest in Shanghai Dianguang and Beijing Yanhuang. The following table sets out Redgate Ventures Group's acquisition consideration payable as at 31 December 2009, 2010 and 2011:

	As at 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities	13,652	12,672	32,243

Borrowings

The following table sets out Redgate Ventures Group's borrowings as at 31 December 2009, 2010 and 2011:

	As at 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Bank loan, secured	–	15,348	10,807

Redgate Ventures Group's borrowings were denominated in RMB, arranged at floating interest rates and due for settlement within 12 months. As at 31 December 2009 and 2010, the bank loan was secured by a residential property owned by a former owner of a subsidiary and personal guarantees from one and two former owners of a subsidiary respectively. The interest rates of the bank loan as at 31 December 2009 and 2010 were The People's Bank of China's benchmark loan interest rate plus 5% and 10% per annum respectively.

Amounts due to ultimate holding company, immediate holding company, fellow subsidiaries and related parties

The following table sets out Redgate Ventures Group's amounts due to its ultimate holding company, immediate holding company, fellow subsidiaries and related parties as at 31 December 2009, 2010 and 2011:

	As at 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due to			
– ultimate holding company	–	–	254,539
– immediate holding company	–	–	83,387
– fellow subsidiaries	–	–	3,192
– related parties	175,159	290,733	4,751
	175,159	290,733	345,869

The decrease in 2011 of the amounts due to related parties was due to Redgate Media Group's ("**Redgate Cayman**") waiver of a part of the contingent consideration payable by Redgate Ventures Group due to it, in an approximate amount of HK$80,800,000.

The above balances included mainly contingent consideration payable in relation to acquisition of Shanghai Dianguang and the funds provided by the ultimate holding company, immediate holding company, fellow subsidiaries and related parties to Redgate Ventures Group as working capital. As the contingent consideration in relation to the acquisition of Shanghai Dianguang was paid for by Redgate Cayman on behalf of Redgate Ventures Group, the contingent consideration was thus recorded as amounts due to Redgate Cayman in Redgate Ventures Group's financial statements. Redgate Cayman used to be the ultimate holding company of Redgate Ventures. Following the corporate reorganization effective 31 December 2010 (Details of the corporate reorganization is set out in note 1 to the financial statements in Appendix II Financial Information of Redgate Ventures Group to this circular), Redgate Cayman became a related party of Redgate Ventures. Amounts due to Redgate Cayman and its subsidiaries was classified as amount due to ultimate holding company, immediate holding company or fellow subsidiaries as at 31 December 2009, and the balances were reclassified as amounts due to related parties following the corporate reorganization becoming effective on 31 December 2010. The following table sets out the contingent consideration payable (included in the amounts due to Redgate Ventures Group) as at 31 December 2009, 2010 and 2011:

	As at 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities	50,633	123,460	52,657
Non-current liabilities	–	–	135,850
	50,633	123,460	188,507

The contingent consideration payable is unsecured, interest bearing at 16%, 11% and 11% per annum for the year ended 31 December 2009, 2010 and 2011 respectively, and payable by three installments due on estimated due dates of 30 June 2009, 2010 and 2011. Amounts due to related parties include amounts due to Uni-Asia Limited, a beneficial shareholder of the ultimate holding company of Redgate Ventures, (i) in the principle amount of US$5.0 million, that bears interest at 10% per annum, and (ii) amount of approximately US$0.2 million, that is unsecured and interest free. All other amounts due to Redgate Cayman, Redgate Media (HK) Limited, fellow subsidiaries and related parties are unsecured, interest-free and have no terms of fixed repayment. The Acquisition has no effect on the terms of any of these amounts due to related parties, as the said related parties have signed letters of support confirming that they will not demand repayment of the amounts due to them until Redgate Ventures Group is in a position to repay.

Contingent Liabilities

Under the relevant regulations in the PRC, all outdoor advertisements should be registered with the local branches of the State Administration for Industry and Commerce ("**SAIC**"). As some of Redgate Ventures Group's outdoor advertisements have not been properly registered, the local SAICs may impose administrative sanctions on Redgate Ventures Group, such as fines and See "Regulations – Compliance with Regulatory Requirements". The directors of Redgate Ventures have estimated the potential fines and penalty amounting to approximately HK$42,944,452, HK$72,786,664 and HK$31,909,000 as at 31 December 2009, 2010 and 2011 respectively. In addition, the local SAICs may also request Redgate Ventures Group to discontinue the operation of the affected outdoor displays and all unregistered outdoor advertisements. In such circumstance, where a customer's advertisement can no longer be shown, Redgate Ventures Group will first attempt to find the customer an alternative location of equivalent value, and if that is not acceptable to the customer, then Redgate Ventures Group will refund the unused portion of the customer's advertising budget.

Capital Commitments

Redgate Ventures Group had no capital commitments as at 31 December 2009, 2010 and 2011.

Liquidity, Financial Resources, Cashflows and Capital Structure

Liquidity and financial resources

The following table sets out the current ratio and gearing ratio (defined as total liabilities divided by total assets) of Redgate Ventures Group as at 31 December 2009, 2010 and 2011:

	As at 31 December		
	2011	**2010**	**2009**
Current ratio	0.82	0.60	0.71
Gearing ratio	0.81	0.97	1.12

Redgate Ventures Group regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Redgate Ventures Group maintains a reasonable level of cash and cash equivalents. Redgate Ventures Group's primary cash requirements have been for payment to suppliers on the rental of outdoor advertising displays and payment of debts. Redgate Ventures Group finances its working capital requirements through funds generated from operations and bank borrowings as well as the financing provided by other group companies.

	For the year ended 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Net cash generated by/(used in) operating activities	52,786	6,418	(2,304)
Net cash used in investing activities	(66,001)	(35,475)	(11,602)
Net cash generated by financing activities	11,466	14,104	19,537
Net (decrease)/ increase in cash and cash equivalents	(1,749)	(14,953)	5,631
Cash and cash equivalents at the beginning of the year	36,807	50,648	44,986
Effect of exchange rate changes on cash and cash equivalents	1,168	1,112	31
Cash and cash equivalents at the end of the year	36,226	36,807	50,648

Cash Generated by/Used in Operating Activities

Redgate Ventures Group's net cash generated by operating activities for the year ended 31 December 2011 was approximately HK$52.8 million and cash inflow before working capital changes was approximately HK$2.7 million. The net decrease of approximately HK$52.7 million working capital reflected mainly (i) decrease in prepaid advertising placement service costs amounted to approximately HK$61.1 million; (ii) decrease in trade and bill receivables amounted to approximately HK$2.8 million; and (iii) effect of foreign exchange rates changes amounted to 2.5 million, partly, offset by (i) decrease in trade and bill payables, advance payments from customers, accruals and other payables amounted to approximately HK$10.1 million; and (ii) increase in deposits, prepayments and other receivables amounted to approximately HK$1.4 million.

Redgate Ventures Group's net cash generated by operating activities for the year ended 31 December 2010 was approximately HK$6.4 million and cash inflow before working capital changes was approximately HK$52.3 million. The net increase of approximately HK$41.9 million in working capital reflected mainly increase in trade and bill receivables and prepaid advertising placement service costs amounted to approximately HK$27.9 million and HK$31.4 million respectively, partly offset by increase in trade and bill payables, advance payments from customers, accruals and other payables of approximately HK$18.3 million.

Redgate Ventures Group's net cash used in operating activities for the year ended 31 December 2009 was approximately HK$2.3 million and cash inflow before working capital changes was approximately HK$60.1 million. The net increase of approximately HK$55.7 million in working capital reflected mainly increase in trade and bill receivables and prepaid advertising placement service costs amounted to approximately HK$46.1 million and HK$23.8 million respectively, partly offset by increase in trade and bill payables, advance payments from customers, accruals and other payables of approximately HK$14.1 million.

Cash Used in Investing Activities

Net cash used in investing activities was approximately HK$66.0 million for the year ended 31 December 2011, and it, included an increase in amounts due from related parties amounted to approximately HK$49.6 million and deposit paid for acquisition consideration payable to non-controlling owner of Beijing Yanhuang amounted to approximately HK$13.5 million.

Net cash used in investing activities was approximately HK$11.6 million and HK$35.5 million for the years ended 31 December 2009 and 2010 respectively. In all such periods, payment of acquisition consideration payables, purchase of available-for-sale investments, investment in an associate and/or increase in amounts due from fellow subsidiaries or related parties were the major components of cash flows used in investing activities. Payment of acquisition consideration payables relates to the acquisition of entire equity interest of Shanghai Dianguang and 51% interest of Beijing Yanhuang.

Cash Generated by Financing Activities

Net cash generated by financing activities was approximately HK$11.5 million for the year ended 31 December 2011, the net cash generated by financing activities was mainly contributed by the increase in the amounts due to the ultimate holding company and proceeds from issue of convertible bonds.

Net cash generated by financing activities was approximately HK$19.5 million and HK$14.1 million for the years ended 31 December 2009 and 2010 respectively. In all such periods, the cash inflows reflected mainly the increase in amount due to ultimate holding company and immediate holding company and the effect of refinancing of Redgate Ventures Group's bank borrowings.

Capital structure

As at 31 December 2010, Redgate Ventures had an authorised share capital of 50,000 ordinary shares of US$1.00 each, of which 100 shares were issued and fully paid. Pursuant to a resolution passed on 4 July 2011, the Redgate Ventures' authorised share capital was increased from US$50,000 divided into 50,000 shares of US$1.00 each to US$200,000 divided into 20,000,000 shares of US$0.01 each, and accordingly the existing 100 issued shares with par value of US$1.00 each were divided into 10,000 shares with par value of US$0.01 each. On 5 July 2011, 9,990,000 shares of Redgate Ventures were issued for cash at par. All shares rank *pari passu* to dividends and Redgate Ventures' residual assets.

Human Resources

The following table sets out the staff costs (excluding directors' emoluments) for the three years ended 31 December 2009, 2010 and 2011 and the number of employees of Redgate Ventures Group as at 31 December 2009, 2010 and 2011:

	For the year ended 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Staff costs	8,922	10,465	5,561

	As at 31 December		
	2011	**2010**	**2009**
Number of staff	86	86	85

Prior to October 2009, corporate staff in the Beijing headquarters office were employees of Redgate Media Group, the relevant staff costs were recorded in the book of Redgate Media Group. After the group reorganisation completed in October 2009, these staff has become the employees of Redgate Ventures Group and the staff costs for these staff have been recorded by Redgate Ventures Group since then, accordingly the staff cost of the Redgate Ventures Group for the year ended 31 December 2010 increased by approximately 88.2% when compared with that of previous year.

Redgate Ventures Group offers a comprehensive remuneration package and benefits to its full time employees in compliance with the regulations in Hong Kong and the PRC respectively, including medical schemes and provident funds or retirement funds.

Material Acquisitions

Acquisition of Beijing Yanhuang

On 25 September 2008, Redgate Ventures Group entered into a purchase agreement to acquire 51% equity interest in Beijing Yanhuang, an unlisted company established in the PRC which is principally engaged in the provision of advertising placement agency services in outdoor displays and media advertisement. Following the acquisition of Beijing Yanhuang, Redgate Ventures Group was able to expand its presence in the outdoor advertising business. The gross consideration in relation to the acquisition was approximately HK$70,295,000 (equivalent to RMB61,960,000). Taking into account the discounting effect of 20% per annum, the aggregate fair value of consideration amounted to approximately HK$62,042,000.

Pursuant to the purchase agreement, Redgate Ventures Group has a right to return the 51% equity interests in Beijing Yanhuang to the vendors at the initial consideration paid if Beijing Yanhuang was loss-making in year 2008. As Beijing Yanhuang was profit-making in year 2008, Redgate Ventures Group's equity interests in Beijing Yanhuang remained at 51% as at 31 December 2008.

In addition, the purchase agreement also granted Redgate Ventures Group a right to receive up to an additional 49% equity interests in Beijing Yanhuang for nil consideration if Beijing Yanhuang fails to achieve certain pre-determined profit performance targets in 2008, 2009 and 2010 on a year-on-year basis. As Beijing Yanhuang has achieved the 2008 and 2009 performance targets, Redgate Ventures Group's equity interests in Beijing Yanhuang remained at 51% as of 31 December 2009. Although Beijing Yanhuang failed to meet the 2010 performance target, as stipulated in the acquisition agreement, certain procedures in determination of the achievement of the 2010 performance target have not been completed up to the Latest Practicable Date, including but not limited to, the issuance of the audited singleton financial statements of Beijing Yanhuang required for the determination of the achievement of the performance target which has not been issued up to the Latest Practical Date, as Redgate Ventures Group has prioritized the Completion and issuance of its audited financial statements prior to the issuance of those of Beijing Yanhuang. Redgate Ventures Group intends to issue those financial statements within 60 days of Completion. Therefore the directors of Redgate Ventures Group consider that Redgate Ventures Group's equity interests in Beijing Yanhuang remain at 51% up to the Latest Practicable Date. Redgate Ventures Group and the former owners of Beijing Yanhuang agree that Redgate Ventures Group is entitled to receive the remaining 49% equity interest in Beijing Yanhuang at no additional cost, and Redgate Ventures Group has advised the Company that the aforesaid entitlement has not been disputed.

Acquisition of Shanghai Dianguang

Pursuant to acquisition agreements dated 8 April 2008 (as amended and supplemented by supplemental agreements dated 4 and 12 August 2009) entered into among (a) Redgate Ventures Group, (b) Redgate Media Group ("Redgate Cayman"), and (c) the former equity owners of Shanghai Dianguang, Redgate Ventures Group acquired entire equity interests in Shanghai Dianguang, a private company established in the PRC which is principally engaged in the provision of advertising placement agency services on television. The aggregate consideration consisted of (i) cash payment of RMB5,000,000 (equivalent to approximately HK$5,709,000) and (ii) contingent consideration calculated using the net income of Shanghai Dianguang's audited financial statements for the years ended 31 December 2008, 2009 and 2010 with the weights at 30%, 30%, and 40%, respectively and a specified price-to-earnings multiple upon Shanghai Dianguang achieving certain pre-determined profit performance targets for the years ended 31 December 2008, 2009 and 2010. The specified price-to-earnings multiple for the contingent consideration payable is equal to 7 if the contingent consideration is settled in cash or equal to the higher of (a) the price-to-earnings multiple used in determining Redgate Cayman's or Redgate Ventures Group's initial public offering share price, or (b) a multiple equal to the average of Redgate Cayman's or Redgate Ventures Group's average daily forward price earnings multiples for 10 days subsequent to the public announcement of Redgate Cayman's or Redgate Ventures Group's 2008, 2009 and 2010 audited financial statements if the contingent consideration is settled by issuing Redgate Cayman's or Redgate Ventures Group's listed common shares. Additionally, Redgate Ventures Group agreed to make a contingent bonus payment upon Shanghai Dianguang achieving the pre-determined performance target, which will be determined based on the incremental net income amount from the audited financial statements of Shanghai Dianguang from 2008 to 2009 and the incremental net income amount from the audited financial statements of Shanghai Dianguang from 2009 to 2010. The contingent consideration has not been settled, and a provision in this regard of HK$129.5 million has been made. The contingent consideration will be paid in cash as soon as practicable following the Completion. The contingent bonus payment will be nil, as the pre-determined performance target was not attained.

Foreign Currency Risk

Redgate Ventures Group mainly operates in the PRC with most of the transactions settled in RMB and does not have significant exposure to risk resulting from changes in foreign currency exchange rates. Redgate Ventures Group had no cash and bank balances and borrowings denominated in foreign currency, and thus no financial instrument was used for hedging against the fluctuation in foreign exchange.

Liquidity and Sufficiency of Working Capital

The Directors noted from the opinion of BDO Limited set out in Appendix II to this circular that there is an existence of a material uncertainty which may cast significant doubt on Redgate Ventures Group's ability to continue as a going concern. The Directors are of the view that the unsatisfactory historical financial results of Redgate Ventures Group were caused by drop in gross profit margin. The Directors believe media sector will be one of the fastest growing sectors in the PRC. Besides, the Directors believe that the increase in revenue will be greater than the increase in costs in the foreseeable future, and the financial results of Redgate Ventures Group will be significantly improved. The Directors are of the view that the profitability of Redgate Ventures Group will improve with the expansion of the advertising business into other sectors, which will commence operations in early 2012.

The Group intends to undertake further fund raising exercise after Completion. The cash proceeds from the fund raising exercise will be used to settle the advertising media leases in the approximate amount of HK$17,900,000 for 2012 and the remaining will be used for business development. In the event that further funds are not raised, the said advertising media leases will be funded out of the internal resources of Redgate Ventures Group.

Redgate Ventures Group has no undrawn banking facilities. The funding arrangement for the purpose of liquidity and working capital will be reliant on the internal resources of Redgate Ventures Group and further fund raising exercise that may be undertaken, as mentioned above.

The following is the text of the unaudited pro forma financial information of the Enlarged Group, prepared for the purpose of inclusion in this circular, received from the reporting accountants of the Company, Crowe Horwath (HK) CPA Limited.

Crowe Horwath™

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International
34/F The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong

24 April 2012

The Directors
Inno-Tech Holdings Limited
Room 606, 6/F, MassMutal Tower,
38 Gloucester Road,
Wanchai,
Hong Kong

Dear Sirs,

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF INNO-TECH HOLDINGS LIMITED (THE "COMPANY")

We report on the unaudited pro forma financial information (the "unaudited Pro Forma Financial Information") of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") and Redgate Ventures Limited and its subsidiaries (together with the Group hereinafter referred as the "Enlarged Group") set out on pages 539 to 554 in Appendix IV to the circular of the Company dated 24 April 2012 (the "Circular"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition of entire issued share capital of Redgate Ventures Limited and Redgate Conversion Shares (as defined in the Circular) might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out on pages 539 to 540 of the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THE 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 (the "HKICPA").

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 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. 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 judgements 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 2011 or any future date.
- The results and cash flow of the Enlarged Group for the year ended 30 June 2011 or any future periods.

OPINION

In our opinion:

(a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) 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.

Yours faithfully,
Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong

Lau Kwok Hung
Practising Certificate Number P04169

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

(1) Introduction to the unaudited pro forma financial information of the Enlarged Group

The accompanying unaudited pro forma financial information of the Enlarged Group, comprising the unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group, has been prepared by the directors of the Company in accordance with Rule 7.31(1) of the GEM Listing Rules, for illustrative purposes only, to provide information about how the acquisition of the entire issued share capital of Redgate Ventures Limited and Redgate Conversion Shares (as defined in the Circular) (the "Acquisition") might have affected the financial position, results of operations and cash flows of the Group as if the Acquisition had been completed on (i) 31 December 2011 in respect of the unaudited pro forma consolidated statement of financial position of the Enlarged Group; and (ii) 1 July 2010 in respect of the unaudited pro forma consolidated statement of comprehensive income and cash flows of the Enlarged Group.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2011 is based upon (i) the unaudited consolidated statement of financial position of the Group as at 31 December 2011 extracted from the Company's published interim report for the six months ended 31 December 2011 as referred to in Appendix I to this circular; and (ii) the audited consolidated statement of financial position of Redgate Ventures Limited and its subsidiaries (the "Redgate Ventures Group") as at 31 December 2011 as extracted from the accountants' report thereon set out in Appendix II to this circular after making appropriate pro forma adjustments that are considered necessary as described in the accompanying notes.

The unaudited pro forma consolidated statement of comprehensive income and statement of cash flows of the Enlarged Group for the year ended 30 June 2011 are based upon (i) the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 30 June 2011 extracted from the Company's published annual report for the year ended 30 June 2011 as referred to in Appendix I to this circular; and (ii) the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of Redgate Ventures Group for the year ended 31 December 2011 as extracted from the accountants' report thereon set out in Appendix II to this circular after making appropriate pro forma adjustments that are considered necessary as described in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the unaudited pro forma financial information of the Enlarged Group does not purport to describe the true picture of the financial position, results of operations and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed as at the specified dates. Further, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the future financial position, results of operations and cash flows of the Enlarged Group.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in Appendix I to this circular, the Accountants' Reports on Redgate Ventures Limited as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

(2) Unaudited pro forma consolidated statement of financial position of the Enlarged Group

	The Group as at 31 December 2011	Redgate Venture Group as at 31 December 2011	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(unaudited)	(audited)			(unaudited)
	Note 1	*Note 2*		*Notes*	
Non-current Assets					
Property, plant and equipment	3,726	388			4,114
Intangible assets	51,122	6,472	604,311	*6 (ii)*	661,905
Goodwill	48,979	178,122	(178,122)	*6 (ii)*	1,181,311
			1,132,332	*6 (i)*	
Available-for-sale investments	78,000	497			78,497
Interest in associates investments	1,785	–			1,785
Deposit for acquisition of subsidiaries	80,000	–	(80,000)	*6 (iii)*	–
Deferred tax assets	–	293			293
	263,612	185,772			1,927,905
Current Assets					
Trading securities	6,138	–			6,138
Inventories	861	–			861
Held-to-maturity investment	–	1,222			1,222
Trade and bills receivables	2,843	67,806			70,649
Prepaid advertising placement service costs	–	30,737			30,737
Financial derivatives	–	–	32,520	*6 (v)*	32,520
Deposits, prepayments and other receivables	14,565	19,933	(4,520)	*7*	29,978
Amount due from ultimate holding company	–	1,759	(1,759)	*8*	–
Amounts due from related parties	–	104,078	1,759	*8*	105,837
Cash and cash equivalents	8,730	36,226	(210,000)	*6 (iii)*	20,750
			(8,206)	*7*	
			194,000	*9 (i)*	
	33,137	261,761			298,692
Current liabilities					
Trade payables, advance payments from customers, accruals and other payables	34,426	49,255			83,681
Acquisition consideration payables	5,684	13,652			19,336
Amounts due to related parties	–	175,159			175,159
Convertible notes	–	31,464	(31,464)	*5*	–
Profit distributable to non-controlling owners of acquired subsidiary	–	10,213			10,213
Tax payable	569	38,785			39,354
Financial derivatives	–	–	25,981	*6 (v)*	42,973
			16,992	*9 (iii)*	
	40,679	318,528			370,716
Net current liabilities	(7,542)	(56,767)			(72,024)
Total assets less current liabilities	256,070	129,005			1,855,881

	The Group as at 31 December 2011	Redgate Venture Group as at 31 December 2011	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(unaudited)	(audited)			(unaudited)
	Note 1	*Note 2*		*Notes*	
Non-current liabilities					
Deferred taxation	12,781	1,618	151,078	*6 (ii)*	165,477
Promissory notes	–	–	144,437	*6 (iv)*	144,437
Convertible notes	–	43,241	1,113,587	*6 (v)*	1,291,105
			(5,490)	*9 (ii)*	
			183,008	*9 (iii)*	
			(43,241)	*5*	
Purchases consideration payable	6,364	–			6,364
	19,145	44,859			1,607,383
Net assets	236,925	84,146			248,498
Share Capital	95	780	61	*5*	95
			(841)	*6 (vi)*	
Reserves	227,407	58,557	(1,617)	*5*	214,171
			76,261	*5*	
			(133,201)	*6 (vi)*	
			(12,726)	*7*	
			(510)	*9 (ii)*	
Non-controlling interests	9,423	24,809			34,232
Total equity	236,925	84,146			248,498

(3) Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group

	The Group for the year ended 30 June 2011	Redgate Ventures Group for the year ended 31 December 2011	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(audited)	(audited)			(unaudited)
	Note 3	*Note 4*		*Notes*	
Continuing operations					
Turnover	30,140	277,797			307,937
Cost of services provided	(48,768)	(264,644)			(313,412)
Gross (loss)/profit	(18,628)	13,153			(5,475)
Other revenue	2,281	4,853			7,134
Other net income	5,249	–			5,249
Marketing, promotion and distribution expenses	(2,849)	(5,933)			(8,782)
Administrative expenses	(38,665)	(8,750)	(100,973)	*6 (ii)*	(148,898)
			(510)	*9 (ii)*	
Finance costs	(7,632)	(13,199)	(7,571)	*6 (iv)*	(98,428)
			(59,120)	*6 (v)*	
			(10,906)	*9 (iv)*	
Change in fair value of purchases consideration payable	(979)	–			(979)
Share of loss of associates	(2)	–			(2)
Impairment loss on property, plant and equipment	(4,151)	–			(4,151)
Impairment loss on intangible assets	(12,941)	–			(12,941)
Change in fair value of trading securities	(9,804)	–			(9,804)
Change in fair value of derivative financial instruments	(1,533)	–			(1,533)
Acquisition related cost	–	–	(12,726)	*7*	(12,726)
Impairment loss on available-for-sale investments	–	(422)			(422)
(Loss) before income tax expense	(89,654)	(10,298)			(291,758)
Income tax income/(expense)	3,902	(676)	25,243	*6 (ii)*	28,469
(Loss) for the year from continuing operations	(85,752)	(10,974)			(263,289)
Discontinued operations					
Profit for the year from discontinued operations	721	–			721
(Loss) for the year	(85,031)	(10,974)			(262,568)

	The Group for the year ended 30 June 2011 *HK$'000* (audited) *Note 3*	Redgate Ventures Group for the year ended 31 December 2011 *HK$'000* (audited) *Note 4*	Pro forma adjustments *HK$'000*	*Notes*	The Enlarged Group *HK$'000* (unaudited)
Other comprehensive income					
Exchange differences on translating of financial statements of overseas subsidiaries	(286)	326			40
Reclassification adjustment for realisation of exchange difference transferred to profit or loss upon disposal of interests in subsidiaries	88	–			88
Total comprehensive (loss) for the year	(85,229)	(10,648)			(262,440)
(Loss)/profit attributable to:					
– Owners of the Company	(82,478)	(13,729)	(7,571)	*6 (iv)*	(262,770)
			(100,973)	*6 (ii)*	
			25,243	*6 (ii)*	
			(59,120)	*6 (v)*	
			(12,726)	*7*	
			(10,906)	*9 (iv)*	
			(510)	*9 (ii)*	
– Non-controlling interests	(2,553)	2,755			202
	(85,031)	(10,974)			(262,568)
Total comprehensive income attributable to:					
– Owners of the Company	(82,676)	(14,184)	(7,571)	*6 (iv)*	(263,423)
			(100,973)	*6 (ii)*	
			25,243	*6 (ii)*	
			(59,120)	*6 (v)*	
			(12,726)	*7*	
			(10,906)	*9 (iv)*	
			(510)	*9 (ii)*	
– Non-controlling interests	(2,553)	3,536			983
	(85,229)	(10,648)			(262,440)

(4) Unaudited pro forma consolidated statement of cash flows of the Enlarged Group

	The Group for the year ended 30 June 2011	Redgate Ventures Group for the year ended 31 December 2011	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(audited)	(audited)			(unaudited)
	Note 3	*Note 4*		*Notes*	
Cash flows from operating activities					
(Loss) for the year	(85,031)	(10,974)	25,243	*6 (ii)*	(262,568)
			(100,973)	*6 (ii)*	
			(7,571)	*6 (iv)*	
			(59,120)	*6 (v)*	
			(12,726)	*7*	
			(10,906)	*9 (iv)*	
			(510)	*9 (ii)*	
Adjustments for:					
Income tax (income)/expenses	(3,902)	676	(25,243)	*6 (ii)*	(28,469)
Interest income	(2,279)	(252)			(2,531)
Finance costs	7,632	13,199	7,571	*6 (iv)*	98,428
			59,120	*6 (v)*	
			10,906	*9 (iv)*	
Depreciation of property, plant and equipment	7,490	129			7,619
Write-down of inventories	1,251	–			1,251
Impairment loss on deposit and other receivables	1,689	–			1,689
Amortisation of intangible assets	21,563	3,648	100,973	*6 (ii)*	126,184
(Gain) on disposal of subsidiaries	(4,366)	–			(4,366)
Share of loss of an associate	2	–			2
Impairment loss on intangible assets	12,941	–			12,941
Impairment loss on property, plant and equipment	4,151	–			4,151
Change in fair value of derivative financial instruments	1,533	–			1,533
Gain on extinguishment of convertible notes	(5,040)	–			(5,040)
Reversal of impairment loss on trade and bills receivables	–	(8,090)			(8,090)
Loss on disposal of property, plant and equipment	27	132			159
Impairment loss on prepaid advertising placement service costs	–	3,853			3,853
Change in fair value of trading securities	9,804	–			9,804
Change in fair value of purchases consideration	979	–			979
Impairment loss on available-for-sale investments	–	422			422
Placing commission	–	–	510	*9 (ii)*	510
Operating (loss)/profit before working capital changes	(31,556)	2,743			(41,539)

	The Group for the year ended 30 June 2011 HK$'000 (audited) *Note 3*	Redgate Ventures Group for the year ended 31 December 2011 HK$'000 (audited) *Note 4*	Pro forma adjustments HK$'000	*Notes*	The Enlarged Group HK$'000 (unaudited)
Operating (loss)/profit before working capital changes	(31,556)	2,743			(41,539)
Decrease in inventories	94	–			94
(Increase)/decrease in trade and bills receivables	(444)	2,825			2,381
Decrease in prepaid advertising placement service costs	–	61,101			61,101
(Increase) in deposits, prepayments and other receivables	(6,324)	(1,395)			(7,719)
Increase/(decrease) in trade payables, advance payments from customers, accruals and other payables	16,935	(10,128)			6,807
(Decrease) in amount due to directors	(194)	–			(194)
Effect of foreign exchange rates changes	–	250			250
Cash (used in)/generated from operations	(21,489)	55,396			21,181
Income tax	(111)	(2,610)			(2,721)
Net cash (used in)/generated from operating activities	(21,600)	52,786			18,460
Cash flows from investing activities					
(Increase) in trading securities	(15,040)	–			(15,040)
Deposit paid for available-for-sales investment	(20,000)	–			(20,000)
Payment for purchases of property, plant and equipment	(3,519)	(74)			(3,593)
Proceeds from disposals of property, plant and equipment	9	–			9
Purchase of held-to-maturity investment	–	(1,222)			(1,222)
Purchase of available-for-sale investment	–	(2)			(2)
(Increase) in amounts due from ultimate holding company	–	(1,879)	1,879	*8*	–
(Increase) in amounts due from related parties	–	(49,619)	(1,879)	*8*	(51,498)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(29,794)	–	(253,193)	*6 (iii)*	(282,987)
Disposal of subsidiaries, net of cash and cash equivalents disposed of	13,832	–			13,832
Proceeds from promissory notes	2,150	–			2,150
Payment of acquisition consideration payables	–	(13,457)			(13,457)
Interest received	2	252			254
Net cash (used in) investing activities	(52,360)	(66,001)			(371,554)

	The Group for the year ended 30 June 2011 *HK$'000* (audited) *Note 3*	Redgate Ventures Group for the year ended 31 December 2011 *HK$'000* (audited) *Note 4*	Pro forma adjustments *HK$'000*	*Notes*	The Enlarged Group *HK$'000* (unaudited)
Cash flows from financing activities					
Net proceeds from issue of new shares	272,235	779			273,014
Increase in amount due to ultimate holding company	–	6,748	(6,748)	*8*	–
Increase in amounts due to related parties	–	2,676	6,748	*8*	9,424
Redemption of convertible note	(94,121)	–			(94,121)
Proceeds from convertible notes issued	–	18,609	194,000	*9 (i)*	212,609
Repayments of borrowings	–	(15,348)			(15,348)
Interest paid	(4)	(1,998)			(2,002)
Net cash generated from financing activities	178,110	11,466			383,576
Net increase/(decrease) in cash and cash equivalents	104,150	(1,749)			30,482
Cash and cash equivalents at beginning of year	10,326	36,807	(36,807)	*6 (iii)*	10,326
Effect of exchange rate changes on cash and cash equivalents	(304)	1,168			864
Cash and cash equivalents at end of year	114,172	36,226			41,672
Analysis of cash and cash equivalents balances					
Cash and cash equivalents	114,172	36,226			41,672

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The balances are extracted from the published interim report of the Group for the six months ended 31 December 2011 as set out in Appendix I to this circular.

2. The balances are extracted from the audited consolidated statement of financial position of the Redgate Ventures Limited and its subsidiaries (the "Redgate Ventures Group") as at 31 December 2011 as set out in Appendix II to this circular.

3. The balances are extracted from the published annual report of the Group for the year ended 30 June 2011 as set out Appendix I to this circular.

4. The balances are extracted from the audited consolidated statement of comprehensive income and consolidated statement of cash flow of the Redgate Ventures Group for the year ended 31 December 2011 as set out in Appendix II to this circular.

5. On 6 July 2011, the Redgate Ventures Group issued convertible bonds convertible into shares of Redgate Ventures Limited (the "Redgate CB") to the holders (the "Redgate CB Holders") in the principal amount of US$9,747,633 (equivalent to approximately HK$75,837,000). The Redgate CB contained equity and liabilities components of approximately HK$1,617,000 and HK$74,705,000 respectively as at 31 December 2011. The liabilities component was further divided into current and non-current portions of approximately HK$31,464,000 and HK$43,241,000 as at 31 December 2011.

   Pursuant to the sales and purchase agreement entered into between the Company and vendors dated 8 July 2011 (the "Sales and Purchase Agreement"), one of the vendors has agreed to procure the Redgate CB Holders to sell their shares (the "Redgate Conversion Shares") to the Company upon automatic conversion of the Redgate CB immediate before Completion. The pro forma adjustments represent the conversion of Redgate CB into Redgate Conversion Share as if the conversion has been taken place immediate before Completion on 31 December 2011 effectively the abovementioned equity and liabilities components of approximately HK$1,617,000 and HK$74,705,000(current portion of HK$31,464,000 and non-current portion of HK$43,241,000) respectively were transferred into share capital and share premium of Redgate Venture Limited of approximately HK$61,000 and HK$76,261,000 respectively.

6. On 8 July 2011, the Company entered into the Sale and Purchase Agreement with the vendors to acquire the 100% equity interest in Redgate Ventures Limited (including the entire issued share capital of Redgate Ventures Limited and the Redgate Conversion Shares) (the "Acquisition") for total consideration of HK$1,940,704,206. On 21 February 2012, the Company and the vendors entered into second supplemental agreement, pursuant to which the parties agreed to revise the total consideration from HK$1,940,704,206 to HK$1,750,704,206.

The consideration is to be settled by:

a. as to a sum of HK$80,000,000 in cash by way of a refundable deposit paid on the date of the signing of the Sale and Purchase Agreement;

b. as to a sum of HK$210,000,000 in cash payable at completion of the Acquisition (the "Completion");

c. as to a sum of HK$160,000,000 by way of issue of the promissory notes (the "Promissory Notes") at Completion; and

d. as to a sum of HK$1,300,704,206 by way of issue of the convertible notes (the "Convertible Notes") to the vendors and the Redgate CB Holders at Completion.

The following pro forma adjustments are to reflect the effect of the Acquisition on the unaudited pro forma consolidated statement of financial position of the Enlarged Group as if the Acquisition had been completed on 31 December 2011 and the effect of the Acquisition on the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma statement of cash flows of the Enlarged Group as if the Acquisition had been completed on 1 July 2010.

(i) The pro forma adjustment represents goodwill arising on the Acquisition as if the Acquisition was completed on 31 December 2011:

	HK$'000
Fair value of net identifiable assets of the Redgate Ventures Group *(Note 6(ii))*	433,962
Non-controlling interest	(24,809)
Goodwill	1,132,332
Fair value of consideration transferred *(Note 6(iii))*	1,541,485

In order to assess whether there is any impairment on the intangible assets *(note 6(ii))* and goodwill of the Enlarged Group as at 31 December 2011, the directors of the Company and the reporting accountants have reviewed, in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"), the cash flow forecasts prepared for the purpose of impairment assessment. The directors of the Company have concluded that no impairment is required for the intangible assets and goodwill as stated in the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2011. The reporting accountants concurred with the directors' assessment of impairment of the intangible assets and goodwill as stated in the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2011. The directors of the Company confirmed that they will apply consistent accounting policies and principal assumptions for impairment assessment of intangible assets and goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36.

(ii) Upon Completion of the Acquisition, the identifiable assets and liabilities of Redgate Ventures Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combination" (the "HKFRS 3 (Revised)") issued by the Hong Kong Institute of Certified Public Accountants.

The pro forma adjustments in relation to the fair value of net identifiable assets of Redgate Ventures Group are summarized below:

	HK$'000
Net assets of Redgate Ventures Group as extracted from the Accountants' Report set out in Appendix II	84,146
Elimination of goodwill recognized by Redgate Ventures Group	(178,122)
Exercise of Redgate CB immediate before completion of Acquisition	74,705
Fair value adjustment on intangible assets	604,311
Effect of deferred tax liabilities in relation to the fair value adjustment on intangible assets at tax rate of 25%	(151,078)
Fair value of net identifiable assets of Redgate Ventures Group	433,962

The valuation of the intangible assets was carried out by Roma Appraisals Limited, a firm of independent professional qualified valuers on the assumed Completion date on 31 December 2011 based on income based approach. Intangible assets include customer relationships, non-compete agreements, media co-operation agreements and backlog orders with estimated useful lives as detailed below. Fair value adjustments on intangible assets of approximately HK$604,311,000 and corresponding deferred tax liability of approximately HK$151,078,000 at corporate tax rate of 25% were resulted. On Completion date, the fair value of intangible assets will have to be reassessed and the reassessed amount may be different from the estimated amount as shown above.

Intangible assets	**Estimated useful lives**	**Basis for estimated useful lives**
Customer relationships	5 years to 6 years	By reference to the estimated period of economic benefit to be derived from the assets
Non-compete agreements	2 years	By reference to the contractual terms
Media co-operation agreements	4.8 years to 9.8 years	By reference to the contractual terms
Backlog orders	3 years	By reference to the contractual period

For the purpose of the unaudited pro forma consolidated statement of comprehensive income, it is assumed that the fair value of the intangible assets as at 31 December 2011 approximates to the fair value as at 1 July 2010. The pro forma adjustment represents the additional annual amortization on the intangible assets of approximately HK$100,973,000 and the corresponding deferred tax effect of approximately HK$25,243,000 credited to the profit or loss. Amortization is provided on a straight-line basis over their estimated useful lives. These adjustments will have a continuing effect on the Enlarged Group.

On Completion date, the fair value of the purchases consideration and the net identifiable assets and liabilities of the Redgate Ventures Group will have to be reassessed, as a result of the reassessment of the actual goodwill arising from the Acquisition may be different from the estimated amount as shown above.

(iii) The fair value of the consideration transferred as at 31 December 2011 are as follows as follows:

	HK$'000
– Cash consideration	
Upon signing the Agreement	80,000
Upon completion	210,000
– Promissory Notes *(Note 6(iv))*	144,437
– Convertible Notes *(Note 6(v))*	1,107,048
	1,541,485

For the purpose of unaudited pro forma consolidated statement of cash flows, pro forma adjustment for the cash outflow for the Acquisition if the Acquisition had been completed on 1 July 2010:

	HK$'000
Cash consideration paid for acquisition	(290,000)
Cash and bank balances acquired from the Redgate Ventures Group	36,807
	(253,193)

(iv) The fair value of the Promissory Notes as at 31 December 2011 is as follows:

Promissory Notes with principal amounts of HK$160,000,000 are non-interest bearing and will be mature on the second anniversary of the date of issue.

The estimated fair value of approximately HK$144,437,000 of the Promissory Notes, are determined using the effective interest rate of 5.242% per annum, as if the Promissory Notes were issued on 31 December 2011. The valuation of the Promissory Notes was carried out by Roma Appraisals Limited, a firm of independent professional qualified valuers.

For the purpose of the unaudited pro forma consolidated statement of comprehensive income, it is assumed that the fair value of the Promissory Notes as at 31 December 2011 approximates to the fair value as at 1 July 2010. The pro forma adjustment represents the annual imputed interest expenses on the Promissory Notes of approximately HK$7,571,000. This adjustment will have a continuing effect on the Enlarged Group.

The fair value of the Promissory Notes will have to be reassessed upon Completion and is therefore subject to change upon the Completion of the Acquisition.

(v) The fair value of the Convertible Notes as at 31 December 2011 is as follows:

Convertible Notes with principal amount of HK$1,300,704,206 are non-interest bearing and will be mature on the third anniversary of the date of issue. Convertible Notes will be converted at any time in the conversion period from the date of issue of the Convertible Notes to the third business day immediately before the maturity date at conversion price of HK$0.38, subject to adjustments.

For the purposes of preparing of unaudited pro forma financial information, Convertible Notes in sum of approximately HK$1,107,048,000 has been taken as their fair value as if they were issued on 31 December 2011. An amount of approximately HK$1,113,587,000 represents the liability component of the Convertible Notes and of an amount of approximately HK$32,520,000 represents the fair value of the call option component of the issuer of the Convertible Notes and an amount of approximately HK$25,981,000 represents the fair value of the conversion component of the holders of the Convertible Notes. Both the call option component and the conversion component were classified as financial derivative in the unaudited pro forma consolidated statement of financial position. The valuation of the Convertible Notes was carried out by Roma Appraisals Limited, a firm of independent professional qualified valuers.

For the purpose of the unaudited pro forma consolidated statement of comprehensive income, it is assumed that the fair value of the Convertible Notes as at 31 December 2011 approximates to the fair value as at 1 July 2010. The unaudited pro forma adjustment represents the annual imputed interest expenses on the Convertible Notes of approximately HK$59,120,000 calculated using the effective interest rate method for the year ended 30 June 2011 at a rate of 5.309% per annum. This adjustment will have a continuing effect on the Enlarged Group.

The fair value of the Convertible Notes will have to be reassessed upon Completion and is therefore subject to change upon the Completion of the Acquisition.

(vi) The adjustment represents the elimination of the pre-acquisition reserves and share capital of the Redgate Ventures Group.

7. For the purposes of consolidated statement of comprehensive income and consolidated statement of cash flows, the pro forma adjustment represents payment for estimated acquisition-related costs (including fees to legal advisers, sponsor, financial adviser, independent financial adviser, reporting accountants, auditors, valuer, printer and other expenses) of approximately HK$12,726,000, which should be expensed in the consolidated statement of comprehensive income upon completion of the Acquisition in accordance with HKFRS 3 (Revised). The pro forma adjustment is not expected to have continuing effect on the Enlarged Group.

   For the purposes of unaudited pro forma consolidated statement of financial position, the estimated acquisition-related costs were satisfied by decrease of deposit paid of HK$4,520,000 and decrease of cash and cash equivalents of HK$8,206,000.

8. For the purpose of unaudited pro forma consolidated statement of financial position, the pro forma adjustment represents the re-classification of the amounts due to ultimate holding company to amount due to related parties of the Redgate Ventures Group upon Completion.

   For the purpose of unaudited pro forma consolidated statement of cash flows, the pro forma adjustments represent the re-classification of increase or decrease in amounts due to or from ultimate holding company, immediately holding company and fellow subsidiaries to increase or decrease in amounts due to or from related parties of the Redgate Ventures Group upon Completion.

9. Pursuant to a placing agreement dated 8 July 2011, the Company has agreed to issue convertible bonds (the "Placing CB") with aggregate principal amount of up to HK$200,000,000 convertible into shares at conversion price of HK$0.38 each, subject to adjustments. Pursuant to the Sale and Purchase Agreement, the completion of the said placing is one of the conditions to be fulfilled before the Completion of the Acquisition.

   Placing CB with principal amount of HK$200,000,000 are non-interest bearing and will be mature on the second anniversary of the date of issue. Placing CB will be converted at any time in the conversion period from the date of issue of the Placing CB to the five business days before the maturity date at conversion price of HK$0.38, subject to adjustments.

   (i) The pro forma adjustments of approximately HK$194,000,000 represents net proceed form the placing.

   (ii) HK$6,000,000 represents placing commission of 3% on the principal amount of the Placing CB of payable to the placing agent. The portion of the transaction costs of amount HK$5,490,000 relating to the liability component is recognized initially as part of the liability and the portion relating to the derivative component of amount HK$510,000 is recognized immediately in profit or loss. The pro forma adjustment is not expected to have continuing effect on the Enlarged Group.

   (iii) For the purposes of preparing unaudited pro forma financial information, placing CB in sum of HK$200,000,000 has been taken to its fair value as if it was issued on 31 December 2011. An amount of approximately HK$183,008,000 represents the liability component of the Placing CB and an amount of approximately HK$16,992,000 represents the fair value of the derivative component of the Placing CB. The valuation of the Placing CB was carried out by Roma Appraisals Limited, a firm of independent professional qualified valuers.

   (iv) For the purpose of the unaudited pro forma consolidated statement of comprehensive income, it is assumed that the fair value of the Placing CB as at 31 December 2011 approximates to the fair value as at 1 July 2010. The unaudited pro forma adjustment represents the annual imputed interest expenses on the Placing CB of approximately HK$10,906,000 calculated using the effective interest rate method for the year ended 31 December 2011 at a rate of 5.98% per annum. This adjustment will have a continuing effect on the Enlarged Group.

   The fair value of the Placing CB will have to be reassessed upon Completion and is therefore subject to change upon the Completion of the Acquisition.

ROMA

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24 April 2012

Inno-Tech Holdings Limited
Room 606, 6/F,
Mass Mutual Tower
38 Gloucester Road
Wan Chai, Hong Kong

Case Ref: KY/BV422/NOV10

Dear Sir/Madam,

Re: Business Valuation of the 100% Equity Interest in Redgate Ventures Limited

In accordance with the instructions from Inno-Tech Holdings Limited (hereinafter referred to as the "Company") to us to conduct a business valuation of Redgate Ventures Limited and its subsidiaries (hereinafter referred to as the "Business Enterprise"), we submitted herewith the report that we have made relevant enquiries and obtained other information which we consider relevant for the purpose of providing our opinion of the market value of 100% of the equity of the Business Enterprise as at 31 December 2011 (hereinafter referred to as the "Date of Valuation").

This report states the purpose and basis of valuation, scope of work, economic and industry overview, an overview of the Business Enterprise, major assumptions, valuation methodology, limiting conditions, and presents our estimate of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. The Company is a public company listed on the Growth Enterprise Market of Hong Kong Stock Exchange (Stock code: 8202.HK). In addition, Roma Appraisals Limited ("Roma Appraisals") acknowledges that this report may be made available to the Company for public documentation purpose and for inclusion in the circular of the Company in connection with its proposed acquisition of 100% equity interest in the Business Enterprise only.

Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2. SCOPE OF WORK

This report is prepared in accordance with the International Valuation Standards. Roma Appraisals is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation.

Our valuation conclusion is based on the assumptions stated herein and information provided by the management of the Company, management of the Business Enterprise or their representatives (hereinafter referred to as the "Management").

In preparing this report, we have had discussions with the Management in relation to the development, operations and other relevant information of the Business Enterprise. As part of our analysis, we have reviewed such financial information and other pertinent data including business contracts on sample basis, customer lists, and management non-compete agreements, concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts had been withheld from us, however, we do not warrant that our investigations had revealed all of the matters which an audit or a more extensive examination might disclose.

We do not express an opinion as to whether the actual results of the business operation of the Business Enterprise will approximate those projected because assumptions regarding future events by their nature are not capable of independent substantiation.

In applying these projections to the valuation of the Business Enterprise, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

3. ECONOMIC AND INDUSTRY OVERVIEW

3.1 Overview on the Economy of China

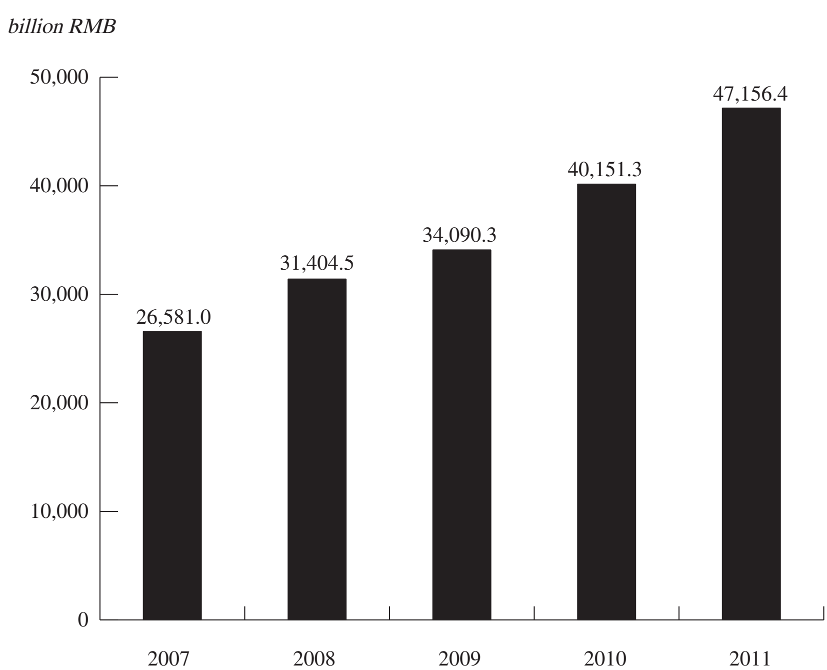
According to the National Bureau of Statistics of China, the nominal Gross Domestic Product (hereinafter referred to as "GDP") in 2011 was preliminarily estimated at RMB47,156.4 billion, representing a year-on-year increase of 9.2% in comparable prices.

China is the second largest economy in the world, ranked after the United States, in terms of nominal GDP measured by the International Monetary Fund (hereinafter referred to as the "IMF") in 2010. Despite the global financial crisis in late 2008, the Chinese economy was continually supported by the Chinese government through pro-active fiscal policy and prudent monetary policy.

Throughout 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports. China economy rebounded quickly in 2010, outperforming all other major economies with robust GDP growth and it is expected that the economy would remain to be in strong growth in 2012.

Over the past decade from 2001 to 2010, compound annual growth rate of China's GDP was 9.3% and in the government's latest plan, it is targeted to grow at 7% for the period from 2011 to 2015. Figure 1 further illustrates the GDP from 2007 to 2011 in China.

Figure 1 – China's Gross Domestic Product in 2007-2011



Source: National Bureau of Statistics of China

3.2 Overview of Media and Advertising Industry

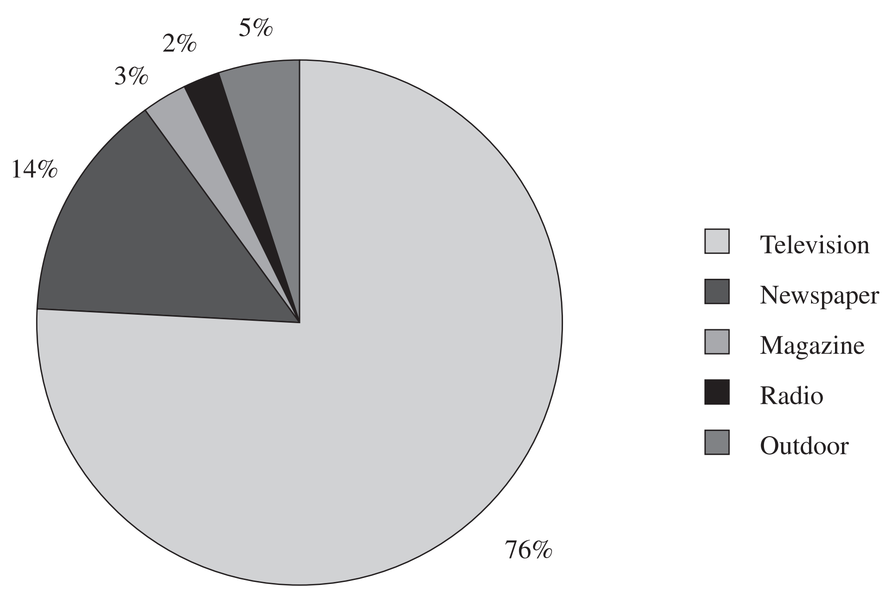
A research paper entitled "the Great Recession: Trends Impacting Advertising Spending & Agency Remuneration to 2014" released in 2010 by Morgan Anderson Consulting has shown that there is an 80% correlation between GDP and advertising spending. Thus, the global economic downturn in 2008 has had a major effect in the media and advertising industry worldwide. The global advertising spending by clients in 2009 suffered the sharpest decline in any single year since the Great Depression, and the China market was no exception.

The research figures published by CTR Media Intelligence showed that the average year-on-year growth of China's advertising expenditures from 2003 to 2008 was 20.2%. The growth in 2009 and 2010 have been considerably lower, but remained at double-digit rates of 13.5% and 13.0% respectively. Advertising expenditure in China has reached RMB589 billion in 2010.

According to CTR Media Intelligence, television remained as the largest media segment in China, contributed approximately RMB451 billion to and accounted for 76.6% of the market in 2010. Television advertising revenue has seen value-driven growth. Scarce resources were further sought after. Strong satellite television stations in China were benefited by the enhanced operational capacity.

Moreover, owing to the environmental protection measures carried out nationwide, outdoor media resources have seen significant decrease. Outdoor media resources in terms of quantity dropped, but demand for more stylish and high-end outdoor media has gained popularity, outdoor advertising expenditure reached approximately RMB27 billion in 2010, accounted for approximately 4.6% of the advertising market in China. Figure 2 shows the market share of China's advertising expenditure by media in 2010.

Figure 2 – Market Share of China's Advertising Expenditure by Media in 2010



Source: CTR Media Intelligence

According to "Outdoor Advertising: A Global Strategic Business Report" released in October 2010 by Global Industry Analysts, Inc., global outdoor advertising market is forecasted to reach US$23.9 billion by 2015. Key factors driving market growth include increasing popularity of digital billboards and video screens, advancements in printing technology, and increased demand from developing markets, including Asia-Pacific and Middle East. Europe has dominated the world outdoor advertising market, but fastest-growth is likely to come from Asia-Pacific. By segment, the billboards segment represents the largest contributor to the outdoor advertising market. Expenditure on billboards is projected to reach US$11.9 billion by 2012.

According to "MAGNAGLOBAL China Core Media Advertising Forecast" issued in July 2011 (hereinafter referred to as the "MAGNAGLOBAL Forecast"), the compound annual growth rates of the advertising market in China for broadcast television segment and other out-of-home segment from 2011 to 2016 were approximately 19% and 15% respectively. The growth rates are approximately 10 percentage points and 6 percentage points above the real GDP growth of China in 2011.

Notes:

Morgan Anderson Consulting was founded in 1987 and is a marketing communications advisory firm to domestic and global marketers. It provides clients with independent knowledge and insight to maximize value from marketing communications investments and agency relationships using proprietary data, methodologies, and tools that transform learning into action.

CTR Media Intelligence is the leading provider of strategic intelligence in China. It tracks a wide range of content across all touch points and analyzes broadcast, print and other advertising. Its monitoring network covers all kinds of advertising media: TV, print, radio, outdoor, cinema, internet, office building digital media and escalator advertisements, monitoring 500 cities nationwide.

Global Industry Analysts, Inc. was founded in 1987 and is a publisher of off-the-shelf market research. It serves more than 8,500 companies from 36 countries worldwide. It offers one of the world's largest portfolios of research reports in terms of topics, geographic coverage, companies profiled and pages published. It currently publishes over 1,500 large Global Strategic Business Reports and Global Industry Outlooks, encompassing all major industries worldwide.

MAGNAGLOBAL is the strategic global media unit responsible for forecasts, insights and negotiation strategy across all media channels on behalf of media brands. It monitors revenue of media suppliers in television (pay and free), Internet (search, display, video, mobile), newspapers, magazines, radio, cinema and out-of-home (traditional and digital) channels of over 60 major markets. MAGNAGLOBAL is part of Interpublic Group (NYSE: IPG), which is one of the world's largest advertising and marketing services companies, with employees of approximately 42,000 in over 100 countries.

4. THE BUSINESS ENTERPRISE

The Business Enterprise is a media and advertising company in China. Its media platform consists of advertising resources in both the broadcast television and outdoor billboard display industries. The Business Enterprise has two reportable segments: outdoor advertising displays segment (hereinafter referred to the "Outdoor Segment") and television advertisements segment (hereinafter referred to as the "TV Segment"). The Business Enterprise sells advertising across its platform primarily to large multinational advertising agencies on behalf of their corporate clients. The Business Enterprise also provides advertising and advertising agency services to clients who advertise across a wide range of media and engaged in other advertising-related media activities such as product-placement, film consulting, and television program production. The Business Enterprise has established diversified international and domestic relationship with blue-chip clients, such as General Motors, Lenovo, Pepsi and Samsung.

The Business Enterprise is the sole shareholder of Redgate Global Limited, a limited liability company incorporated in the BVI, which in turn wholly owns Pacific Asia Mode Cube Limited, a limited liability company incorporated in Hong Kong. Pacific Asia Mode Cube Limited is the sole shareholder of Redgate Interactive Advertising (Beijing) Co. Ltd. (hereinafter referred to as "Redgate Interactive"), a wholly foreign owned enterprise established in China, which in turn holds 100% equity interest in Shanghai Dianguang Media Broadcasting Company Ltd. (hereinafter referred to as "Shanghai Dianguang"), a limited liability company established in the PRC, 51% equity interest in Beijing Yanhuang Shengshi Advertising Co. Ltd. (hereinafter referred to as "Beijing Yanhuang"), a company established in China, 10.71% equity interest in Shanghai FLOG Media Culture Co. Ltd., a limited liability company established in China, and 18.354% equity interest in Shanghai Hongmen Advertising Co. Ltd., a limited liability company established in China.

Regarding the acquisition of Beijing Yanhuang, there exists an outstanding payment of consideration in the amount of approximately RMB10.55 million plus interest of approximately RMB0.622 million, which remains to be paid by the purchaser, which is now a subsidiary of the Business Enterprise. The then shareholders of Beijing Yanhuang have agreed with Media Chief Limited, a vendor of the Business Enterprise, and the Business Enterprise (hereinafter collectively referred to as the "Guarantors") who have guaranteed the payment of the amount outstanding. As at July 2011, the Guarantors have remitted an aggregate amount equivalent to the amount outstanding to the then shareholders of Beijing Yanhuang as guarantee for the payment of the amount outstanding. The payment of the amount outstanding is not subject to a payment schedule. The PRC legal advisers have advised that according to the confirmation from the Business Enterprise and their appropriate inspection, the time for performance of fulfillment of the remaining amount of consideration has not expired and the relevant parties do not have any dispute in respect of the Business Enterprise's equity holding in Beijing Yanhuang. The Business Enterprise is entitled to the remaining 49% equity interest in Beijing Yanhuang at nil consideration. However, the procedures to register the change in equity interest in Beijing Yanhuang have not been performed as at the Date of Valuation. According to the Management as advised by its China legal advisor, it takes approximately 6 months to 1 year to go into arbitration for the enforcement of contract in case dispute arises between the Business Enterprise and the shareholders of the 49% equity interest in Beijing Yanhuang. To be conservative, the Management has assumed the acquisition of 49% equity interest in Beijing Yanhuang to be completed by 2014, though there is no dispute between the Business Enterprise and the shareholders of the 49% equity interest in Beijing Yanhuang at this moment. Beijing Yanhuang would be wholly owned by the Business Enterprise starting from 2014.

The Business Enterprise plans to continue growing organically. Organic growth will include acquisition of television timeslots, leasing of billboards and other outdoor display spaces, acquisition of other out-of-home media inventory, increase in the rates that the Business Enterprise charges advertisers to advertise on its media inventory and the rate of sell-through, or the occupancy of that inventory.

Since July 2010, the Business Enterprise has been working on a television program production project (hereinafter referred to as the "Program Production Project") jointly with CCTV-IMG, a subsidiary of China Central Television (hereinafter referred to as "CCTV"), invested in by Global Media Production Limited (hereinafter referred to as "GMP"). The Business Enterprise will co-produce a sports entertainment television series with CCTV-IMG with a targeted broadcasting date of March 2012. The Business Enterprise has spent nearly 18 months in producing a green field project series, and the program will begin to contribute to the revenue of the Business Enterprise through Redgate Interactive upon broadcasting in 2012. The Business Enterprise will be the exclusive advertising agent of the television program and does not have to make any capital investment for the project, which boost margins for the Business Enterprise. The Business Enterprise is in negotiations with sponsors regarding advertising packages, but there are currently no signed sponsorship agreements entered into.

The Business Enterprise has also signed a revenue-sharing agreement (hereinafter referred to as the "Media Cooperation Agreement") with China Alliance Commercial Post Ltd (hereinafter referred to as "China Alliance") to represent 2,000 liquid crystal display (hereinafter referred to as "LCD") screens located in 1,500 post offices in Guangdong Province (hereinafter referred to as the "LCD Screens Project"). The LCD Screens Project, under Redgate Interactive, will begin to generate revenue from April 2012. The Business Enterprise is not required to make any capital investment for the project.

The PRC legal advisers have advised the Business Enterprise that its development strategies do not conflict with the laws and regulations of the PRC that are currently in force, and that the Business Enterprise can implement its expansion plans in accordance with the procedures stipulated and the manner permitted under the laws and regulations of the PRC. The Business Enterprise has not encountered recently enacted regulations that specifically restrict the Business Enterprise in the acquisition of television timeslots, leasing of billboards and other outdoor display spaces, the progress in Program Production Project and LCD Screens Project.

The Business Enterprise has been growing through mergers and acquisitions in the past few years and it is expected that the Business Enterprise would continue to grow through mergers and acquisitions in future. According to the Management, apart from the 49% equity interest in Yanhuang which the Business Enterprise has contractual right to acquire at nil consideration in accordance with contract, there is no specific acquisition target with definitive agreement entered into by the Business Enterprise and accordingly, no financial projection regarding potential mergers and acquisitions has been made in the valuation of the Business Enterprise.

The Business Enterprise and Redgate Media Group, which was incorporated in the Cayman Islands and was considered as the ultimate holding company of the Business Enterprise as at 31 December 2008 and 2009 as well as the former indirect holding company of Redgate Global Limited, entered into an equity transfer agreement and a subscription agreement to acquire 100% equity interests in Shanghai Yarun Culture Communications Company Limited (hereinafter referred to as "Shanghai Yarun"), an independent television advertising sales company, from independent third parties on 12 June 2009. As the conditions for acquiring the equity interests in Shanghai Yarun have not been met, the acquisition of Shanghai Yarun has not been completed as at the Date of Valuation, and accordingly Shanghai Yarun was not included in the financial forecasts and the valuation of the Business Enterprise. It is the Business Enterprise's intention to continue negotiating amendments to these agreements following the completion and to complete the acquisition of Shanghai Yarun in future.

5. BASIS OF VALUATION

Our valuation is based on going concern premise and conducted on a market value basis. According to the International Valuation Standards, market value is defined as "the estimated amount for which an asset should be exchanged on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

6. INVESTIGATION AND ANALYSIS

In conduction of our valuation works, we have made site visits and had face-to-face meetings with the Management to understand the operation and practices prevailing in the media and advertising industry in China and the development of the Business Enterprise. We have also reviewed the audited financial statements of the Business Enterprise and other supporting information and documents provided to us by the Management to understand the financial performance of the Business Enterprise. Moreover, we conducted independent research and reviewed research reports published by independent research institutes, including Global Industry Analysts, Inc., CTR Media Intelligence and MAGNAGLOBAL, on the media and advertising industry to understand the prospect of the media and advertising industry in China and other countries.

As part of our review works, we have reviewed contracts on sample basis, examined order book and backlog, customer lists, advertising inventories secured, and prevailing and projected advertising rate for various advertising inventories secured. In assessing the reasonableness of the financial forecast prepared by the Management, we have checked the underlying assumptions and the growth rates in revenue and costs of various business segments, and crosschecked the growth rates with research findings in research reports published by independent research institutes, such as CTR Media Intelligence and MAGNAGLOBAL, for reasonableness.

We believe that such information is reasonable and reliable. We had assumed the accuracy of information provided and relied to a considerable extent on such information in arriving at our estimate.

The valuation of the Business Enterprise requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Business Enterprise;
- The financial condition of the Business Enterprise;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market;
- Relevant licenses and agreements;
- The business risk of the Business Enterprise such as the ability in maintaining competent technical and professional personnel; and
- Investment returns and market transactions of entities engaged in similar lines of business, including the operations, performance and financial information of comparable companies engaged in media and advertising businesses in China.

7. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the market value of the Business Enterprise, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

7.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities in companies that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

7.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

7.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("equity and long term debt"). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity ("equity") and investors who lend money to the business entity ("debt"). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

7.4 Business Valuation

In the process of valuing the Business Enterprise, we have taken into account of the uniqueness of its operation and media and advertising industry it is participating. The Market-Based Approach was not adopted in this case because most of the important assumptions were hidden. The Asset-Based Approach was also not adopted because it could not reflect the market value of the Business Enterprise. We have therefore considered the adoption of Income-Based Approach in arriving at the market value of the Business Enterprise.

7.4.1 Discounted Cash Flow

Under the Income-Based Approach, we have adopted the discounted cash flow ("DCF") method, which is based on a simple reversal calculation to restate all future cash flows in present terms. The present value of the expected free cash flows was calculated as follows:

$$PVCF = CF_1/(1+r)^1 + CF_2/(1+r)^2 + \ldots + CF_n/(1+r)^n + CF_n\ (1+g)/(r-g)/(1+r)^n$$

In which

PVCF	=	Present value of the expected cash flows;
CF	=	Expected cash flow;
r	=	Discount rate;
n	=	Number of years; and
g	=	Terminal growth rate.

Major items for the estimation of free cash flow of the Business Enterprise:

RMB (million)	**2010A**	**2011A**	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**
Net Revenue	206	228	374	553	664	791	909
Cost of Revenue	(151)	(217)	(224)	(297)	(344)	(407)	(464)
Gross Profit	55	11	151	256	320	384	445
Gross Margin *(%)*	27%	5%	40%	46%	48%	49%	49%
Operating Expenses	(48)	(12)	(30)	(42)	(49)	(56)	(62)
Profit Before Tax	67	(9)	121	215	272	329	384
Profit Before Tax to Net Revenue *(%)*	32%	(4%)	32%	39%	41%	42%	42%
Income Taxes	(13)	(1)	(16)	(54)	(68)	(82)	(96)
Capital Expenditure	(20)	(11)	(9)	(0)	(1)	(1)	(1)
Depreciation and Amortization	4	3	3	3	0	0	0
Change in Working Capital	(82)	(87)	0	(37)	(21)	(24)	(22)
Others	10	1	(8)	(10)	0	0	0
Free Cash Flow	(33)	(103)	91	116	183	222	266
Terminal Value							2,930

Year-on-year growth rate of the major items for the estimation of free cash flow of the Business Enterprise:

	2012F	2013F	2014F	2015F	2016F
Net Revenue	64%	48%	20%	19%	15%
Cost of Revenue	3%	33%	17%	18%	14%
Operating Expenses	151%	38%	16%	15%	10%
Profit Before Tax	N/A	77%	27%	21%	17%
Income Taxes	N/A	233%	27%	21%	17%
Capital Expenditure	(20%)	(95%)	18%	20%	15%
Depreciation and Amortization	(13%)	1%	(89%)	26%	19%
Change in Working Capital	(100%)	N/A	(43%)	16%	(12%)
Others	N/A	(35%)	(100%)	0%	0%

Major items for the estimation of free cash flow of the TV Segment:

RMB (million)	2010A	2011A	2012F	2013F	2014F	2015F	2016F
Net Revenue	99	99	136	244	285	333	370
Cost of Revenue	(54)	(92)	(70)	(126)	(143)	(165)	(176)
Operating Expenses	(17)	(8)	(9)	(11)	(12)	(13)	(14)
Profit Before Tax	57	(6)	57	107	129	155	181
Income Taxes	(11)	0	(7)	(25)	(30)	(36)	(42)
Capital Expenditure	0	(0)	(0)	(0)	(0)	(0)	(0)
Depreciation and Amortization	2	1	1	1	0	0	0
Change in Working Capital	(56)	(22)	16	(26)	(9)	(11)	(7)
Others	0	0	0	0	0	0	0
Free Cash Flow	(8)	(27)	68	57	90	108	131
Terminal Value							1,445

Major items for the estimation of free cash flow of the Outdoor Segment:

RMB (million)	**2010A**	**2011A**	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**
Net Revenue	107	129	239	309	379	458	539
Cost of Revenue	(97)	(125)	(154)	(172)	(201)	(242)	(289)
Operating Expenses	(31)	(4)	(22)	(30)	(37)	(43)	(48)
Profit Before Tax	10	(2)	64	107	143	174	203
Income Taxes	(2)	(1)	(9)	(29)	(38)	(46)	(54)
Capital Expenditure	(20)	(11)	(9)	(0)	(0)	(0)	(0)
Depreciation and Amortization	2	2	2	2	0	0	0
Change in Working Capital	(25)	(65)	(16)	(11)	(12)	(14)	(14)
Others	10	1	(8)	(10)	0	0	0
Free Cash Flow	(25)	(76)	24	59	93	114	135
Terminal Value							1,485

Free cash flows and terminal value were then discounted at 12.34% (please refer to 7.4.2 Discount Rate for more details).

Summary

Cumulative Present Value of Free Cash Flow *(million RMB)*	590
Present Value of Terminal Value *(million RMB)*	1,637
Enterprise Value *(million RMB)*	2,227
HK$:RMB Exchange Rate as at Date of Valuation	1.23
Enterprise Value *(million HK$)*	2,748
Add: Non-operating Assets *(million HK$)*	142
Less: Debts *(million HK$)*	(249)
Indicated Equity Value on Marketable Basis	2,641
Marketability Discount	33.00%
100% Equity Value of the Business Enterprise *(million HK$)*	1,770

Note:

HK$ refers to Hong Kong Dollar. The adopted HK$:RMB exchange rate as at Date of Valuation was extracted from Bloomberg.

The Business Enterprise has the contractual right to acquire the remaining 49% equity interest of Beijing Yanhuang in accordance with contract and this is expected to be completed by the Business Enterprise in 2014 in line with the Business Enterprise's plan. Hence, 51% of Beijing Yanhuang's equity interest was included in the valuation from 2012 to 2013 and 100% of Beijing Yanhuang's equity interest was included in the valuation from 2014 onwards. As confirmed by the Management, there is no specific acquisition target with definitive agreement entered into by the Business Enterprise. Accordingly, no projection regarding potential mergers and acquisitions has been incorporated in this valuation.

The duration of the explicit forecast period is normally for the period for which anticipated material changes in the cash flows are known. Once the forecast cash flows become relatively stable, a terminal value can be calculated. As at the Date of Valuation, material changes, include acquisition of additional TV timeslots, would affect the cash flows in the forecast period, according to the development plan of the Business Enterprise. Accordingly, a 5-year forecast period from 2012 to 2016 was considered appropriate for the valuation and the most recent financial forecasts of the Business Enterprise prepared by the Management were in compliance with HKAS 36.

Redgate Media Group had waived approximately HK$80,800,000 of the sum HK$129,549,000 owed to it by the Business Enterprise and the remaining portion of the sum amounted to HK$48,749,000 will remain on the Business Enterprise's account as amounts due to related parties which is treated as debt and deducted in the line Less: Debts from the Enterprise Value to arrive at the valuation of the Business Enterprise.

The portion of outstanding payment of consideration for Beijing Yanhuang that is due from the Business Enterprise to related parties are treated as debt and deducted in the line Less: Debts from the Enterprise Value to arrive at the valuation of the Business Enterprise. The portion of guarantee paid by the Business Enterprise is treated as a non-operating asset and added back to the Enterprise Value in the line Add: Non-operating Assets.

Some of the Business Enterprise's outdoor advertisements for which the Business Enterprise is responsible for obtaining certain licenses have not been obtained from relevant regulatory bodies, and there arises a contingent liability on the part of the Business Enterprise. According to the Management, the Business Enterprise has obtained an undertaking from Media Chief Limited, vendor of the Business Enterprise, to indemnify the Business Enterprise against any actions, claims, demands, proceedings, costs and expenses, losses and liabilities whatsoever which may be suffered or incurred by any member of the Business Enterprise on or after completion in respect of or arising directly or indirectly from or in connection with any outdoor advertising registration licenses that have not been obtained, as such, the contingent liabilities did not affect the valuation value and no adjustments in risk premium and other parameters were needed to account for the contingent liability.

7.4.2 Discount Rate

In estimating the market value of the Business Enterprise, weighted average cost of capital ("WACC") for the Business Enterprise was obtained as the discount rate. WACC of the Business Enterprise is the minimum required return that the Business Enterprise must earn to satisfy its various capital providers including shareholders and debt holders. WACC calculation takes into account the relative weights of debt and equity. It was computed using the formula below:

$$WACC = W_e \times R_e + W_d \times R_d \times (1 - T_c)$$

In which

R_e	=	Cost of equity;
R_d	=	Cost of debt;
W_e	=	Weight of equity value to enterprise value;
W_d	=	Weight of debt value to enterprise value; and
T_c	=	Corporate tax rate.

7.4.2.1 Cost of Debt

The cost of debt adopted was 7.05% which represents the expected borrowing cost of the Business Enterprise and was determined by referencing China above 5 years best lending rate as at the Date of Valuation. Interest rate charged on the bank loan of the Business Enterprise was approximately 6% in 2011, which is in line with the adopted cost of debt. Since interest expenses paid on debts are tax-deductible should the Business Enterprise require debt financing, post-tax cost of debt was used in the computation of WACC. Post-tax cost of debt was calculated by multiplying one minus the corporate tax rate of 25% by the pre-tax cost of debt.

7.4.2.2 Cost of Equity

The cost of equity was calculated by using the following formula:

$R_e = R_f + \beta \times \text{Market Risk Premium} + \text{Other Risk Premium}$

In which

R_e	=	Cost of equity;
R_f	=	Risk-free rate; and
β	=	Beta coefficient.

By adopting 3.44%, which is the 10-year Chinese government bond yield rate, as the long-term risk-free rate and 16.64% as the market return of China as at the Date of Valuation extracted from Bloomberg, we arrived at 13.20% as the market risk premium.

Market risk premium is the difference between market return and risk free rate. The estimation of market return involves the calculation of the return on investment of a portfolio of equities or some representative market indexes, after taking into consideration various corporate events and index constituent rebalancing. It is the practice in the valuation industry to use Bloomberg, which computes the market return by country, for the determination of market return. There are no representative market indexes designed specifically for the media and advertising industry and therefore, board market index for China without dedication to specific industry was adopted due to the unavailability of better estimates of market return.

The beta estimate for the Business Enterprise, at 0.82, was the average of beta coefficients of the comparable companies. Details of the exhaustive list of the 7 comparable companies as extracted from Bloomberg for the calculation of beta coefficient and average debt-to-equity ratio are shown below:

Company Name	Stock Code	Description	Debt-to-Equity Ratio
Clear Media Limited	100 HK	Clear Media Limited is an outdoor media company in China. The Company mainly installing bus shelters network in several cities and reaches most affluent consumers.	0.0%
China Outdoor Media Group Limited	254 HK	China Outdoor Media Group Limited, through its subsidiaries, leases commercial properties. The Company also manufactures and sells equipment and accessories for broadband cable television.	90.0%
Media China Corporation Limited	419 HK	Media China Corporation Limited is a total media group and is in the production of television dramas, situation comedies, movies, advertisements as well as talent management related services. The Company is also a content provider for television channels in China.	0.0%
Sinomedia Holding Limited	623 HK	Sinomedia Holding Limited is a media advertising operator. The Company focuses on providing nationwide TV advertising coverage, including advertisers and advertising agencies.	1.6%
RoadShow Holdings Limited	888 HK	RoadShow Holdings Limited, through its subsidiaries, operates out-of-home media sales business. The Company markets advertising spaces to the exterior and interior of transit vehicles, shelters, and outdoor signage.	0.0%

Company Name	Stock Code	Description	Debt-to-Equity Ratio
Qin Jia Yuan Services Company Limited	2366 HK	Qin Jia Yuan Media Services Company Limited, through its subsidiaries, provides media services in China. The media services provided by the Company include TV program related services, marketing related services, and public relations services.	38.9%
Dahe Media Company Limited	8243 HK	Dahe Media Company Limited, through its subsidiaries, provides a full range of specialized outdoor advertising services, which include design and production of outdoor advertisement and dissemination of them through renting out its outdoor advertising space in China.	58.3%

Source: Bloomberg

The above-mentioned companies were selected mainly based on the following criteria:

- The companies are principally engaged in media and advertising businesses;
- The companies have been engaged in media and advertising industry for at least two years such that they are mature and stable in operations;
- The companies have been listed in Hong Kong for at least two years such that the beta coefficient can be computed; and
- The financial information of the companies is available to the public.

In estimating the expected capital structure of the Business Enterprise, we have considered, generally, the issue of unsustainable debt-to-equity ratio as some business enterprises reported after the reorganization exercises before the merger and acquisition and, specifically, the fact that the Business Enterprise has a history of growing through mergers and acquisitions in the past and intention to grow through mergers and acquisitions in the future, therefore an expected capital structure might not be reliably estimated by using existing capital structure.

Moreover, according to the book with title "Valuing a Business, 5th edition, The Analysis and Appraisal of Closely Held Companies" by Shannon P. Pratt and Alina V. Niculita published in 2008, there is no generally accepted theory for predicting a given company's capital structure and it is a common practice to take the average capital structure of guideline companies as a benchmark for a company's normal capital structure.

Therefore, we have taken the average of the debt-to-equity ratios of the seven comparable companies as the industry benchmark for the capital structure of the Business Enterprise and have adopted 21.24% as the weight of debt and 78.76% as the weight of equity. On comparable basis, the weight of debt, which is the ratio of total debt to the sum of total equity and total debt, and the weight of equity, which is the ratio of total equity to the sum of total equity and total debt, of the Business Enterprise based on the corresponding debts and equity figures reported in audited accounts as at 31 December 2011 were 76.5% and 23.5%, respectively. Total debt of HK$273.7 million consists of the items amounts due to related parties, acquisition consideration payables, profit distributable to non-controlling owners of acquired subsidiary, and convertible bonds, while total equity of HK$84.1 million consists of the items equity attributable to owners of the Company and non-controlling interests, in the consolidated statements of financial position of the Business Enterprise as at 31 December 2011. When comparing to the average weight of debt of all seven comparable companies, without the exclusion of any outliers, the weight of debt of the Business Enterprise is approximately 55 percentage points higher.

Other risk premium is applied to a company which involves additional risks, such as new start-up. This premium was not applicable in this case.

By adopting the above-mentioned parameters, WACC, hence the discount rate for the Business Enterprise as at the Date of Valuation was calculated as follows:

$$WACC = W_e \times R_e + W_d \times R_d \times (1-T_c)$$
$$WACC = 78.76\% \times 14.25\% + 21.24\% \times 7.05\% \times (1-25.00\%)$$
$$WACC = 12.34\%$$

7.4.3 Financial Projections

Financial projections for 2012 to 2016 were prepared by the Management based on their experiences in the field. Key assumptions of the financial projections are summarized as below:

7.4.3.1 Revenue

Revenue streams of the Business Enterprise can be classified into Outdoor Segment and TV Segment.

Outdoor Segment

The Business Enterprise generates revenue by leasing billboards and other outdoor display spaces (hereinafter collectively referred to as "Billboard") from state-owned or private media owners for its clients. The Business Enterprise intends to secure more billboards. The Management has steadily managed the expansion and contraction of the billboard inventory over the past 10 years, depending upon market conditions, and has demonstrated competence in doing so. The Business Enterprise also generates revenue through other out-of-home (hereinafter referred to as "OOH") advertising media, including those in major auto exhibitions in China and the VIP terminal of the Beijing International Airport (hereinafter collectively referred to as "Auto Exhibition"). As selling prices were mainly determined based on acquisition cost of the media inventory, while cost of acquiring each outdoor inventory varies depending on its format, size, traffic and location, revenue was projected on a cost-plus basis.

Revenue from Outdoor Segment also comprises revenue from LCD Screens Project. The Management expected that the LCD Screens Project would start making contribution from April 2012. The Management assumed the Media Cooperation Agreement would be renewed upon expiry.

Historical and forecasted revenue from the Outdoor Segment for the period from 2011 to 2016 are set out below:

Number of Billboards

	2011A	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**
Beijing	1	11	21	33	48	66
Wuhan & Hangzhou	39	49	59	72	87	106
China Northern District	6	7	7	9	11	13
China Eastern District	25	28	29	32	35	39
North Eastern District	4	5	7	9	12	15
China Southern District	26	30	34	36	40	44
South Western District	8	10	12	14	16	20
North Western District	2	3	5	7	9	11
Total	111	143	174	212	258	314

Revenue (million RMB)

	2011A	2012F	2013F	2014F	2015F	2016F
Billboard	92	135	164	199	243	295
Auto Exhibition	38	42	33	34	38	39
LCD Screens Project	N/A	70	125	162	197	227
Total	130	247	322	396	478	562

From 2008 to 2011, the number of billboards in Beijing decreased significantly due to increased government controls on the billboard industry following the 2008 Olympic Games in Beijing. The Beijing city government's reforms in preparation for the Olympics resulted in a large decrease in the available inventory in the city, particularly on major roads, a strong component of the Beijing inventory of the Business Enterprise before then. These policies are still largely in place following the Olympic Games, and the result has been the flourishing of outdoor resources in Beijing in residential areas, and the Business Enterprise is working on developing these and other new resources. The current government policies in Beijing neither support nor impede the business expansion plans of the Business Enterprise, rather they provide an operating framework in regulating the advertising industry in general, and the Business Enterprise is focusing on new areas of growth in conformity of this framework, such as residential areas. From 2012 to 2016, the number of billboards in Beijing will increase primarily due to additional inventory in residential areas and business districts, rather than on urban roads, the latter being more highly-regulated by the city government. The following is a breakdown of the forecasted inventory:

Outdoor Segment	**2011A**	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**
Beijing	1	11	21	33	48	66
– Urban road	1	2	3	3	3	4
– Business district	0	5	10	15	20	30
– Residential area	0	4	8	15	25	32

The growth rates for the number of billboards were estimated according to the Business Enterprise's development plan. As advertising inventory is widely available, the Business Enterprise does not foresee any difficulty in securing advertising inventory, nor has it had any difficulty in doing so in the past. In addition, according to Advertising Expenditure Forecasts July 2011 issued by ZenithOptimedia, number of OOH sites has grown rapidly:

"SAIC figures have shown a strong rise in OOH advertising revenue in 2010 – by an impressive 42.4%. This was mainly driven by the rapid increase of outdoor sites in places. It is reported that the total number of OOH sites rose by 58% year-on-year in 2010, to 373,000 units."

MAGNAGLOBAL also suggested more abundant outdoor inventory in future, according to MAGNAGLOBAL Forecast:

"Outdoor advertising continues to grow swiftly in China as new sources of outlets are rapidly emerging – urbanization in China is currently growing at 2.3% a year and one billion people are expected to live in urban centers by 2035. This equates to greater inventory both indoors and outdoors on new roads, shopping complexes, and commercial centers growing out of home advertising revenues."

Revenue from Billboard and Auto Exhibitions were estimated based on rental charges, hence the growth of number of billboards, contract terms and rental charges as a percentage of revenue with reference to historical performance (please refer to 7.4.3.2 Cost of Revenue for more details). The Management expected that revenue would grow in line with cost, as media costs could, in most cases, be passed on directly to clients. The compound annual growth rate (hereinafter referred to as "CAGR") of revenue from Billboard and Auto Exhibitions from 2012 to 2016 was approximately 17%, which is higher than the targeted GDP growth rate of 7%. The CAGR of other OOH advertising segment in China for the period 2011 to 2016 is expected to be approximately 15%, according to MAGNAGLOBAL Forecast. OOH advertising consists of cinema advertising, digital OOH advertising and other OOH advertising, according to MAGNAGLOBAL. No dedicated categories are assigned to billboard and auto exhibition and they are group under the other OOH advertising category.

For the LCD Screens Project, assumptions have been made on number of post offices, number of LCD screens, LCD screens per group, customer capacity, occupancy rate, based on Management's proposed development plan and their experience, information from China Alliance, and the terms stipulated in the Media Cooperation Agreement for the forecast of revenue from the LCD Screens Project. Accordingly, revenue from LCD Screens Project was expected to increase at a CAGR of approximately 22% from 2013 to 2016. According to MAGNAGLOBAL, CAGR of digital OOH advertising segment in China for the period 2011 to 2016 was expected to be approximately 25%. Below are the details of the currently installed LCD network by China Alliance in 2012:

City	Guangzhou	Shenzhen	Dongguan	Zhongshan	Zhuhai	Qingyuan	Subtotal
Post Offices	263	694	290	80	77	96	1,500
LCD Screens	364	798	460	92	128	158	2,000

Source: China Alliance

Given that the current LCD network only covers 6 cities, and that the Business Enterprise has a plan to expand the coverage to 21 major cities in the Guangdong province, we believe that there is ample room for the Business Enterprise to grow this operation. Starting from 2013, the Management has a plan to cover 3 to 4 additional cities each year to expand the LCD network coverage from 6 cities in 2012 to all 21 cities in Guangdong province over the years from 2013 to 2016. The Management is currently in discussion with several advertising agencies regarding entering into master contracts for their clients on this LCD network.

TV Segment

The Business Enterprise generally acquires TV timeslots from TV stations as inventory and sells them to its clients. In 2011, the Business Enterprise's TV inventory consisted of 10.5 minutes nightly of prime-time advertising space on Shanghai Media Group's Dragon TV surrounding and during the "Select Theater" Program. This contract, like all TV advertising time on Shanghai Media Group's channels, is subject to annual renewal. From 2010 to 2011, Shanghai Media Group raised the cost of this advertising inventory by 40%, and the Business Enterprise suffered profit margin contraction as a result. For 2012, Shanghai Media Group again mandated steep cost increases on the inventory, and so despite winning the bid during the auction of inventory, the Business Enterprise decided not to renew the contract with Shanghai Media Group in 2012 and to focus on the expansion into tier-2 cities.

Over the forecast period, the Business Enterprise plans to continue its advertising agency business and enter into contracts with other TV stations to broaden the range of television channels, programs and geographies for which it sells advertising time as advertising agent. Additional television airtime slots, which is widely available in the market, will be acquired and resold, just as the Business Enterprise has been doing since the acquisition of Shanghai Dianguang in 2008 and the Management has done prior to joining the Business Enterprise. The Management identifies the TV channels based on their industry experiences, customer demands and negotiates with the TV stations to secure the advertising time slots. As there are plenty of TV channels available in China and abundant advertising timeslots in the market, the Management can readily sign up such advertising timeslot despite no agreements has been entered into yet as at the Date of Valuation.

Assumptions have been made on number of TV timeslots, operating period for each TV timeslot per year, number of advertising minutes per day, average selling price per minute and occupancy rate, based on Management's proposed development plans by making reference to TV timeslots akin to the type of TV timeslots the Business Enterprise intends to acquire. Details of the referenced TV timeslots and the timetable in acquiring the relevant TV timeslots are set out in the following table:

	Television Channel Category	Mode of Acquisition	No. of Advertising minutes per day	Average Rating	Approximate Population Coverage	Expected Acquisition Time
1.	Life and Education Programs	Acquisition of Program advertising time from a TV channel of a provincial TV station	47 minutes	0.2%	8 million	April 2012
2.	Sports, or Literature and Art Programs	Acquisition of an exclusive advertising agency of the entire TV channel of a provincial TV station	228 minutes	0.1% to 0.2%	9 million	July 2012
3.	Sports, or Literature and Art Programs	Acquisition of an exclusive advertising agency of the entire TV channel of a provincial TV station	204 minutes	0.1%	8 million	April 2013
4.	Science and Education Programs	Acquisition of Program advertising time from a TV channel of a provincial TV station	45 minutes	0.1%	11 million	July 2014
5.	Science and Education Programs	Acquisition of Program advertising time from a TV channel of a provincial TV station	36 minutes	0.1%	30 million	January 2015

Source: the Business Enterprise

Moreover, the Business Enterprise has been engaged in the Program Production Project since July 2010. The Management expected the Program Production Project to begin contributing revenue as broadcasting commences in March 2012. As stipulated in the cooperation agreement signed among CCTV, GMP and the Business Enterprise (hereinafter referred to as the "Cooperation Agreement"), the Program Production Project has a term of 10 years, commencing from November 2011 to November 2021. Revenue from the Program Production Project was forecasted based on the projected revenue to be generated from the Program for 2012 as provided by GMP and the terms stipulated in the Cooperation Agreement.

Historical and forecast revenue from the TV Segment over the period from 2011 to 2016 are set out below:

	2011A	2012F	2013F	2014F	2015F	2016F
TV Ad Minutes Sold *(minute)*	1,466	23,871	66,649	78,139	89,104	91,944
Average Selling Price per Minute *(RMB)*	43,200	2,290	2,050	2,070	2,153	2,250
Revenue from TV Ads *(million RMB)*	63	55	137	162	192	207
Revenue from Agency Service *(million RMB)*	35	36	37	38	39	40
Revenue from Program Production Project *(million RMB)*	N/A	51	82	98	118	142
Total Revenue *(million RMB)*	98	142	256	298	349	389

The compound annual growth rate of the TV Segment excluding the Program Production Project for the year from 2011 to 2016 was forecast at approximately 20%. For these tier-2 cities, the competition in acquiring new TV advertising timeslots will be less intense when comparing to that of the Dragon TV. As a result, the Business Enterprise can more readily acquire such new TV advertising timeslots and accordingly set the price to its customers.

Average selling price per minute for the TV timeslots were estimated primarily by referring to the average selling prices of Shanghai Yarun's TV inventory. Average selling price was expected to decrease from 2011 to 2012 in consistent with the Business Enterprise's plan to diversify its TV inventory mix by acquiring new TV timeslots in tier-2 cities which may have relatively lower average selling price per minute. From 2012 to 2016, the average selling price per minute for each TV timeslot was assumed to grow at 5% year-on-year by reference to China's inflation rate. When estimating the average selling price per minute, Shanghai Yarun was used as a reference because Shanghai Yarun operates its sales and management in the same manner as the Business Enterprise's organic growth TV segment, and does so in tier-2 cities, whereas the Business Enterprise's TV segment in 2011 operated primarily in Shanghai, a tier-1 city.

As the Business Enterprise plans to diversify its portfolio of media assets in the forecast period, occupancy rates, ranging from 40% to 46%, and a growth of generally 2 percentage point each year over the forecast period were estimated based on the historical occupancy rates and growth rates of Shanghai Yarun from 2008 to 2010 provided by the management of Shanghai Yarun, considering that the type of TV timeslots the Business Enterprise intends to acquire and the business model of the Business Enterprise are similar to that of Shanghai Yarun's. Occupancy rates of the Business Enterprises from 2009 to 2011 ranged from 38% to 68%, the average level is around 50%, which are higher than the estimated occupancy rates in the forecasted period.

In relation to the Program Production Project, being the exclusive advertising agent of the Program Production Project, the Business Enterprise will receive a 15% commission on the advertising revenue it generates for the Program Production Project and 10% of the revenue to be generated from short message service ("SMS") and online voting as management fee, according to the Cooperation Agreement. By applying the relevant rates to the projected revenues from sponsorship, advertising, text voting and mobile downloads as provided by GMP, the Business Enterprise prepared forecasts of revenue from the Program Production Project. The Program Production Project has been underway since late 2010, and is being led by CCTV-IMG, a subsidiary of China's largest broadcaster, and the Management believes that CCTV's support of the project, as well as the support of the China Football Association, will have a strong impact on its success.

The Program Production Project is targeting at Chinese viewers who enjoy watching football, as well as those interested in British and Chinese culture. The target advertisers include all the major international companies that are already active in football sponsorship in the United Kingdom and China, as well as those active in advertising on television in China. The popularity of football games in China is a key factor for the success of Program Production Project. Chinese has been enthusiastic about football games, from the late leader Deng to the general public. Major football matches has attracted crowds of viewers. According to a news reporting in the website of ESPN STAR Sports, for the AFC Champions League 2011 organized by the Asian Football Confederation, there were nearly 62 million viewers in China, up 63% from the previous year, watched the first and second round matches on state-owned broadcaster CCTV5 and provincial stations. CCTV5 recorded an audience of 44.3 million, up 146% from 18 million last year. The average number of viewers per match grew from 324,889 to 426,138. According to CCTV website, CCTV is the exclusive broadcaster that has the right of broadcasting the finals of 2014 World Cup in mainland China.

After considering that CCTV is a predominant state television broadcaster and TV program producer in China, the program will be broadcasted during prime time as stipulated in the Cooperation Agreement, football is one of the most popular sports and TV contents in China and industry growth rate of approximately 19% for the broadcast television advertising segment in China from 2011 to 2016, according to MAGNAGLOBAL Forecast, the Program Production Project revenue was assumed to grow at 20% year-on-year from 2012 to 2016. Projected revenue from Program Production Project covers a 9-month period in 2012 and it covers the full 12-month period in 2013. The growth rate of revenue from Program Production Project for 2013, computed on the basis of projected revenue for 2013 over extrapolating the 9-month revenue in 2012 into 12-month revenue, was 20%, which is in line with the Business Enterprise's expansion plan. Given the long experience of the Management of the Business Enterprise in television advertising, as well as the wide variety of existing multinational advertisers and advertising agency partners of the Business Enterprise, the growth rate of 1 percentage point higher than the industry average is considered reasonable.

The rapid growth in revenue from the TV Segment in 2012 and 2013 was mainly attributable to the initiation of Program Production Project and the acquisition of new TV timeslots, while revenue contribution from agency service remained stable. Difference in year-on-year revenue growth rates in the forecast period is primarily driven by the acquisition of additional TV advertising timeslots from 2012 to 2015 in accordance with the Business Enterprise's expansion plan and as timeslots are added each year, the year-on-year growth in later years will slow down on larger base of timeslots over the preceding year. For 2012, the Business Enterprise will be making the transition from tier-1 city to tier-2 cities for the TV Ads operation, with revenue expected to fall over 2011. The Program Production Project to be debuted in 2012 will be expected to drive the net revenue of the TV Segment to grow 37% over 2011. From 2013 onward, revenue from the TV Ads operation will resume growth after completing the transition to tier-2 cities with the addition of more channels, and together with continued growth in the Program Production Project, CAGR in revenue for the TV Segment for the period from 2013 to 2016 was computed to be approximately 15%.

The increase in revenue was partially supported by confirmed orders including contracts for the leasing of billboards to customers and other binding contracts, such as advertising agency agreement with television station and cooperation agreements. The Business Enterprise has accumulated RMB30 million contracts on outdoor billboard advertisement for fulfillment in 2012. The advertisement placement cycle for TV advertising is short and there are no significant confirmed orders outstanding.

7.4.3.2 Cost of Revenue

Outdoor Segment

Cost of revenue for the Outdoor Segment, which is the expected acquisition cost of billboards, was estimated based on growth of number of billboards, according to the Business Enterprise's development plan, and contract payment terms, including that for the operation of VIP terminal of the Beijing International Airport from August 2009 to December 2014. The gross margin for the outdoor segment except for the LCD Screens Project was estimated to be approximately 13% over the forecast period, which is within the range of gross margins of 3% to 37% and below the average of approximately 14% from 2009 to 2011.

For the LCD Screens Project, according to the terms stipulated in the Media Cooperation Agreement, the Business Enterprise would share 50% of the advertising revenue with China Alliance. In addition, as confirmed by the Management, no inventory cost shall be incurred for the LCD Screens Project. Accordingly, gross margin for the Outdoor Segment was expected to increase substantially from 3% in 2011, to 36% in 2012 and 44% in 2013 and remain relatively stable at approximately 46% from 2013 to 2016. The gross margin in 2013 was expected to increase over 2012 as the LCD Screens Project would not cover the whole year of 2012.

TV Segment

Cost of revenue for the TV segment is the expected acquisition cost of TV advertising timeslots. By employing Shanghai Yarun as the benchmark, cost of revenue of the TV ads business was estimated at approximately 69% of net revenue, which is equivalent to a gross margin of approximately 31%, throughout the forecast period, which is within the range of the historical cost of revenue to net revenue of the Dragon TV timeslot of 54% to 93% and close to the average of 69% from 2009 to 2011. The gross margin for the TV Segment declined in 2011 when the cost of inventory was raised substantially by the supplier, and those increases could not be passed along to clients until some time after the price increases, resulting in lower overall margins in 2011.

Historical gross margin in 2009 and 2010 are both 46%. The increase of gross margin to 48% in 2012 would be attributable to the Program Production Project, as GMP is responsible for funding all costs of the Program Production Project (including production fees, promotion, and broadcast fees), according to the Cooperation Agreement, thus no inventory cost shall be borne by the Business Enterprise . Gross margin of the TV segment was expected to remain stable at around 50% throughout the forecast period. Gross margin excluding the Program Production Project was expected to increase to 21% in 2012 from 7% in 2011 as the Business Enterprise broadens its portfolio of TV inventory in 2012, the effect of depressed level of gross margin for TV segment in 2011 which was due to the sharp increase in TV inventory costs charged by Shanghai Media Group, a dominant TV operator in Shanghai, while the Business Enterprise could not pass on such increased costs in full to its customers in a timely manner, will be expected to mitigate after the transition to tier-2 cities where the bargaining power of TV operators will be weaker due to a more competitive local TV environment amongst the many tier-2 cities as compared to only a few tier-1 cities.

7.4.3.3 Operating Expenses

Operating expenses were generally projected separately by reference to four factors: salary, office rental, depreciation (please refer to 7.4.3.6 Depreciation and Amortization for more details) and other overheads. As confirmed by the Management, repair and maintenance expenses on the media assets would be borne by the respective owners and the Business Enterprise, as a lessee, will not bear such expenses.

Most items were assumed to grow at approximately 10%, which are higher than the expected inflation rate of 3% from 2012 to 2016 and the 7% GDP growth rate per annum targeted by the Chinese government from 2011 to 2015. Salary was estimated based on the Business Enterprise's personnel plan.

Operating expenses for the Outdoor Segment was approximately 29% of net revenue in 2010, of which 62% was attributable to the surge in allowance for doubtful debts for the year and a portion of which was written back in 2011. After normalizing the effect from the non-recurring increase in and recovery of the allowance for doubtful debts in 2010 and 2011, operating expenses to net revenue in 2010 and 2011 were approximately 11% and 8% respectively. Operating expenses as a percentage of net revenue for the Outdoor Segment throughout the forecast period is approximately 9%, which is in line with historical performance.

For the TV Segment, 66% of the operating expenses was attributable to the increase in allowance for doubtful debts in 2010. After normalizing the effect from the non-recurring increase, operating expenses to net revenue in 2010 and 2011 were approximately 6% and 8% respectively. Operating expenses as a percentage of net revenue was estimated to be approximately 4% over the forecast period. The decrease in operating expenses as a percentage of net revenue arises from the fact that, in the Program Production Project, the operating expenses are not borne by the Business Enterprise but by GMP, as stipulate in the Cooperation Agreement. Therefore, the percentage of net revenue charged to operating costs will be lower.

The amount of allowance for doubtful debts normalized was RMB 30.7 million in 2010 and a write back of RMB 6.7 million in 2011. In respect of trade receivables, the Business Enterprise performs individual credit evaluations and these evaluations focus on the customers' past history of making payments as well as the economic environment in which the customers operate. As no indication of impairments was identified, the Management did not provide additional allowances in 2011 and no specific allowance for doubtful debts over the forecasted period was included in the valuation.

A portion of net revenue was used as a benchmark because the historical experience of the Business Enterprise has shown this to be applicable in providing a summary measure of operating expenses.

7.4.3.4 Profit Before Tax

Profit before tax was expected to grow at a CAGR of 33% from 2012 to 2016, as a result of the increase in revenue, of which was mainly driven by the acquisition of TV timeslots and the initiation of Program Production Project and the LCD Screens Project, since 2012. Furthermore, the expected increase in profit before tax would also be attributable to the increase in gross profit due to the lower cost of revenue as a result of the terms as stipulated in the agreements of the Program Production Project and the LCD Screens Project.

In 2010, the Business Enterprise made impairment loss on trade and bill receivables that were past due and subsequent in 2011, a significant portion of such trade and bill receivables was collected by the Business Enterprise and written back accordingly. Such impairment loss and subsequent write-back are considered normal in the course of business and in the financial forecasts allowance for doubtful debts are charged in accordance with business practice.

7.4.3.5 Capital Expenditure

Capital expenditure (hereinafter referred to as "Capex") in the forecast period refers to acquisition payment and expected investment in fixed assets. It was estimated as a percentage of net revenue. Cost in acquiring media resources, such as TV timeslots and billboards were not charged as Capex and it has already been charged as cost of revenue.

Capex excluding acquisition payment to net revenue for the Business Enterprise in 2010 and 2011 were approximately 0.01% and approximately 0.02% respectively, while in the forecast period, Capex to net revenue for the Business Enterprise were assumed at approximately 0.08%, given that more Capex was expected as a result of the new projects.

Acquisition payment scheduled to paid out in 2012 was included in the valuation to account for the acquisition of 51% equity interest in Beijing Yanhuang in 2008. In addition, as the remaining 49% equity interest of Beijing Yanhuang would be acquired by the Business Enterprise in 2014 for nil consideration (please refer to Section 4 The Business Enterprise for more details), no Capex for the 49% equity interest in Beijing Yanhuang was projected in the forecast period.

7.4.3.6 Depreciation and Amortization

Depreciation and amortization were estimated according to the depreciation schedule on capital investment in compliance with the accounting policies of the Business Enterprise. In the calculation of depreciation and amortization expenses, acquisition payment was excluded, as such payment, including the acquisition of current assets, such as inventories and accounts receivables, is not subject to depreciation in future periods.

The assets that are subject to depreciation include office furniture, computers, and a motor vehicle, while the intangible assets subject to amortization include customer relationships and non-competition agreements.

The ratio of depreciation and amortization to Capex excluding acquisition payment was tabulated below:

Business Enterprise

RMB (million)	**2011A**	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**
Depreciation and Amortization	3.1	2.7	2.8	0.3	0.4	0.4
Capex excluding Acquisition Payment	0.0	0.3	0.4	0.5	0.6	0.7
Depreciation and Amortization to Capex *(%)*	7581%	867%	653%	58%	61%	63%

The acquisitions of Beijing Yanhuang and Shanghai Dianguang in 2008 included intangible assets amounting to RMB20.4 million and RMB7.4 million, respectively. The period over which these intangible assets are amortized is 2008 to 2013, and therefore the amortization charges during that time are significant.

7.4.3.7 Working Capital

Change in working capital was accounted for throughout the forecast period. The estimation was mainly based on days sales outstanding, days payables outstanding, prepayments as a percentage of cost of revenue and advance from customers as a percentage of revenue. These key items were mainly estimated based on their respective performance in 2010 and 2011 and were tabulated as below:

Business Enterprise

	2010A	2011A	2012F	2013F	2014F	2015F	2016F
Days Sales Outstanding	95	89	94	94	94	94	94
Prepayment to Cost of Revenue *(%)*	53%	12%	18%	16%	17%	17%	18%
Days Payables Outstanding	16	28	27	26	26	26	26
Advance from Customers to Net Revenue *(%)*	13%	3%	8%	8%	8%	8%	8%

Days sales outstanding was expected to be stable in the forecast period. In general, the credit terms the Business Enterprise granted to its customers ranged from 30 to 180 days. This is in accordance with industry practice that, in the TV advertising industry in China, it is customary not to bill the client until 90 days following the broadcast of the advertisements. In the outdoor advertising industry, billing can be as soon as 30 days after the billboard has been taken down. The days sales outstanding in the forecast period were in line with the Business Enterprise's credit policy. The typical credit terms given by the suppliers to the Business Enterprise in the past were about 30 days and days payables outstanding in the forecast period were in line with the historical records.

Typically, outdoor media and television media require a certain amount of prepayment at the time the lease for that media is signed. Then periodic charges are made during the life of the contract as the lease under the contract are fulfilled and relevant outdoor media and television media inventories are sold. Such prepayments were treated as cash outflows at time of payment according to contract terms and modeled separately from account payables in the valuation of the Business Enterprise. Prepayment to cost of revenue in the forecast period was projected to decrease as the Business Enterprise plans to diversify its TV inventory mix in the forecast period. Provincial TV stations, unlike Shanghai Media Group and CCTV, usually only require approximately one-month prepayment, according to the experience of the Management.

7.4.4 Terminal Value

The valuation of the Business Enterprise was performed under the premise of going concern. As confirmed by the Management, for the conduction of advertisement business in both TV and outdoor advertising in China, the Business Enterprise and its subsidiaries are required to obtain business licenses in which advertisement business is listed as one of its business scope. For outdoor advertising, outdoor advertising licenses are required. Such business licenses are renewable upon expiry subject to the passing of the annual verification. In addition, the Management confirmed that there were no special conditions, such as life of patent and irreplaceable inventory that would limit the Business Enterprise in conducting its current advertising business beyond certain time in future. As a result, the Business Enterprise can continue to engage in advertising business as stated in the business license in future.

Validity of the business licenses of the entities in the Business Enterprise is set out below:

Business Entity	Business License Validity
Redgate Interactive Advertising (Beijing) Company Limited	From 21 December 2006 to 20 December 2036
Shanghai Dianguang Media Broadcasting Company Limited	From 27 November 2001 to 26 November 2051
Beijing Yanhuang Shengshi Advertising Company Limited	From 19 April 2000 to 18 April 2020
Beijing Langrui Advertising Company Limited	From 16 March 2006 to 15 March 2026
Beijing Shenzhou Advertising Company Limited	From 1 March 2001 to 28 February 2021
Shanghai Langli Advertising Company Limited	From 8 March 2005 to 7 March 2015
Hangzhou Yibao Advertising Company Limited	From 30 June 2008 to 29 June 2018
Wuhan Langxin Advertising Company Limited	From 16 January 2009 to 15 January 2059
Hebei Langshen Advertising Company Limited	From 3 December 2008 to 3 December 2018

The DCF analysis was made based on a 5-year forecast period followed by a terminal value. Terminal value is the continuing value at the end of the forecast period over which cash flows are projected. The terminal value of the Business Enterprise was calculated using the perpetuity growth model. A terminal growth rate, which is the expected constant level of growth assumed to be achieved by the Business Enterprise in perpetuity, was applied to the cash flow of the last year of the forecast period, and capitalized at a rate equal to the discount rate minus the terminal growth rate. The calculated sum was then discounted back to the Date of Valuation at WACC in arriving at the present value of terminal value.

In estimating the terminal growth rate for the Business Enterprise, we have considered several factors, including:

- The annual growth rate of broadcast television segment and other out-of-home segment of the advertising industry in China from 2011 to 2016 of approximately 19% and 15% respectively, according to MAGNAGLOBAL Forecast;

- The annual GDP growth rate of China from 2011 to 2015 of 7% targeted by the Chinese government;

- The average expected annual inflation rate of China from 2012 to 2016, according to the IMF as extracted from Bloomberg, of approximately 3%;

- The average historical annual inflation rate of China from 2007 to 2011, according to the IMF as extracted from Bloomberg, of approximately 4%; and

- Our discussion with the Management.

Based upon this information, we have adopted terminal growth rate of 3%, which is the expected annual inflation rate of China according to the IMF assuming that the Business Enterprise will grow along with China's inflation in the long run. It is the lowest rate among those we considered above.

In assessing the long term growth prospect of the Business Enterprise and the determination of applicable terminal growth rate, we have also considered the research figures published by CTR Media Intelligence which state that the average year-on-year growth of China's advertising expenditure from 2003 to 2008 was 20.2%, and the growth in 2009 and 2010 have been considerably lower at 13.5% and 13.0%, respectively. The slowdown in China's advertising expenditures in 2009 and 2010 can be attributable to the global financial crisis starting from 2008 and the high correlation between GDP and advertising spending. Despite growing at slower pace during these two years, such growth rates, at over 13%, are still considerably higher than the 3% terminal growth rate adopted in the valuation of the Business Enterprise.

7.4.5 Marketability Discount

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. In the article with title "Why Is the Value of Minority Stock Discounted So Heavily" authored by Phil Williams and John Linder with LarsonAllen, the authors conducted analysis and determined appropriate lack of marketability discounts for non-marketable stocks in privately held companies. In concluding their analysis, they stated the discount for lack of marketability ranged from 25% to 40%. We consider a marketability discount of 33.00%, being the midpoint in the 25% to 40% range as concluded in the analysis, appropriate and adopted in arriving at our opinion of value of the Business Enterprise. In addition, according to a study entitled "Analysis of Private Sales of Unregistered Common Stock, January 1, 1980 – December 31, 1996" conducted by the Management Planning, Inc, for companies with revenues under United State Dollar ("USD") 10 million, the marketability discount was average at 33% and companies with revenues between US$30 million and US$50 million, the marketability discount was averaged at 25%. As this study on marketability discount covered transactions over a period of 17 years and its conclusion were in line with more recent research findings, we considered it good for reference in cross checking the adoption of marketability discount in other studies. The annual revenue of the Business Enterprise falls into the range of US$30 million to US$50 million, and for prudence our adopted marketability discount, which was based on the LarsonAllen article, matched the higher rate for smaller companies under this study and the adopted marketability discount of 33.00% was considered appropriate. In a study published by the Internal Revenue Service (IRS), U.S. Department of the Treasury with title "Discount for Lack of Marketability Job Aid for IRS Valuation Professionals" dated 25 September 2009, which includes the findings of the study conducted by the Management Planning, Inc., it states that the studies exhibit average means and medians of 31.4% and 33% for discount for lack of marketability, which is in line with the adopted 33.00% discount.

Notes:

LarsonAllen, with 1,800 staff including 325 principals, is ranked by Accounting Today among the top 10 CPA firms in annual Wealth Magnets List in July 2011. With more than 50 years of experience, LarsonAllen offers valuable insights, produce original research, and develop techniques and tools specifically designed for clients. With the industry experience and national resources, LarsonAllen provides services that impact business. The article with title "Why Is the Value of Minority Stock Discounted So Heavily" was presented in the Winter 2002 issue of EFFECT magazine. As stated in the article, the author Phil Williams is a principal and the practice leader of business valuation and litigation services for LarsonAllen and has extensive experience in mergers and acquisitions, commercial banking and public finance. John Linder is a manager in business valuation and litigation services for LarsonAllen.

The Management Planning, Inc. Study titled "Analysis of Private Sales of Unregistered Common Stock, January 1, 1980 – December 31, 1996" was reported in The Handbook of Advanced Business Valuation by Robert F. Reilly published in 1999.

The study published by the Internal Revenue Service (IRS), U.S. Department of the Treasury with title "Discount for Lack of Marketability Job Aid for IRS Valuation Professionals" dated 25 September 2009.

7.4.6 Sensitivity Analysis

To check how the change in an independent variable would impact the dependent variable under a given set of assumptions, we carried out the sensitivity analyses on the market value of the Business Enterprise in respect of major parameters used in the DCF model. The results of the sensitivity analyses were tabulated as follows:

Absolute Change in Discount Rate	Applied Discount Rate *(%)*	Market Value of the Business Enterprise *(HK$ million)*
2%	14.34%	1,410
1%	13.34%	1,570
0%	12.34%	1,770
–1%	11.34%	2,020
–2%	10.34%	2,330

Percentage Change in Revenue	Applied Percentage of Revenue vs Base Case *(%)*	Market Value of the Business Enterprise *(HK$ million)*
+10%	110.00%	2,420
+5%	105.00%	2,090
0%	100.00%	1,770
–5%	95.00%	1,450
–10%	90.00%	1,120

Percentage Change in Cost of Sales	Applied Percentage Change in Cost of Sales vs Base Case *(%)*	Market Value of the Business Enterprise *(HK$ million)*
+10%	110.00%	1,430
+5%	105.00%	1,600
0%	100.00%	1,770
–5%	95.00%	1,940
–10%	90.00%	2,100

Absolute Change in Terminal Growth Rate	Applied Terminal Growth Rate *(%)*	Market Value of the Business Enterprise *(HK$ million)*
+2%	5.00%	2,170
+1%	4.00%	1,950
0%	3.00%	1,770
–1%	2.00%	1,630
–2%	1.00%	1,510

8. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Business Enterprise operates or intends to operate would be officially obtained and renewable upon expiry;

- The projections, which includes unaudited data on advertising space inventories available for sales, the applicable advertising rate, the occupation rate, and the share of revenue during the contract period as stipulated in various agreements entered into among the Business Enterprise and other parties, outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- There will be sufficient supply of technical staff, who possess knowledge of the media and advertising industry in China, such as the relevant rules and regulations and their implementation in relation to the attitude of the government agencies, as well as the standards and practices of servicing multinational advertising clients and their advertising agencies, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Business Enterprise operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise; and

- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing.

9. INFORMATION REVIEWED

Our estimate requires consideration of relevant factors affecting the market value of the Business Enterprise. The factors considered included, but were not necessarily limited to, the following:

- Financial statements of the Business Enterprise, including audited financial reports of Business Enterprise, without the consolidation of Shanghai Yarun as it was not a subsidiary during the reporting period, for the three years ending on 31 December of 2009, 2010, and 2011, respectively;

- Audited financial report of Shanghai Yarun for the year ended 31 December 2008, and the 9 months ended 30 September 2009, and the unaudited management account of Shanghai Yarun for the years ended 31 December 2009 and 2010;

- Historical information of the Business Enterprise, including business contracts on sample basis, customer lists, order book and backlog, advertising inventories secured and advertising rate for various advertising inventories secured;

- Financial forecasts of the Business Enterprise, which is prepared by the Management of the Business Enterprise and reviewed by us to be considered as reasonable and fair, including the financial forecasts of the Business Enterprise and unaudited supporting financial information provided by the Management of the Business Enterprise, such as contracts on sample basis, customer lists, order book and backlog for both historical and future period, advertising inventories secured and prevailing and projected advertising rate for various advertising inventories secured, for the estimation of revenue which is based on the advertising space inventories available for sales, the applicable advertising rate, the occupation rate, and the share of revenue as stipulated in various agreements entered into among the Business Enterprise and other parties;

- Market trends of the media and advertising industry and other dependent industries;

- General descriptions in relation to the Business Enterprise; and

- Economic outlook in China.

10. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events or circumstances have not been considered and we are not required to update our report for such events and conditions.

We would particularly point out that our valuation was based on the information such as the projections prepared by the Business Enterprise which include the estimation of revenue based on the advertising space inventories available for sales, the applicable advertising rate, the occupation rate, the fact that the media and advertising market in China is fragmented and the Business Enterprise is not taking meaningful market shares, company background, business nature and market share of the Business Enterprise provided to us.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on the historical and/or prospective information provided by the Management and other third parties, such as independent research institutes, including Global Industry Analysts, Inc., CTR Media Intelligence and MAGNAGLOBAL, in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation data and financial information that have not been provided to us are accepted.

We assumed that the Management is competent and perform duties under the company regulation. Also, ownership of the Business Enterprise was in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the market value of the Business Enterprise.

We have not investigated the title to or any legal liabilities of the Business Enterprise and have assumed no responsibility for the title to the Business Enterprise appraised.

Our conclusion of the market value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely on their own risks.

No change to any item in any part of this report shall be made by anyone except Roma Appraisals. We have no responsibility for any such unauthorized change. Neither all nor any part of this report shall be disseminated to the public through any means of communication or referenced in any publications, including but not limited to advertising, public relations, news or sales media.

This report may not be reproduced, in whole or in part, and utilized by any third parties for any purpose, without the written consent and approval of Roma Appraisals.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required.

11. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Hong Kong Dollars (HK$).

We hereby confirm that we have neither present nor prospective interests in the Company, the Business Enterprise and the associated companies, or the values reported herein.

12. OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, the market value of 100% equity value of the Business Enterprise as at the Date of Valuation, in our opinion, is reasonably stated as **HK$1,770,000,000 (HONG KONG DOLLARS ONE THOUSAND SEVEN HUNDRED AND SEVENTY MILLION ONLY).**

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

LUK, Kee Yan Kelvin	**KWAN, Hoi Cheung**
MIBA	*CFA*
Director	*Director*

Note:

Mr. Luk graduated from the University of California, Los Angeles with a bachelor degree in mathematics (applied science). He is a member of the Institute of Business Appraisers and has over 5 years of experience in valuation and consultation related to similar assets or companies engaged in similar business activities worldwide as that of the Business Enterprise. Mr. Luk has conducted and supervised over 10 valuation cases on various assets of companies, both listed and private, in the media and advertising industries.

Mr. Kwan graduated from the University of Hong Kong with a bachelor degree in social sciences. He is a member of the CFA Institute and has over 10 years of experience in valuation of similar assets or companies engaged in similar business activities as that of the Business Enterprise. Mr. Kwan has conducted approximately 10 valuation cases on various assets of companies, both listed and private, in the media and advertising industries.

Valuators	Company Name	Stock Code	Date of Valuation
Kelvin Luk	One Media Group Limited	426 HK	30 September 2011
Kelvin Luk, H. C. Kwan	China Railsmedia Corporation Limited	745 HK	30 June 2011
Kelvin Luk	CMMB Vision Holdings Limited	471 HK	31 December 2010
Kelvin Luk, H. C. Kwan	China Mining Resources Group Limited	340 HK	31 August 2010
Kelvin Luk	Inno-Tech Holdings Limited	8202 HK	30 June 2010
Kelvin Luk, H. C. Kwan	Other Private Companies		

Note:

The acquisition target of China Mining Resources Group Limited as valued by Roma Appraisals, was engaged in the media industry in China.

Set out below are the texts of the letters from Bridge Partners Capital Limited and BDO Limited in connection with the profit forecasts underlying the valuation report of Redgate Ventures Limited, together with its subsidiaries, as at 31 December 2011 prepared by Roma Appraisals Limited for the purpose of inclusion in this circular.

(A) LETTER FROM BRIDGE PARTNERS CAPITAL LIMITED

寶橋 BRIDGE PARTNERS

BRIDGE PARTNERS CAPITAL LIMITED

Unit 605, 6/F, Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong

24 April 2012

The Board of Directors
Inno-Tech Holdings Limited
Room 606, 6th Floor
MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

Inno-Tech Holdings Limited (the "Company") – Very Substantial Acquisition

We refer to the profit forecasts (the "**Forecasts**") underlying the valuation report (the "**Valuation Report**") prepared by Roma Appraisals Limited ("**Roma**") in respect of the appraisal of the fair market value of the 100% equity interests of Redgate Ventures Limited, together with its subsidiaries, (the "**Business Enterprise**") as at 31 December 2011. The Valuation Report of the Business Enterprise is included in Appendix V to the circular dated 24 April 2012 (the "**Circular**") issued by the Company.

The Valuation Report, which has been arrived at using the discounted present value of cash flow method, is regarded as a profit forecast under Rule 19.61 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**").

We have been engaged to assist the directors of the Company (the "**Directors**") for the purpose of reporting solely to you under Rule 19.62(3) of the GEM Listing Rules and for no other purpose. We are not reporting on the arithmetical calculations of the Forecasts and the adoption of accounting policies thereof, and our work does not constitute any valuation of the Business Enterprise. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

We have reviewed the Forecasts upon which the Valuation Report has been made for which you as the Directors are solely responsible, and have discussed with you and Roma the information and documents provided by you which formed part of the bases and assumptions upon which the Forecasts have been prepared. We have also considered the letter from BDO Limited dated 24 April 2012 addressed to yourselves as set out in Appendix VI to the Circular regarding the arithmetical calculations upon which the Forecasts have been made. The Forecasts have been prepared using a set of assumptions that include hypothetical assumptions about future events and other assumptions that may or may not necessarily be expected to occur and, as such, the Forecasts may not be appropriate for purposes other than for deriving the Valuation Report. Even if the events anticipated under the hypothetical assumptions occur, actual results are still likely to differ from the Forecasts since such anticipated events frequently may or may not occur as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by Roma, for which Roma and the Company are responsible, we are of the opinion that the Forecasts, for which you as the Directors are solely responsible, have been made by you after due and careful enquiry in accordance with the bases and assumptions determined by you and Roma as set out in the Valuation Report.

Yours faithfully,
For and on behalf of
Bridge Partners Capital Limited
Monica Lin
Managing Director

(B) LETTER FROM THE REPORTING ACCOUNTANTS

BDO

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Fax: +852 2815 2239
www.bdo.com.hk

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111 Connaught Road Central
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香港
干諾道中111號
永安中心25樓

24 April 2012

The Board of Directors
Inno-Tech Holdings Limited

Dear Sirs,

Inno-Tech Holdings Limited (the "Company")

Underlying cash flow forecasts in connection with the business valuation on Redgate Ventures Limited and its subsidiaries (collectively the "Valuation Group")

Independent assurance report

In accordance with our agreed terms of engagement, we have examined the arithmetical accuracy of the calculations of the underlying cash flow forecasts in connection with the business valuation on the Valuation Group as at 31 December 2011 (hereinafter referred to as the "**Underlying Forecast**") which 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 (the "**Listing Rules**"). The Underlying Forecast is set out in Appendix V to the Company's circular dated 24 April 2012 (the "**Circular**").

Respective responsibilities of directors and ourselves

The directors of the Company (the "**Directors**") are responsible for the preparation of the Underlying Forecast and the reasonableness and validity of the assumptions based on which the Underlying Forecast is prepared (the "**Assumptions**").

It is our responsibility to form a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to report our conclusion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the 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. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation.

The Assumptions include hypothetical assumptions about future events as detailed in Appendix V to the Circular and management actions that cannot be confirmed or 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 Underlying Forecast 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.

Basis of conclusion

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits of Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. We have examined the arithmetical accuracy of the calculations of the Underlying Forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation on any entity within the Valuation Group.

Conclusion

In our opinion, so far as the arithmetical accuracy of the calculations is concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions made by the Directors as set out in Appendix V to the Circular.

Yours faithfully
BDO Limited
Certified Public Accountants
Hong Kong

1. 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 the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and immediately following completion of the Acquisition and upon full conversion of the Placing CB and the Convertible Notes will be, as follows:

Authorised:		*HK$*
300,000,000,000	Ordinary shares of HK$0.001 each as at the Latest Practicable Date and following completion of the Acquisition and upon full conversion of the Placing CB and the Convertible Notes	300,000,000.00

Issued and fully paid or credit as fully paid:		*HK$*
95,062,123	Ordinary shares of HK$0.001 each as at the Latest Practicable Date	95,062.12
526,315,789	CB conversion Shares to be allotted and issued upon full conversion of the Placing CB	526,315.79
4,904,002,710	Maximum number of Conversion Shares to be allotted and issued upon full conversion of the Convertible Notes (Taking into account of the Third Convertible Notes Adjustment Events)	4,904,002.71
5,525,380,622		5,525,380.62

All Shares in issue and the Shares to be issued rank *pari passu in* all respects with each others, including, in particular, as to dividends, voting rights and return of capital.

3. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Interest of substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, no persons (not being a Director or chief executive of the Company) had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

4. LITIGATION

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, an ex-Director, Mr. Wong Yao Wing, Robert, an ex-Director 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 Defendants denied the claims of the Plaintiff and have sought legal advice in this regard. The parties have agreed to an interim stay of up to 8 June 2011 to attempt mediation to settle the dispute. The mediation was not successful and the parties shall continue with the proceedings. The Defendants filed a defence against the claims of the Plaintiff denying having entered into such oral investment agreement and making the alleged representations and therefore denied all liability for the claims made therein. As at the Latest Practicable Date, the parties are proceeding to discovery.

On 14 January 2011, an originating summons was issued seeking an order from the Court to grant leave for Smart Step Holdings Limited, a shareholder of the Company to bring derivative actions in the names of the Company, Inno Gold Mine and Dragon Emperor against Ms. Wong Yuen Yee and Mr. Wong Yao Wing, Robert. Affirmations have been exchanged, but no further progress has been made since. As at the Latest Practicable Date, the court has not given any direction or made any order. Further, Inno Gold Mine and Dragon Emperor have been disposed in May 2011. Accordingly, as no derivative action has been brought in respect of the aforesaid and Inno Gold Mine and Dragon Emperor have been disposed, the Company considers that the said originating summons has no impact on the Group and no disclosure is necessary in the annual report of the Company for the two years ended 30 June 2011.

Save as mentioned above, as at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service agreements with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, the compliance advisors (as defined in the GEM Listing Rules), or management shareholder (as defined in the GEM Listing Rules) or their respective associates had any business or interest which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group.

7. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

(i) none of the Directors had any interest, either direct or indirect, in any assets which have, since 30 June 2011 (being the date to which the latest published audited accounts of the Group were made up), been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which is subsisting as at the date of this circular and is significant in relation to the business of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business of the Enlarged Group) have been entered into by the members of the Enlarged Group after the date of two years immediately preceding the date of this circular, and up to the Latest Practicable Date, and are or may be material:

(1) the sale and purchase agreement dated 3 May 2010 entered into between Shiny Step Investments Limited, Duncan Capital Limited and Mr. Shek Ka Sun, Andy in relation to the sale and purchase of 19.19% of the issued share capital of GCM for a consideration of HK$43,000,000;

(2) the placing agreement dated 26 June 2010 entered into between the Company and Cheong Lee Securities Limited, as the placing agent, pursuant to which the Company has conditionally agreed to place, on a best effort basis, a maximum of 148,000,000 new shares, at the price of HK$0.186 each share;

(3) the agreement dated 19 July 2010 between the Company, Chuk Ka Yi, Tam Wing Yuen, Chan Pui Shan Vivien and J&K TMT Investment Company Limited in relation to the sale and purchase of the entire issued share capital of Active Link at a consideration of HK$105,600,000;

(4) the placing agreement dated 4 October 2010 entered into between the Company and Cheong Lee Securities Limited, as the placing agent, pursuant to which the Company has conditionally agreed to place, on a best effort basis, a maximum of 170,000,000 new shares, at a price of HK$0.10 each share;

(5) the sale and purchase agreement dated 7 October 2010 entered into between the Company and Gold Concept Investments Limited in relation to the entire issued share capital of Inno Gold Mine and the shareholders loan (as supplemented by six supplemental agreements dated 31 December 2010, 17 January 2011, 31 January 2011, 18 February 2011, 4 March 2011 and 1 April 2011 respectively) at an aggregate consideration of HK$15,000,000;

(6) the underwriting agreement dated 28 October 2010 entered into between the Company and Cheong Lee Securities Limited, as the underwriter, in relation to the underwriting of not less than 1,200,282,180 shares and not more than 1,546,758,990 shares to be issued pursuant to a rights issue on the basis of ten right shares for every one share held, at HK$0.18 each share;

(7) the sale and purchase agreement dated 18 February 2011 entered into between the Win Today Limited as vendor and the Company as purchaser relating to the sale and purchase of 19% of the total issued share capital of CNM;

(8) the placing agreement dated 7 March 2011 entered into between the Company and Chung Nam Securities Limited, as the placing agent, in relation to the placing of 264,062,079 Shares at HK$0.059 each Share;

(9) the supplemental agreement dated 4 May 2011 as amended by an addendum dated 12 May 2011 entered into between Shiny Step Investment Limited, Duncan Capital Limited and Mr. Shek Sun, Andy in relation to the issue the third promissory note in favour of Shiny Step Investments Limited in the sum of HK$38.7 million maturing on 3 May 2012 and carry interest at the rate of 3% per annum;

(10) the placing agreement dated 8 June 2011 entered into between the Company and Cheong Lee Securities Limited, as the placing agent, pursuant to which the Company has conditional agreed to place, on a best effort basis, a maximum of 316,000,000 shares at the price of HK$0.031 each share;

(11) the extension agreement dated 14 June 2011 entered into between Superior Luck Investments Limited, a subsidiary of the Company, and Win Today Limited to extend the date for fulfillment of the conditions precedent set out in the Agreement to on or prior to 30 September 2011;

(12) the Placing Agreement;

(13) the Sale and Purchase Agreement;

(14) the First Supplemental Sale and Purchase Agreement;

(15) the First Supplemental Placing Agreement;

(16) the Second Supplemental Sale and Purchase Agreement;

(17) the Second Supplemental Placing Agreement; and

(18) the Third Supplemental Sale and Purchase Agreement.

9. EXPERT AND CONSENT

The followings are the names and the qualifications of the professional advisers who have given opinions or advice which are contained or referred to in this circular:

Name	Qualification
Grand Vinco Capital Limited	Compliance adviser
Crowe Horwath (HK) CPA Limited	Certified Public Accountants
BDO Limited	Certified Public Accountants
United Simsen Securities Limited	Independent financial adviser
Bridge Partners Capital Limited	Financial adviser (as to the profit forecasts underlying the valuation report of Redgate Ventures Limited and its subsidiaries as at 31 December 2011)
Roma Appraisals Limited	Independent professional valuer
Zhong Lun Law Firm	PRC legal advisers

As at the Latest Practicable Date, none of Grand Vinco Capital Limited, Crowe Horwath (HK) CPA Limited, BDO Limited, United Simsen Securities Limited, Bridge Partners Capital Limited, Roma Appraisals Limited and Zhong Lun Law Firm had any beneficial interest in the share capital of any member of the Enlarged Group nor did any of them have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group or have any interest, either directly or indirectly, in any assets which have been, since 30 June 2011, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of Grand Vinco Capital Limited, Crowe Horwath (HK) CPA Limited, BDO Limited, United Simsen Securities Limited, Bridge Partners Capital Limited, Roma Appraisals Limited and Zhong Lun Law Firm has given and has not withdrawn its respective written letters of consent to the issue of this circular with the inclusion herein of references to its name in the form and context in which they respectively appear.

10. DUE DILIGENCE PERFORMED BY COMPLIANCE ADVISER

As stated in a letter from the Listing Division of the Hong Kong Stock Exchange to the Company dated 4 August 2011, the Listing Division requested the Company to appoint a compliance adviser acceptable to the Hong Kong Stock Exchange to conduct due diligence over Redgate Ventures Group in accordance with Practice Note 2 of the GEM Listing Rules and to fulfill the duties and obligations equivalent to those of a sponsor for a new listing application under the GEM Listing Rules. In this relation, the Company has appointed the Compliance Adviser to undertake such role.

11. MISCELLANEOUS

(a) The compliance officer of the Company is Mr. Chen Chuan, who is an engineer and holds a Bachelor degree in Biological Engineering from School of Biotechnology of Jiangnan University.

(b) The company secretary of the Company is Mr. Tse Wing York, who is a member of the Hong Kong Institute of Certified Public Accountants.

(c) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(d) The head office of the Company is located at Room 606, 6/F., MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong.

(e) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(f) As at the Latest Practicable Date, the executive Directors were Mr. Chen Chuan and Mr. Ang Wing Fung, brief biography of whom is set out below:

Mr. Ang Wing Fung, aged 39, was appointed as an executive Director with effect from 19 February 2010. Mr. Ang was appointed as an authorized representative, and chairman and member of the remuneration committee of the Company with effect from 19 January 2011. Mr. Ang is responsible for the Group's financial operation and management. Mr. Ang is the company secretary and financial controller of China Public Healthcare (Holding) Limited, a company listed on the GEM of the Stock Exchange. Mr. Ang holds a Master of Business Administration (Executive) from the City University of Hong Kong and a Bachelor degree in Accounting and Finance from the University of New South Wales, Australia. He is an associate member of Hong Kong Institute of Certified Public Accountants, a qualified member of CPA Australia and an associated member of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He has over 10 years experience in financial management, auditing and accounting in an international accounting firm and a listed company on the Stock Exchange.

Mr. Chen Chuan, aged 51, was appointed as an executive Director and chairman of the Board with effect from 19 January 2011. Mr. Chen is the general manager of Shanghai Zhou Jun Construction Engineering Accessories Co. Ltd.*（上海卓駿建築工程配套有限公司）. Mr. Chen is an engineer and holds a Bachelor degree in Biological Engineering from School of Biotechnology of Jiangnan University.

(g) The Company's audit committee ("**Audit Committee**") comprises of three independent non-executive Directors, namely, Ms. Wong On Yee, Ms. Lu Di and Mrs. Kwan Leung, Anna. The primary duties of the Audit Committee are (a) to review the Company's annual reports, interim reports and quarterly reports, and the Group's financial statements (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group. The brief biography of the independent non-executive Directors are set out below:

(i) **Ms. Wong On Yee**, aged 36, was appointed as an independent non-executive Director with effect from 1 April 2010 and the chairman of Audit Committee. Ms. Wong is a member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor degree in accountancy from the Hong Kong Polytechnic University. Ms. Wong has over 10 years of experience in the fields of auditing, accounting and finance. She is currently the director of an accountancy consulting firm. Apart from her directorship with the Company, Ms. Wong currently does not hold any directorship in any public listed company.

(ii) **Ms. Lu Di**, aged 28, was appointed as an independent non-executive Director and a member of the Audit Committee and remuneration committee of the Company with effect from 15 December 2010. Ms. Lu graduated from the University of Toronto, Canada with a Honours Bachelor of Commerce. Ms. Lu is currently the Brand Promotion Manager of one of the PRC online media company and she has worked in marketing field over four years. Apart from her directorship with the Company, Ms. Lu currently does not hold any directorship in any public listed company.

(iii) **Mrs. Kwan Leung, Anna**, aged 50, was appointed as an independent non-executive Director and a member of the Audit Committee and Nomination Committee of the Company with effect from 2 April 2012. Mrs. Kwan has over 20 years of experience in the entertainment industry as an image and general consultant for artists in the television and film sectors. Apart from her directorship with the Company, Mrs. Kwan currently does not hold any directorship in any public listed company.

(h) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (i.e. from 9:30 a.m. to 6:00 p.m. on Monday to Friday) at the principal place of business of the Company in Hong Kong at Room 606, 6/F, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong from 24 April 2012, the date of this circular up to and including the date of the Special General Meeting, 16 May 2012:

(a) the memorandum of association and the bye-laws of the Company;

(b) the letter from the Independent Board Committee, the text of which are set out on page 88 of this circular;

(c) the letter from United Simsen Securities Limited, the text of which are set out on pages 89 to 96 of this circular;

(d) the annual reports of the Group for the two years ended 30 June 2011 and the interim report of the Group for the six months ended 31 December 2011 the text of which are set out in Appendix I;

(e) the accountants' report of the Redgate Ventures Group, the text of which are set out in Appendix II;

(f) the letter on the unaudited pro forma financial information of the Enlarged Group issued by Crowe Horwath (HK) CPA Limited set out in Appendix IV;

(g) the business valuation report prepared by Roma Appraisals Limited, the text of which are set out in Appendix V;

(h) the letters from Bridge Partners Capital Limited and BDO Limited on profit forecasts in connection with the business valuation, the text of which are set out in Appendix VI;

(i) the letters of consent referred to under the paragraph headed "Expert and Consent" in this Appendix;

(j) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix; and

(k) this circular and the following circulars of the Company:

  (i) the circular dated 24 August 2010 in relation to acquisition of 100% issued share capital of Active Link and entering into sub-license;

  (ii) the circular dated 13 April 2011 in relation to disposal of 100% issued share capital of Inno Gold Mine; and

  (iii) the circular dated 16 June 2011 in relation to acquisition of 19% issued share capital of CNM.

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

(incorporated in Bermuda with limited liability)

(Stock Code: 8202)

NOTICE IS HEREBY GIVEN THAT a Special General Meeting of Inno-Tech Holdings Limited (the "**Company**") will be held at Room 606, 6/F., MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong, on 16 May 2012 at 11:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

1. "**THAT**

(a) the sale and purchase agreement dated 8 July 2011 (as supplemented by the supplemental agreements dated 30 December 2011, 21 February 2012 and 31 March 2012) (collectively the "**Sale and Purchase Agreement**", a copy of which has been produced to this meeting marked "A" and signed by the chairman hereof for the purpose of identification) entered into between the Company as the purchaser and Media Chief Limited and Carraway Holdings Limited collectively as the vendors (collectively referred to as the "**Vendors**"), pursuant to which the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the entire issued share capital in Redgate Ventures Limited, and to procure the holders of the convertible bonds in the principal amount of US$9,747,633.10 convertible into shares of Redgate Ventures Limited (the "**Redgate CB**") (the "**Redgate CB Holders**") to sell the ordinary shares of US$0.01 each in the capital of the Redgate Ventures Limited to be allotted and issued upon the automatic conversion of the Redgate CB (the "**Redgate Conversion Shares**"), for a total consideration of HK$1,750,704,206, which will be satisfied (i) as to HK$290,000,000 in cash; (ii) as to HK$160,000,000 by way of issue of the promissory notes to be executed by the Company to satisfy part of the Consideration (the "**Promissory Notes**"); and (iii) as to HK$1,300,704,206 by way of issue of the convertible notes to be issued by the Company to the Vendors and the Redgate CB Holders (the "**Convertible Notes**"), and all the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

* *For identification purpose only*

(b) the issue of the Convertible Notes to the Vendors being part of the consideration under the Sale and Purchase Agreement be and are hereby approved;

(c) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, up to 4,904,002,710 new ordinary shares of HK$0.001 each in the issued share capital of the Company (the "**Conversion Share(s)**") to be issued upon the exercise of the conversion rights attaching to the Convertible Notes, the allotment and issue by the Company of Conversion Shares ("**Conversion Shares Specific Mandate**") from time to time upon exercise of the conversion rights under the Convertible Notes be and are hereby approved and the Conversion Shares Specific Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company in the annual general meeting of the Company held on 18 November 2011 or such other general or specific mandate(s) that may have been granted to the directors of the Company prior to the passing of this resolution;

(d) any one director of the Company be and is hereby authorised to do all such acts and things as he/she in his/her sole and absolute discretion deems necessary, desirable or expedient to implement, give effect to and/or complete the Sale and Purchase Agreement and the transactions contemplated thereunder, including without limitation the issue of the Convertible Notes, the issue and allotment of new shares in the capital of the Company from time to time upon exercise of the conversion rights under the Convertible Notes, and, where required, any amendment of the terms of the Sale and Purchase Agreement and/or the Convertible Notes as required by, or for the purposes of obtaining the approval of, relevant authorities or to comply with all applicable laws, rules and regulations."

2. "**THAT**

(a) the placing agreement dated 8 July 2011 (as supplemented by the supplemental agreements dated 30 December 2011 and 31 March 2012) (collectively the "**Placing Agreement**", a copy of which has been produced to this meeting marked "B" and signed by the chairman hereof for the purpose of identification), entered into between the Company and Cheong Lee Securities Limited (the "**Placing Agent**"), in relation to the placing on a best effort basis of the convertible bonds in the principal amount of up to HK$200,000,000 convertible into a maximum of 526,315,789 shares of the Company (the "**CB Conversion Share(s)**") at the initial conversion price of HK$0.38 each CB Conversion Share pursuant to the Placing Agreement, and all the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

(b) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the CB Conversion Shares, the allotment and issue of the CB Conversion Shares to the relevant placees pursuant to the Placing Agreement (the "**Placing Specific Mandate**") be and is hereby approved and the Placing Specific Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company in the annual general meeting of the Company held on 18 November 2011 or such other general or specific mandate(s) that may have been granted to the directors of the Company prior to the passing of this resolution; and

(c) any one director of the Company be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Placing Agreement and the Placing Specific Mandate and the transactions contemplated thereunder."

By order of the Board
INNO-TECH HOLDINGS LIMITED
Chen Chuan
Chairman

Hong Kong, 24 April 2012

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Room 606, 6/F.
MassMutual Tower
38 Gloucester Road
Wan Chai
Hong Kong

Notes:

1. A Shareholder 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 at the Meeting in accordance with the bye-laws of the Company. A proxy need not be a Shareholder but must be present in person to represent the shareholder.

2. 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 certified copy thereof must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M 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.

3. Completion and return of the form of proxy will not preclude you from attending and voting at the Meeting if you so wish.

As at the date of this notice, the executive directors of the Company are Mr. Chen Chuan and Mr. Ang Wing Fung. The independent non-executive directors of the Company are Ms. Wong On Yee, Ms. Lu Di and Mrs. Kwan Leung, Anna.