

TAI SHING

Tai Shing International (Holdings) Limited

泰盛國際（控股）有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8103)

THIRD QUARTERLY ANNOUNCEMENT FOR THE PERIOD ENDED 31 DECEMBER 2010

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“STOCK EXCHANGE”)

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

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*This announcement, for which the directors (“**Directors**”) of Tai Shing International (Holdings) Limited (“**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (“**GEM Listing Rules**”) for the purpose of given 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 announcement 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 announcement misleading.*

* For identification purpose only

HIGHLIGHTS

- Turnover for the nine months ended 31 December 2010 amounted to approximately HK\$44.5 million representing an increase of approximately 7% over the corresponding period in 2009.
- Loss attributable to the shareholders for the nine months ended 31 December 2010 amounted to approximately HK\$19.5 million. (2009: profit of approximately HK\$2.4 million)
- Loss per share for the nine months ended 31 December 2010 was approximately 1.2 HK cents. (2009: earnings per share 0.2 HK cents)
- The Board does not recommend the payment of any dividend for the nine months ended 31 December 2010.

The board of directors (“**Board**”) of the Company is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months and the nine months ended 31 December 2010, together with the unaudited comparative figures for the corresponding periods in 2009, are as follows:—

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		Three months ended 31 December		Nine months ended 31 December	
		2010	2009	2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	26,641	25,263	44,538	41,566
Cost of services and merchandise sold		(18,903)	(23,650)	(33,488)	(38,387)
Gross profit		7,738	1,613	11,050	3,179
Other revenue	5	7,559	9,279	12,004	11,318
Selling expenses		(1,463)	(1,063)	(4,304)	(3,373)
General and administrative expenses		(4,550)	(3,360)	(25,664)	(7,832)
Other operating expenses	6	(2,977)	—	(11,761)	—
Profit/(Loss) from operations	7	6,307	6,469	(18,675)	3,292
Finance costs		(266)	(168)	(758)	(505)
Share of result of associates		62	—	62	—
Profit/(Loss) before taxation		6,103	6,301	(19,371)	2,787
Income tax	8	—	—	(58)	—
Profit/(Loss) for the period		6,103	6,301	(19,429)	2,787
Exchange difference arising on translation and total other comprehensive income for the period		125	(249)	(50)	(358)
Total comprehensive income/(loss) for the period		6,228	6,052	(19,479)	2,429
Attributable to:					
Equity holders of the Company		6,228	6,052	(19,479)	2,429
Earnings/(Loss) per share	10				
— basic (HK cents)		0.3	0.6	(1.2)	0.2
— diluted (HK cents)		0.3	0.6	(1.2)	0.2

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

1. General information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Unit 1504, 15/F., The Center, 99 Queen's Road, Hong Kong. The Company's shares are listed on GEM.

2. Basis of preparation of financial statements

The Group's unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The Group's unaudited consolidated results have been prepared under the historical cost convention, except that financial assets at fair value through profit or loss and available-for-sale financial assets are carried at their fair values.

The accounting policies adopted in preparing the unaudited consolidated results for the nine months ended 31 December 2010 and 2009 are consistent with those following the preparation of the Group's annual financial statements for the year ended 31 March 2010. The consolidated results are unaudited but have been reviewed by the Company's audit committee.

3. Adoption of new and revised HKFRSs

During the nine months ended 31 December 2010, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2010. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period or prior accounting periods.

4. Turnover

Turnover represents income arising from the provision of systems development and integration, the sales of software and hardware products and provision of professional services.

An analysis of the turnover by principal activities of the operations of the Group during the reporting periods is as follows:

	UNAUDITED			
	Three months ended		Nine months ended	
	31 December		31 December	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Systems development	26,576	23,387	44,064	37,271
Professional services fees	65	1,876	474	4,295
	<u>26,641</u>	<u>25,263</u>	<u>44,538</u>	<u>41,566</u>

5. Other revenue

	UNAUDITED			
	Three months ended		Nine months ended	
	31 December		31 December	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reversal of impairment loss in respect of trade receivables	4,070	5,844	6,104	6,975
Reversal of impairment loss in respect of other receivables	2	1	344	283
Fair value gain on financial assets at fair value through profit or loss	82	43	87	166
Interest income	20	12	29	29
Sundry income	3,385	3,379	5,440	3,865
	<u>7,559</u>	<u>9,279</u>	<u>12,004</u>	<u>11,318</u>

6. Other operating expenses

	UNAUDITED			
	Three months ended		Nine months ended	
	31 December		31 December	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value loss on financial assets at fair value through profit or loss	<u>2,977</u>	<u>—</u>	<u>11,761</u>	<u>—</u>

7. Profit/(Loss) from operations

Profit/(Loss) from operations is stated after charging:

	UNAUDITED			
	Three months ended		Nine months ended	
	31 December		31 December	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	160	163	480	413
Depreciation	564	224	1,561	875
Operating leases	784	455	2,016	1,342
Staff costs	5,710	4,759	14,203	13,150
Net exchange loss	<u>—</u>	<u>—</u>	<u>1,921</u>	<u>—</u>

8. Income tax

	UNAUDITED			
	Three months ended		Nine months ended	
	31 December		31 December	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC enterprise income tax	<u>—</u>	<u>—</u>	<u>58</u>	<u>—</u>

- (i) Hong Kong profit tax has not been provided for in the consolidated financial statements as there was no estimated assessable profit derived from Hong Kong during the three months ended 31 December 2010 and 2009.
- (ii) Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the standard tax rate is 25%.

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, one subsidiary qualified as an advanced technology enterprise and is subject to a preferential Enterprise Income Tax rate of 15% (2009: 15%) which was effective from 1 January 2008 to 31 December 2010.

9. Dividend

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2010 (2009: Nil).

10. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share for the three months and nine months ended 31 December 2010 were based on the profit attributable to the shareholders of approximately of HK\$6,228,000 and loss of HK\$19,479,000 (2009: profit of HK\$6,052,000 and HK\$2,429,000) divided by the weighted average number of 1,937,433,220 shares for the three months and 1,633,538,022 for the nine months ended (2009: 1,091,900,000 shares for the three months and nine months ended) in issue during the period.

The calculation of diluted earnings/(loss) per share for the three months and nine months ended 31 December 2010 were based on the profit attributable to the shareholders of approximately of HK\$6,288,000 and loss of HK\$19,479,000 (2009: profit of HK\$6,052,000 and HK\$2,429,000) divided by the weighted average number of 1,980,368,872 shares for the three months and 1,657,367,113 for the nine months ended (2009: 1,091,900,000 shares for the three months and nine months ended) in issue during the period.

Basic and diluted earnings/(loss) per share amounts for the three months and the nine months ended 31 December 2009 have been adjusted for the subdivision of shares effective on 16 April 2010.

The calculation of diluted earnings/(loss) per share for the period is based on the earnings/(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 earnings/(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.

As the Company's outstanding share options, where applicable, had an anti-dilutive effect to the basic earnings/(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 earnings/(loss) per share amounts. Therefore, the basic and diluted earnings/(loss) amounts per share calculations for the respective periods are equal.

11. Reserves

	UNAUDITED					
	Share Premium HK\$'000	General Reserve HK\$'000	Capital Reserve HK\$'000	Foreign Currency Translation Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
At 1 April 2010	45,970	2,439	1,200	4,131	(4,594)	49,146
Total comprehensive income for the period, net of tax	—	—	—	(50)	(19,429)	(19,479)
Issue of new shares	107,963	—	—	—	—	107,963
Issue of share upon exercise of share option	1,650	—	—	—	—	1,650
Issue of shares upon — placement of shares	86,551	—	—	—	—	86,551
— transaction cost attributable to placement of shares	(471)	—	—	—	—	(471)
At 31 December 2010	<u>241,663</u>	<u>2,439</u>	<u>1,200</u>	<u>4,081</u>	<u>(24,023)</u>	<u>225,360</u>
At 1 April 2009	22,905	2,079	1,200	4,217	(7,878)	22,523
Total comprehensive income for the period, net of tax	—	358	—	(73)	2,429	2,714
At 31 December 2009	<u>22,905</u>	<u>2,437</u>	<u>1,200</u>	<u>4,144</u>	<u>(5,449)</u>	<u>25,237</u>

12. Litigation

On 19 April 2006, a High Court Action No.858 of 2006 was commenced by Chan Kar Kui, Wong Calvin Ting Chi, Chan Wai Phan, Chan Man Wan and Kwok King Chuen (“**Plaintiffs**”) against the Company for specific performance of the agreement entered between the Plaintiffs and a former Director, To Cho Kei, on behalf of the Company, in around May/June 2000 to purchase from the Plaintiffs all their shareholdings in Epplication.Net Limited (“**Epplication.Net**”) at a consideration of HK\$6,800,000 being twice of the actual amount that the Plaintiffs expended on Epplication.Net by way of transfer or allotment of the shares of the Company of the equivalent value, or alternatively, damages with interests and costs. The Company has filed a defence denying the allegation as the Company has no record of any agreement for the purchase of the Plaintiffs’ shareholdings in Epplication.Net and the Plaintiffs have not produced any documentary evidence to support their claim. The Directors believe that the Company has strong defence in this action and therefore, no provision for liabilities was made.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Turnover for the nine months ended 31 December 2010 amounted to approximately HK\$44.5 million representing an increase of approximately 7% over the corresponding period in 2009.

FINANCIAL PERFORMANCE

During the nine months ended 31 December 2010, the Group recorded a turnover of approximately HK\$44.5 million (2009: HK\$41.6 million) representing an increase of approximately 7% as compared to that of the corresponding period in 2009. General and administrative expenses increase to approximately HK\$25.7 million as compare to HK\$7.8 million of the previous corresponding period, representing an increase of approximately 228%. Loss attributable to the shareholders was approximately HK\$19.5 million (2009: profit of HK\$2.4 million).

FUTURE PROSPECTS

It has been the Company's long term goal to maximize value of its shareholders. In view of the intense market competition for the Group's existing business particularly for the security and surveillance division, the Company has been exploring business opportunities to expand the Group's operations and enhance its earnings. In this regard, the Company considers that there are good business prospects for the system provision, integration and software development market within the insurance and insurance brokering business sectors in the PRC as a result of the increased demand for update and efficient back and front office support systems and software to cater for the expansion in insurance products and services.

During the period under review, the Group has successfully acquired the entire issued share capital of Fullmark Management Limited ("**Fullmark**"), a company incorporated in the British Virgin Islands, details of which are disclosed in the circular of the Company dated 29 September 2010. The Directors consider that the acquisition of Fullmark and its subsidiaries (collectively, the "**Fullmark Group**") will not only provide an opportunity for the Group to expand its scope of IT consultancy services by participating in the insurance market in the PRC, which is expected to have a rising demand, through the Fullmark Group's interest in 東大保險代理股份有限公司 (unofficial translation being Dongda Insurance Agency Company Limited) ("**Dongda Agency**"), but also enable the Group to leverage on its existing expertise and experience in the IT consultancy sector, coupled with the intellectual property rights in respect of the InsureLink System owned by 鑫約福(上海)貿易有限公司 (unofficial translation being Fullmark (Shanghai) Trading Company Limited) ("**Fullmark SH**"), by cooperating with 東大保險經紀有限責任公司 (unofficial translation being Dongda Insurance Brokerage Company Limited), ("**Dongda Brokerage**") pursuant to the exclusive cooperation agreement ("**Cooperation Agreement**") dated 31 March 2010 entered into between Fullmark SH and Dongda Brokerage in relation to the development of the Chinese version of the InsureLink System and the licensing of such system.

As disclosed in the announcement of the Company dated 31 December 2010, a memorandum of understanding has been entered into between the Company and an independent third party in relation to the possible acquisition of the entire issued share capital of Fame Thrive Limited (名旺有限公司) (“**Fame Thrive**”), a company incorporated in the British Virgin Islands with limited liability. Pursuant to a reorganisation to be undertaken by, amongst other companies, Dongda Brokerage and a wholly-owned subsidiary of Fame Thrive to be incorporated in the PRC, Dongda Brokerage and the subsidiary of Fame Thrive will enter into certain co-operation arrangement in relation to the business operation of Dongda Brokerage. In view of the increasing recognition of the importance of risk management and the expected rising demand for insurance coverage in the PRC, the Directors consider that the possible acquisition provides an opportunity for the Group to participate in the insurance market in the PRC and is expected to further enhance the investment portfolio and future earnings of the Group.

Furthermore, during the nine months ended 31 December 2010, the Group, as disclosed in the announcement of the Company dated 2 July 2010, acquired an indirect 10% interest in IP Tone Technology Co. Ltd (“**IP Tone**”), a company incorporated in Taiwan, which provides internet communication services in Taiwan. The Directors considered that the acquisition of 10% interest in IP Tone represented an opportunity for the Group to expand its investment portfolio into internet telecommunication business in Taiwan.

It is the intention of the Company to continue the Group’s existing business in the security and surveillance system and, leverage on its existing expertise and experience in the IT consultancy sector, expand its existing business into the insurance market in the PRC through the Fullmark Group’s interest in Dongda Agency and cooperation with Dongda Brokerage pursuant to the Cooperation Agreement.

The Directors strongly believe the Group can achieve positive growth in its revenue after broadening our income stream in the year of 2011.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS IN SECURITIES

As at 31 December 2010, save as mentioned below, none of the Directors and chief executive has any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“**SFO**”)) which are required to be (i) 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 he is taken or deemed to have taken under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules:

Long positions in the shares of the Company

Name of Directors	Capacity	Long or short position	Number of shares interested	Approximate percentage of issued share capital
Mr. Wong Chung Wai Eric (<i>Note 1</i>)	Beneficial owner	Long position	10,000,000	0.49%
Mr. Chan Yun Sang (<i>Note 2</i>)	Beneficial owner	Long position	10,000,000	0.49%

Notes:

1. As at 31 December 2010, Mr. Wong Chung Wai Eric was the beneficial owner of 2,000,000 issued shares and had an interest in an option to subscribe for up to 8,000,000 shares at the exercise price of HK\$0.28 per share during the period from 5 July 2010 to 4 July 2015.
2. As at 31 December 2010, Mr. Chan Yun Sang was the beneficial owner of 2,000,000 issued shares and had an interest in an option to subscribe for up to 8,000,000 shares at the exercise price of HK\$0.28 per share during the period from 5 July 2010 to 4 July 2015.

Long positions in underlying shares of equity derivatives and debentures of the Company

As at 31 December 2010, no long positions of the Directors and chief executive of the Company in the underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Short positions in shares, underlying shares of equity derivatives and debentures of the Company

During the period under review, no short positions of the Directors and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares of equity derivative and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company, as at the 31 December 2010, the person other than a Director or chief executive of the Company who has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, were as follows:

(a) Long positions in the shares of the Company

Name of shareholders	Capacity	Number of shares held	Approximate percentage of shareholding
Galaxy Asset Management (H.K.) Ltd. (Note 1)	Investment manager	242,670,000	11.81%
Resuccess Investments Limited (Note 2)	Beneficial owner	158,900,000	7.73%
Tsinghua Holdings Company Ltd. (Note 3)	Interest in controlled corporation	158,900,000	7.73%
Tsinghua Tongfang Co. Limited (Note 4)	Interest in controlled corporation	158,900,000	7.73%
Deutsche Bank Aktiengesellschaft (Note 5)	Person having a security interest	128,670,000	6.25%
Zhang He	Beneficial owner	114,718,519	5.58%
Lam Tsz Yiu (Note 6)	Interest of controlled corporation	111,344,444	5.42%
Profit Keen Limited (Note 6)	Beneficial owner	111,344,444	5.42%
Lui Kam Ming (Note 7)	Interest of controlled corporation	111,344,444	5.42%
On Power Holdings Limited (Note 7)	Beneficial owner	111,344,444	5.42%
UBS AG (Note 8)	Person having a security interest	110,000,000	5.35%

Notes:

1. Galaxy China Special Situations Fund SPC (“**Galaxy Fund I**”), Galaxy China Deep Value Fund (“**Galaxy Fund II**”) and Galaxy China Opportunities Fund (“**Galaxy Fund III**”) (which are managed by the same fund manager, Galaxy Asset Management (H.K.) Ltd.) in aggregate, were interested in 242,670,000 shares, comprising 110,000,000 shares held by Galaxy Fund I, 128,670,000 shares held by Galaxy Fund II and 4,000,000 shares held by Galaxy Fund III.
2. Resuccess Investments Limited is a company incorporated in the British Virgin Islands with limited liability and is owned by Tsinghua Tongfang Co. Limited.
3. Tsinghua Holdings Company Ltd. is deemed to be interested in 158,900,000 shares by virtue of it being beneficially interested in 33.05% of the issued share capital of Tsinghua Tongfang Co. Limited.
4. Tsinghua Tongfang Co. Limited is deemed to be interested in 158,900,000 shares by virtue of it being beneficially interested in 100% of the issued share capital of Resuccess Investments Limited
5. Deutsche Bank Aktiengesellschaft is interested in 128,670,000 shares in its capacity as person having a security interest in shares (other than an exempt security interest).
6. Profit Keen Limited is a company incorporated in the British Virgin Islands with limited liability and is ultimately and beneficially owned as to 100% by Mr. Lam Tsz Yiu, who is deemed to be interested in 111,344,444 shares in which Profit Keen Limited is interested.

7. On Power Holdings Limited is a company incorporated in the British Virgin Islands with limited liability and is ultimately and beneficially owned as to 100% by Mr. Lui Kam Ming, who is deemed to be interested in 111,344,444 shares in which On Power Holdings Limited is interested.
8. UBS AG is interested in 110,000,000 shares in its capacity as person having a security interest in shares (other than an exempt security interest).

(b) Long positions in underlying shares of the Company

As at 31 December 2010, no long positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company and its associated corporations were recorded in the register.

(c) Short positions in shares of the Company

As at 31 December 2010, no short positions of other persons or substantial shareholders in the shares of the Company and its associated corporations were recorded in the register.

(d) Short positions in underlying shares of the Company

As at 31 December 2010, no short positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company and its associated corporations were recorded in the register.

OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS

Save as disclosed above, as at 31 December 2010, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares (including interests in options, if any) of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the nine months ended 31 December 2010 or at any time during such period.

DIRECTORS' COMPETING INTERESTS

As of 31 December 2010, none of the directors or substantial shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) had any business or interest in a business which competes or may compete with the business of the Group.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders of the Company dated 22 October 2003, the Company conditionally adopted and approved a share option scheme ("New Scheme") to replace the share option scheme adopted on 26 August 2000 ("Old Scheme"). The principal terms of the New Scheme were set out in the Appendix I to the circular of the Company dated 30 September 2003.

(a) Purpose of the New Scheme

The purpose of the New Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution and prospective contribution to and stronger business relationship between the selected participants and the Group.

(b) Participants of the New Scheme

Under the New Scheme, the Board shall have the absolute discretion to determine who is a participant in order that such person can participate in the scheme (“**Participant**”). In exercising such discretion, the Board shall take into account the following factors:

- (i) whether such person is an eligible employee, being any executive, employee (whether full time or part time), or director in the employ of any member of the Group or any entity in which any member of the Group holds an equity interest (“**Invested Entity**”), an adviser of, a consultant of, or a contractor to any member of the Group or any Invested Entity, or whether such person has any relationship (whether business or otherwise) with the Group or any Invested Entity and the duration of such relationship;
- (ii) any contributions which have been made by such person to the Group or any Invested Entity in the past and the extent of any such contributions;
- (iii) any potential contributions to the Group or any Invested Entity which are considered by the Board such persons would make and the extent of such potential contributions;
- (iv) the existing terms of legal and business relationship between such persons and the Group or any Invested Entity; and
- (v) the views of the independent non-executive Directors in considering who is a Participant.

(c) Basis for determining the subscription price

The subscription price shall be a price determined by the Board at its absolute discretion and notified to a Participant provided that it shall be no less than the higher of:

- (i) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the relevant acceptance date, which must be a business day;
- (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the relevant acceptance date; and
- (iii) the nominal value of the share of the Company.

An offer of option shall lapse if not accepted on or before the twenty-eighth day from the date such offer is made to a Participant. A nominal consideration of HK\$1 is payable by the grantee on acceptance of the grant of an option.

(d) Total number of securities available for issue under the New Scheme

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the New Scheme shall not in aggregate exceed 10% of the issued share capital of the Company as at the adoption date (“**General Scheme Limit**”) unless further shareholders’ approval is obtained in general meeting, provided that options lapsed in accordance with the terms of the New Scheme will not be counted for the purpose of calculating the General Scheme Limit.

Notwithstanding the foregoing the total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme shall not exceed 30% of the shares of the Company in issue from time to time.

As at 31 December 2010, no shares of the Company are available for issue under the New Scheme.

(e) Maximum entitlement of each Participant

For each Participant, the total number of shares issued and to be issued upon exercise of all options granted and further to be granted in any 12-month period (including both exercised and outstanding options) and in the 12-month period up to and including the acceptance date (including exercised, cancelled and outstanding options) shall not in isolation or aggregate exceed 1% of the shares, and any grant of option which would result in such limit being exceeded shall be approved by the Company in general meeting with such Participant and any associate thereof abstaining from voting.

(f) Time of exercise of an option

An option may be exercised in whole or in part in accordance with the terms of the New Scheme at any time during the period commencing on the first business day from the date of grant of option and expiring at the close of business on a date to be determined and notified by the Directors which shall not be more than 10 years from the date of grant of option.

Unless the Directors otherwise determined and stated at the time of granting the option, there is no minimum period for which an option must be held before it can be exercised.

(g) Remaining life of the New Scheme

The Directors shall be entitled at any time within 10 years commencing on 22 October 2003 to offer the grant of an option to any qualifying participants.

Options have been granted by the Company under the New Scheme during the nine months ended 31 December 2010 to four individual grantees (including two executive Directors, namely Wong Chung Wai Eric and Chan Yun Sang), the details of which are as follows:

	Outstanding at 1 April 2010	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2010	Closing price per share immediately before the date of the grant (HK\$)
Executive Directors:						
Wong Chung Wai Eric	Nil	10,000,000	2,000,000	Nil	8,000,000	0.28
Chan Yun Sang	Nil	10,000,000	2,000,000	Nil	8,000,000	0.28
Other employees	Nil	10,000,000	2,000,000	Nil	8,000,000	0.28
	Nil	11,450,000	Nil	Nil	11,450,000	0.27
	<u>Nil</u>	<u>41,450,000</u>	<u>6,000,000</u>	<u>Nil</u>	<u>35,450,000</u>	

Save as disclosed herein, as at 31 December 2010, none of the Directors, chief executive, substantial shareholders or their respective associates (as defined under the GEM Listing Rules) had any right to subscribe for the shares of the Group.

AUDIT COMMITTEE

The Company has established an audit committee on 18 May 2000 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board.

The audit committee comprises three independent non-executive Directors, namely, Mr. Tang Sze Lok, Mr. Yan Yonghong, Mr. Lee Kwok Yung and Mr. Tang Sze Lok is the chairman of the audit committee.

The audit committee has reviewed the unaudited consolidated results of the Group for the three months and nine months ended 31 December 2010 and has provided advice and comments thereon.

BOARD PRACTICES AND PROCEDURES

Up to the nine months period ended 31 December 2010, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the nine months period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Wong Chung Wai, Eric
Executive Director

Hong Kong, 14 February 2011

As at the date hereof, the Board comprises the following Directors:

Executive Directors:

Mr. Wong Chung Wai, Eric (*Chairman*)

Mr. Chan Yun Sang

Mr. Ng Chi Wing

Non-executive Director:

Dr. Pan Jin

Independent non-executive Directors:

Mr. Yan Yonghong

Mr. Tang Sze Lok

Mr. Lee Kwok Yung

Mr. Chan Wai Kwong, Peter

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its publication.