
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Information Technology Development Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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中國信息科技發展有限公司
China Information Technology Development Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8178)

**VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE SUBSCRIPTION OF
84% EQUITY INTEREST IN THE TARGET COMPANY
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**



INCU Corporate Finance Limited

Financial adviser to the Company

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular unless otherwise stated.

A notice convening the EGM to be held at Suite 2802, 28/F., Prosperity Tower, 39 Queen's Road Central, Hong Kong, on 14 December 2016 at 11:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed with this circular, which is also published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.chinainfotech.com.hk>).

Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the 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.

28 November 2016

CHARACTERISTICS OF GEM

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

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

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules;
“Board”	the board of Directors;
“Business Day”	a day (other than a Saturday, a Sunday or a public holiday) on which licensed banks in Hong Kong are open for normal business throughout their normal business hours;
“Company”	China Information Technology Development Limited (中國信息科技發展有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM;
“Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened for, among others, considering and, if thought fit, approving the Subscription Agreement and the transactions contemplated thereunder;
“Enlarged Group”	together with the Group and the Target Group;
“Executives”	Mr. Chan Kai Leung, Mr. Chow Chun Kit, Mr. Lau Yue Tung Alex, Ms. Wan Lam and Mr. Chan Kwong Choi;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM;
“Group”	the Company and its subsidiaries;
“Guarantor”	the guarantor of the Target Company, namely, Mr. Chan Kai Leung, being the sole director of the Target Company and an Independent Third Party, and is ultimately and beneficially interested in 20% shareholding interest of the Target Company;

DEFINITIONS

“Hong Kong”	The Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	independent third party(ies) who is(are) independent of and not connected with the Company and its connected persons (as defined in the GEM Listing Rules);
“Latest Practicable Date”	23 November 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Macro Systems”	Macro Systems Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of MSGL;
“Material Adverse Change or Effect”	any change (or effect) which has a material and adverse effect on the financial or trading position, business or property, results of operations or prospects of the Target Group as a whole;
“MS Share(s)”	existing ordinary share(s) of US\$1 each in the share capital of the Target Company;
“MSGL”	Macro Systems Group Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of the Target Company;
“MS Guangzhou”	廣州市銀興計算機服務有限公司, a company established in the PRC with limited liability and is a wholly-owned subsidiary of MSGL;
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Premier Excel”	Premier Excel Holdings Limited, a company incorporated in the British Virgin Islands with limited liability;
“Relevant Period”	the three years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2016;
“Service Contracts”	the service contracts to be entered into between each of the Executives and the Target Company, which shall be in the agreed form;

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	the shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber”	Golden Sunweave Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company;
“Subscription”	the proposed subscription of the Subscription Shares as contemplated under the Subscription Agreement;
“Subscription Agreement”	the subscription agreement dated 12 September 2016 entered into between the Subscriber, the Target Company and the Guarantor in relation to the Subscription;
“Subscription Price”	subscription price of HK\$8,400,000 in total for the Subscription Shares;
“Subscription Shares”	a total of 525 new MS Shares, for which the Subscriber will subscribe and the Target Company will allot and issue upon the terms and subject to the conditions to the Subscription Agreement;
“Target Company”	Macro China Holding Limited (銀興中國控股有限公司), a company incorporated in the British Virgin Islands with limited liability; entire interest of which is held by Premier Excel and is ultimately owned by the Executives in equal shares as at the Latest Practicable Date;
“Target Group”	the Target Company and its subsidiaries;
“VTL”	Velox Technology Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of the MSGL;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“US\$”	United States dollars, the lawful currency of the United States of America; and
“%”	per cent.

LETTER FROM THE BOARD



中國信息科技發展有限公司

China Information Technology Development Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8178)

Executive Directors:

Mr. Wong Kui Shing, Danny
(Chairman and Chief Executive Officer)
Mr. Tse Chi Wai
Ms. Wu Jingjing
Mr. Takashi Togo

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KYI-1111
Cayman Islands

Non-executive Director:

Mr. Wong Chi Yung

Principal place of business

in Hong Kong:
Suite 2802, 28/F.,
Prosperity Tower,
39 Queen's Road Central,
Hong Kong

Independent non-executive Directors:

Mr. Hung Hing Man
Mr. May Tai Keung, Nicholas
Dr. Chen Shengrong

28 November 2016

To the Shareholders

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE SUBSCRIPTION OF
84% EQUITY INTEREST IN THE TARGET COMPANY
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 12 September 2016 in relation to the Subscription. On 12 September 2016, the Subscriber, being a direct wholly-owned subsidiary of the Company, the Target Company and the Guarantor entered into the Subscription Agreement, pursuant to which the Target Company has conditionally agreed to allot and issue and the Subscriber has conditionally agreed to subscribe for the Subscription Shares, representing 525% of the issued share capital of the Target Company as at the Latest Practicable Date and 84% of the total issued share capital of the Target Company as enlarged by the allotment and issue of the Subscription Shares, at the total Subscription Price of HK\$8,400,000.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information on the Subscription and the Subscription Agreement; (ii) financial and other information of the Group; (iii) financial and other information of the Target Group; (iv) unaudited pro forma financial information of the Enlarged Group; (v) the valuation report of the Target Group; and (vi) a notice of the EGM.

THE SUBSCRIPTION AGREEMENT

The major terms of the Subscription Agreement are set out as follows:

- Date: 12 September 2016 (after trading hours)
- Parties: (1) Issuer: the Target Company
- (2) Subscriber: Golden Sunweave Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
- (3) Guarantor: Mr. Chan Kai Leung

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Target Company and its ultimate beneficial owners (i.e. the Executives), and the Guarantor are Independent Third Parties.

Assets to be acquired

Pursuant to the Subscription Agreement, the Target Company has conditionally agreed to allot and issue and the Company has conditionally agreed to subscribe for the Subscription Shares, representing 525% of the issued share capital of the Target Company as at the Latest Practicable Date and 84% of the total issued share capital of the Target Company as enlarged by the allotment and issue of the Subscription Shares.

Subscription Price and payment methods

The total Subscription Price amounts to HK\$8,400,000, which shall be satisfied in cash by the internal resources of the Group and injected by the Subscriber to the Target Company in the following manner:

- (i) the sum of HK\$3,000,000 paid in cash within 5 Business Days after the date of the Subscription Agreement, which shall be treated as a refundable deposit and as part payment towards the total Subscription Price (the "**Earnest Money**"); and
- (ii) the remaining balance of HK\$5,400,000 to be settled in cash upon Completion.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Earnest Money has been injected to the Target Company in accordance with the terms of the Subscription Agreement.

The Target Company shall refund the Earnest Money together with an interest at a rate of 9% per annum on the Earnest Money calculated on the actual number of days elapsed and on the basis of a 365-day year if the Subscription Agreement lapses or terminates in accordance with its terms.

The Subscription Price was determined upon arm's length negotiations between the Company, the Target Company and the Guarantor with reference to (i) the valuation of 100% shareholding interest of the Target Group of approximately HK\$10,605,000 as at 30 June 2016, assessed by an independent valuer engaged by the Company; (ii) the brand name and reputation of the Target Group; (iii) the customer base and technical know-how possessed by the Target Group (iv) the future prospects of the IT industry; and (v) other reasons as set out in the paragraph "Reasons for and benefits of the Subscription" below.

The Directors (including the independent non-executive Directors) consider the total Subscription Price to be fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

For the purpose of the GEM Listing Rules, Valor Appraisal & Advisory Limited, an independent professional valuer, has been commissioned to produce an updated valuation on the Target Group as at 30 September 2016, the text of which is set out in the Appendix V to this circular.

Conditions precedent

The Subscription is conditional upon the satisfaction or if applicable waiver of the following conditions precedent:

- (a) the Subscriber being satisfied, in its sole discretion, with the results of the due diligence review to be conducted;
- (b) the Subscriber having obtained a valuation report (in the form and substance satisfactory to the Subscriber) issued by an independent valuer appointed by the Subscriber showing that the market valuation of the 100% shareholding interest of the Target Group is not less than HK\$10,000,000;
- (c) the Executives having executed the Service Contracts;
- (d) the warranties remaining true and correct in all material respects;
- (e) all necessary consents and approvals as may be required to be obtained on the part of the Target Company in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;

LETTER FROM THE BOARD

- (f) all necessary consents and approvals as may be required to be obtained on the part of the Subscriber and the Company in respect of the Subscription Agreement and the transaction contemplated thereunder having been obtained;
- (g) if necessary, the passing by the Shareholders who are entitled to vote and not required to be abstained from voting under the GEM Listing Rules at a general meeting of the Company to be convened and held of the necessary ordinary resolution(s) to approve the Subscription Agreement and the transactions contemplated thereunder, and all other consents and acts required to be obtained by the Subscriber and the Company under the GEM Listing Rules and/or other applicable laws and regulations having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange; and
- (h) the Subscriber having reasonably satisfied that there has not been any Material Adverse Change (or Effect) on the Target Group since the date of the Subscription Agreement.

The Subscriber may at any time by notice in writing to the Target Company waive the conditions (a), (c), (d), (e) and (h). Neither party may waive conditions (b), (f) and (g). Save for condition (b), none of the conditions above have been fulfilled and the Subscriber has no current intention to waive such conditions as at the Latest Practicable Date.

In the event that any of the above conditions not being fulfilled or waived in full by 5:00 p.m. on or before 31 March 2017 (or such other time and date as may be agreed between the Target Company and the Subscriber in writing), the Subscription Agreement shall cease and terminate and the Target Company shall refund the Earnest Money with interest to the Subscriber as mentioned above and thereafter neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the provisions thereof.

Guarantee and undertaking by the Guarantor

The Guarantor, Mr. Chan Kai Leung, is the sole director of the Target Company and is ultimately and beneficially interested in 20% shareholding interest of the Target Company through Premier Excel.

The Guarantor irrevocably and unconditionally guarantees to the Subscriber the due and punctual performance of the Target Company under the Subscription Agreement.

Completion

Completion shall take place at 5:00 p.m. on the third Business Day after the date on which the conditions set out above being fulfilled or, as the case may be, waived by the Subscriber.

LETTER FROM THE BOARD

Upon Completion, the Target Company will become an indirect non-wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the accounts of the Group.

The Company will appoint new directors to the board of the Target Company in order to obtain majority control upon Completion.

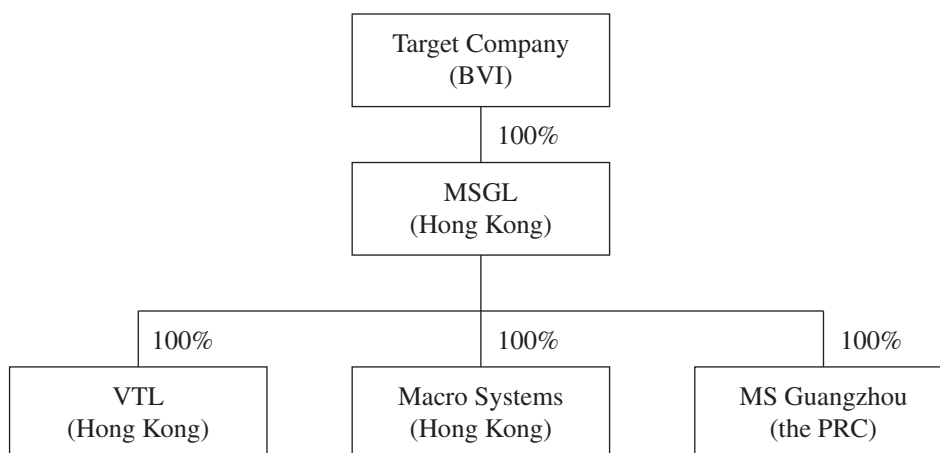
INFORMATION ON THE GROUP

The Company is an investment holding company and the Group is principally engaged in the development and sale of computer software and hardware, the provision of system integration and related support services in the PRC.

INFORMATION ON THE TARGET GROUP

A. Background of the Target Group

The group structure of the Target Group as at the Latest Practicable Date is set out below:



The Target Company is an investment holding company incorporated in British Virgin Islands with limited liability and has no operation. The Target Company is wholly-owned by Premier Excel, which is legally and beneficially owned by the Executives, namely, Mr. Chan Kai Leung, Mr. Chow Chun Kit, Mr. Lau Yue Tung Alex, Ms. Wan Lam and Mr. Chan Kwong Choi, in equal shares. The Target Group is principally engaged in provision of IT infrastructure solutions and maintenance services in Hong Kong and the PRC through its subsidiaries, namely Macro Systems and MS Guangzhou. MSGL is an intermediate investment holding company and VTL has no operation.

LETTER FROM THE BOARD

Macro Systems, a limited company incorporated in Hong Kong in 1997, is the major operating subsidiary of the Target Group, focusing on provision of “One-stop” IT services in Hong Kong. The Target Group expanded its business to the PRC, by setting up MS Guangzhou, which is a wholly-owned foreign enterprise incorporated in the PRC in 2012.

The Target Group provides comprehensive end-to-end solutions and services, ranging from (i) procurement and deployment of IT equipment and facilities; (ii) systems integration; (iii) consulting services on IT infrastructure and business solutions; and (iv) technical support and managed services. Over the past 18 years, the Target Group has successfully provided services to over 1,000 enterprises in Hong Kong and the PRC, covering diverse business sectors, including but not limited to, telecommunications, logistic, tourism and hospitality, education and financial segments. Moreover, the Target Group has maintained long-term partnerships with a number of well-renowned enterprises. In addition, the Target Group is one of the 42 companies awarded with the Standard Offer Agreement for Quality Professional Services 3 (“SOA-QPS3”) from the Office of the Government Chief Information Officer of the Government of the Hong Kong Special Administrative Region.

To build a competitive edge through higher quality IT service and enhance customer satisfactions, Macro Systems has obtained a number of international professional certificates, for instance, International Professional Organisation of Standard 20000 (ISO 20000) in relation to IT service management by Bureau Veritas Certification with effect from 22 May 2015.

Set out below are the major awards/certificates obtained by Macro Systems in recent years:

Year	Recognitions/certificates
2013	Standard Offer Agreement for Quality Professional Services 3 (“SOA-QPS3”) from the Office of the Government Chief Information Officer, under which Macro Systems is nominated contractor to provide IT related services to the government
2014	Supply of Personal Computer Equipment and the Provision of Related Services to Various Government Departments (Category C) under Standard Offer Agreements (SOA)
2015	International Organisation of Standard 20000 (ISO 20000) by Bureau Veritas Certification
2015	IBM Certified Onboarding Specialist for IBM Social Cloud Platform
2015	IBM Premier Business Partners authorised to resell a wide range of IBM software
2015	Huawei Best Solution Seller of Virtual Desktop Infrastructure

LETTER FROM THE BOARD

B. Business of the Target Group

Major services

(i) IT infrastructure solutions

The Target Group provides a wide range of IT infrastructure solutions, including systems integration, cloud computing, mobility solutions, data housekeeping, networking solutions and procurement of IT hardware and software.

Cloud computing

Cloud computing represents the biggest trend in computing this decade. More and more enterprises have been implementing their business transformation by leveraging cloud computing technology. It enables the customers to manage their business platforms and applications more effectively. By deploying easy-to-use and scalable solutions, such as desktop and server virtualization and cloud security, the Target Group assists customers to adopt cloud computing technology.

Mobility solutions

Mobility is profoundly changing the way companies relate to their customers, interaction with employees, and promoting products and services to market. The Target Group aims to help business to be highly productive and customer centric by making information available to the right people at the right time with a simply connect. Relevant services include application, virtualization and secured email system on mobile devices.

Data housekeeping

Data as a valuable resource is so important to every business. Subject to various differences of enterprise data, the Target Group will help business to develop a set of methodology and disciplines for data housekeeping. Relevant services include data backup, revamping, disaster recovery and archiving.

Networking solutions

Business requires instant connectivity to customers to deliver services on expectations which can put heavy demands on network. The Target Group provides up-to-date intelligent networking solutions, enabling customers connecting to data, equipment, and application. Relevant services include network security, wide area network (WAN) optimisation and wireless networking.

LETTER FROM THE BOARD

Procurement of IT hardware and software

As an IT expert and authorised reseller of renowned suppliers, the Target Group provides professional recommendations on selection of IT equipment and facilities, and procure the selected hardware and software items on behalf of the client from the suppliers. Those items including but not limited to hardware, software, networking, and security product with professional deployment service.

(ii) Maintenance Services – PrimeServe

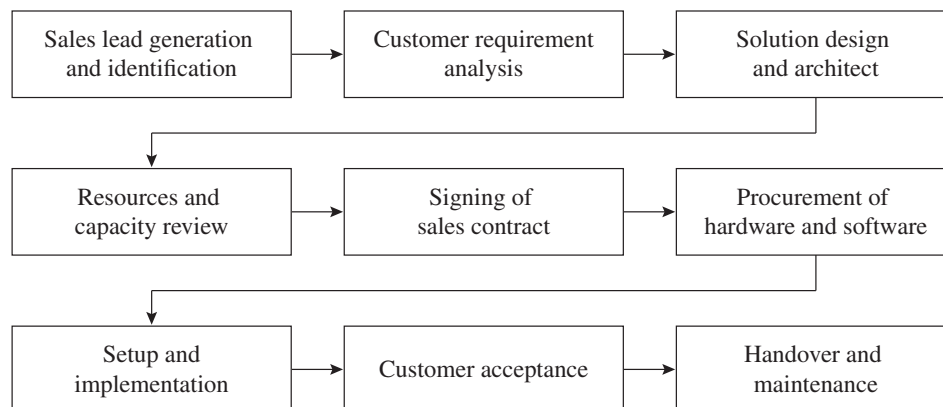
PrimeServe is a package of professional IT support services designed and provided by the Target Group on a yearly contract basis. Services scope includes (a) operational service including systems health checking and IT helpdesk, (b) remedy service such as disaster recovery and (c) IT staffing services such as outsourcing support services. PrimeServe provides multiple support channels including phone support, remote desktop support and on-site support to the customers once they encounter the emergency problem related to the IT environment in their company. PrimeServe also provides regular on-site support, proactive network connectivity monitoring, one-hour quick response, comprehensive documentary record and technology update to the customers throughout the year.

A point deduction scheme is adopted in the PrimeServe. Customers acquired a certain number of points and points will be deducted for each time of service provided. Upon expiration of the PrimeServe package, the remaining points would be redeemed for corresponding discount on the renewal of PrimeServe contract which would help the Target Group to maintain a high renewal rate in PrimeServe. The price of the PrimeServe package varies with the number of points, extent of regular onsite support and other support services required by the customers.

LETTER FROM THE BOARD

Operational flow of the Target Group

The graph below briefly illustrates the typical operational flow of the Target Group:



(i) Sales lead generation and identification

Sales leads are generally generated through the marketing activities organised by the business development team or sales activities by sales team. The members of these teams would communicate with potential customers to preliminarily understand their needs and identify whether they fall into the service portfolio of the Target Group. After understanding the potential customers' budget and need, the sales lead is qualified. The sales staff would then create the sales pipeline for monitoring purpose by the management.

(ii) Customer requirement analysis

While the customer need is identified, the responsible sales staff, if necessary, together with technicians would arrange meeting with customers to understand further details of their requirements. (For general trading order of hardware or software or small scale projects, the sales staff would handle the case independently with minimal assistance from technicians. For substantial projects with estimated project sum exceeding HK\$250,000, technician and sales staff will be jointly responsible to analyse the customer requirement.) In this stage, the responsible staff would normally visit the potential customers' office as to review their existing IT environment and obtain further details on their project scale, schedule and budget, etc.

LETTER FROM THE BOARD

(iii) Solution design and architect

After obtaining sufficient information in the previous stage, the responsible staff would provide suggested solution and quotation, specifying price and service scope, for customers' review. Further client meeting may be arranged in order to refine the proposed solution.

(iv) Resources and capacity review

Once the proposed solution and quotation are accepted by the customer, the responsible staff will conduct a comprehensive review on resource and capacity in order to estimate and manage the resources to be involved, in particular, estimated time to be incurred by technicians, delivery schedule of hardware and software products, etc. For substantial projects, an outsourcing strategy may be implemented with business partner (product supplier) or sub-contractor (service provider), in case the management foresees a shortage of technical force during the project period.

(v) Signing of sales contract

A draft service contract prepared by the responsible sales staff is required to be approved by management before sending to customer to confirm acceptance of solution proposal. After the service contract is duly signed, the responsible sales staff would prepare the detailed project cost estimation for the management approval.

(vi) Procurement of hardware and software

Subject to the management approval, the procurement staff would purchase hardware and software items specified under the service contract from the suppliers. Generally, the procurement staff would negotiate with suppliers, on project basis, for better offer price and credit terms.

(vii) Setup and implementation

When the hardware and software items are received from suppliers and ready for installation, technicians will cooperate with customer, business partner and subcontractor (if any) for the setup and implementation procedures. Afterwards, technicians will perform user acceptance test on the overall IT infrastructure to ensure the system satisfies the acceptance criteria.

LETTER FROM THE BOARD

(viii) Customer acceptance

An acceptance agreement setting out acceptance criteria (the “**Acceptance Agreement**”) will be delivered to customer after completion of setup and implementation. Customer is required to review and verify all acceptance criteria. A signed Acceptance Agreement serves as a record of completion of project.

(ix) Handover and maintenance

Upon the Acceptance Agreement is signed, the completed solution will be handed over to customer. In general case, suppliers would provide warranty and support service for period ranging from 12 months to 36 months. However, they may not provide on-site engineer service for the system resume or integration in case the system collapsed. Hence, the customers will consider to purchase the PrimeServe service package which could provide multiple support channels including onsite support to the customers when they encounter the critical IT problem.

Customers

The Target Group serves customers in both private and public sectors in Hong Kong. Customers in private sector include small and medium-sized enterprises, large multinational enterprises in various industries such as banking, financial service, education, insurance, manufacturing and construction, while the customers in the public sector include the government of Hong Kong and education institutions.

The Target Group has established solid relationship with its customers through years of services. For the six months ended 30 June 2016, 41% of the customers have been using the Target Group’s services for more than five years.

The Target Group is not materially reliant on any single customer and has a diversified customer base during the Relevant Period, the Board believes that the Target Group is not threatened by concentration risk in relation to any single customer. For the year ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016, the sales to the top five customers amounted to approximately HK\$11.9 million, HK\$14.8 million, HK\$7.7 million and HK\$3.6 million, representing approximately 19%, 26%, 21% and 32% to the total revenue of the Target Group respectively.

LETTER FROM THE BOARD

Suppliers

The IT infrastructure solutions provided by the Target Group include procurement of hardware and software from third party suppliers. The hardware components mainly represent servers, storage, network equipment and notification systems while the software components mainly represent virtualization software, data center firewalls and protection solutions for devices. The price and other terms of the procurement are negotiated between the Target Group and the suppliers on an arm's length basis and on project basis. For the years ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016, the Target Group's purchase from the top five suppliers amounted to approximately 84%, 79%, 70% and 74% of the total purchases respectively.

In addition, Macro Systems is recognised as either the first tier or the second tier authorised reseller of the aforesaid major suppliers. In particular, Macro Systems is recognised as one of the two IBM Certified Onboarding Specialist for IBM Social Cloud Platform in Hong Kong, and one of the 27 IBM Premier Business Partners in Hong Kong which is the highest partnership and authorised to resell a wide range of IBM software. To be a first tier or second tier authorised reseller, companies are generally required to meet certain standards, for instance, annual performance target; extensive technical capabilities and product knowledge, and good reputation. Being one of the limited number of authorised resellers in Hong Kong, Macro Systems is able to, according to the respective resellership schemes, enjoy discount and product knowledge training from the suppliers which further strengthen the cost advantage and service quality of the Target Group.

Technical Force

As at 30 September 2016, the Target Group had a total of 26 employees consisting of 3 business development team members, 4 operation team members, 5 sales team members and 14 technicians with related certificates. The technical team members have obtained a number of related professional certificates granted by a number of renowned international institutions covering all major aspects of the IT industry including but not limited to networking database, software solution project management and network security.

Future development plan

In general, the Target Group aims to (i) enhance customer loyalty and contract renewal rate through more frequent and organised customer relationship activities, (ii) elevate existing customers' average consumption by providing more value-added bundle services; and (iii) broaden its customer base mainly through joint marketing activities with selected suppliers.

LETTER FROM THE BOARD

In particular, educational and financial institutions will be the major target customers of the Target Group, as the Target Group's management considers these segments are of vast business opportunities. Supported by the "Fourth Strategy on IT in Education" issued by the Education Bureau in August 2015, which promotes enhancement of the IT environment, it is expected that primary and secondary schools in Hong Kong will have greater demand on more advanced IT infrastructures and solutions. As such, the Target Group plans to proactively approach those schools subsidised by the governmental funds to promote the virtual desktop infrastructure ("VDI", refers to the process of running a user desktop inside a virtual machine that operates on a server in the datacenter) solution service, which helps schools to streamline management and costs by consolidating and centralizing the desktops.

Moreover, the growing relevance of information and communication technologies in the essential functions of the economy has reinforced the necessity of prevention and protection measures in all sectors, in particular, banking and finance sectors. In view of the increasing demand on business communication tools with high level of security, the Target Group plans to penetrate more deeply into customers in banking and finance sector by strengthening the portfolio and the deliverables in relation to highly-secured business communication.

C. Financial Information of the Target Group

Set out below are the audited consolidated financial information of the Target Group for the year ended 31 December 2014 ("YE2014"), the year ended 31 December 2015 ("YE2015") and the six months ended 30 June 2016 ("1H2016"), extracted from the accountant's report of the Target Group as set out in Appendix II to this circular:

	YE2014	YE2015	1H2016
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	57,686	37,553	11,207
Loss before taxation	1,851	5,553	3,970
Loss after taxation	1,767	4,841	3,619

The loss after taxation of the Target Group for YE2015 amounted to approximately HK\$4.84 million, representing approximately 2.7 times in YE2014. The increase in loss was mainly due to insufficient operational fund for the Target Group which led to the decrease in number of job contracts and revenue of approximately HK\$20.13 million, while the majority of administrative expenses, in particular staff costs, were fixed costs and therefore did not fall in the same magnitude.

LETTER FROM THE BOARD

As at 30 June 2016, the liabilities of the Target Group included, amongst others, an interest-bearing loan in the principal amount of HK\$2 million from an indirect wholly-owned subsidiary of the Company. Such loan balance increased to HK\$4 million as at the Latest Practicable Date. The Directors confirmed that the loans to the Target Group were made for the purpose of enhancing the working capital position of the Target Group.

As at the Latest Practicable Date, the entire loan, together with the interests accrued thereon, has not yet been repaid. 25%, 25% and the remaining 50% of the loan balance of HK\$4 million shall be repayable on or before 4 February 2017, 1 March 2017 and 11 April 2017 respectively.

As at 30 June 2016, a net liabilities of the Target Group of approximately HK\$16.09 million was recorded.

For further details of financial information of the Target Group, please refer to the “Accountant’s Report of the Target Group” and “Management discussion and analysis of the Group and the Target Group” as set out in Appendix II and III of this circular.

D. Industry Overview

(i) Development of IT industry in Hong Kong

The information and communication technology (“ICT”) sector of Hong Kong is among the most advanced in the world. The table below, extracted from annual global ICT Development Index (“IDI”) published by International Telecommunication Union in November 2015, shows the top 10 rated economy in the world.

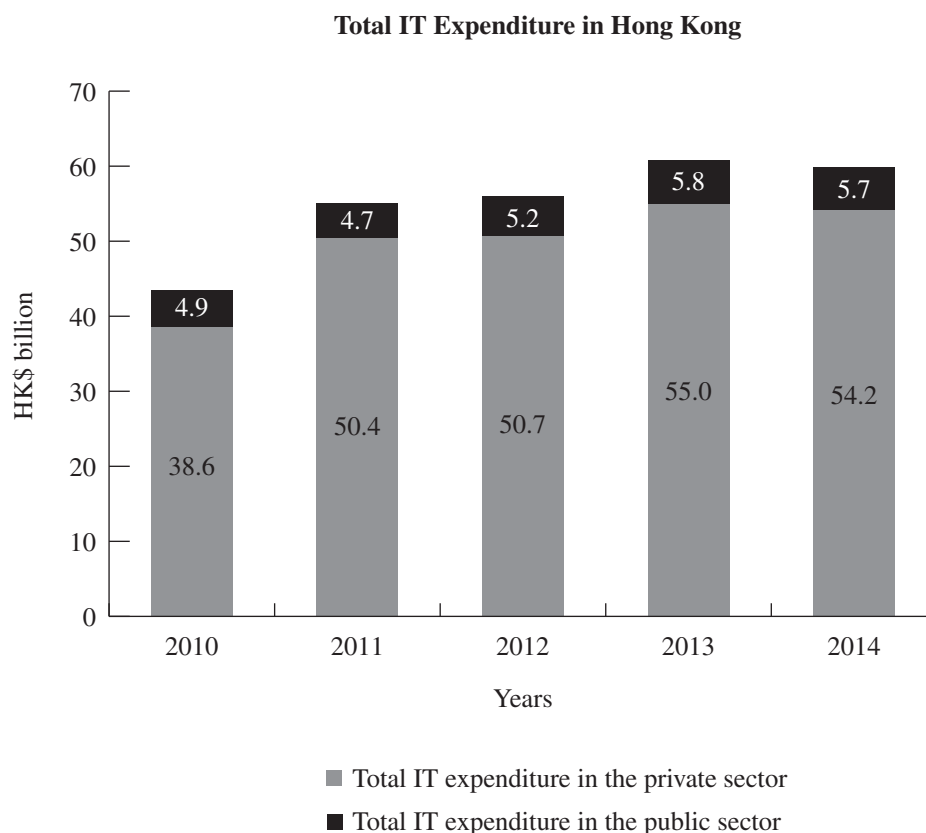
IDI 2015 Rank	Economy	IDI 2015 Value	IDI 2010 Rank	IDI 2010 Value
1	Korea	8.93	1	8.64
2	Denmark	8.88	4	8.18
3	Iceland	8.86	3	8.19
4	United Kingdom	8.75	10	7.62
5	Sweden	8.67	2	8.43
6	Luxembourg	8.59	8	7.82
7	Switzerland	8.56	12	7.60
8	Netherlands	8.53	7	7.82
9	Hong Kong, China	8.52	13	7.41
10	Norway	8.49	5	8.16

As shown in the table above, Hong Kong ranked 2nd in Asia after Korea, and 9th in the world. Compared to IDI 2010, there were growth in both rank and value of Hong Kong.

LETTER FROM THE BOARD

(ii) Market demand for IT infrastructure solutions in Hong Kong

With reference to the report “Hong Kong as an Information Society” issued by Hong Kong Census and Statistics Department released in June 2016, the total IT expenditure in Hong Kong from 2010 to 2014 is set out in the graph below:



Source: Census and Statistics Department, the Government of Hong Kong Special Administrative Region

Notes:

1. Total IT expenditure in the public sector refers to the total IT expenditure of bureaus and department of the Hong Kong government, Housing Authority, Hospital Authority and subvented schools.
2. The 2015 data of private sector is currently unavailable and it is estimated to be published by the Census and Statistics Department by June 2017.

As indicated in the graph above, the total IT expenditure in Hong Kong experienced an increase from approximately HK\$43.5 billion in 2010 to approximately HK\$59.9 billion in 2014, representing a compound annual growth rate (“CAGR”) of approximately 8.3%. During the period, the largest contributor to the growth of the total IT expenditure in Hong Kong belonged to the private sector, accounting for over 85% of the total IT expenditure in Hong Kong for each of the year from 2010 to 2014.

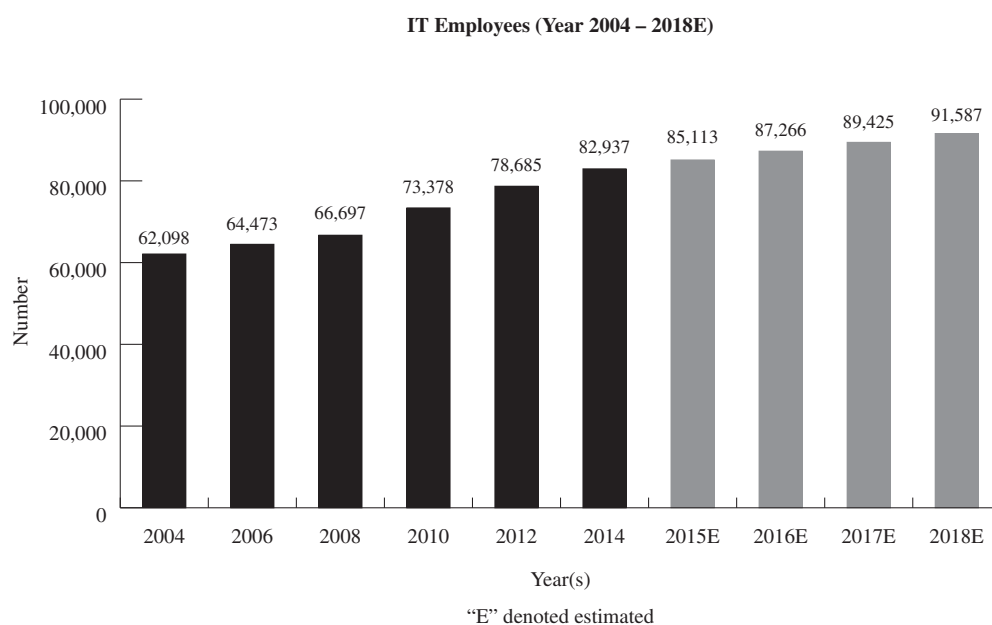
LETTER FROM THE BOARD

The IT expenditure of the private sector experienced rapid growth from approximately HK\$38.6 billion in 2010 to approximately HK\$54.2 billion in 2014, at a CAGR of approximately 8.9%. According to the same report, the ratio of IT expenditure in private sector to Hong Kong's gross domestic income (“GDP”) value increased from approximately 2.2% in 2010 to approximately 2.6% in 2013.

The IT expenditure of public sector increased from approximately HK\$4.9 billion in 2010 to approximately HK\$5.7 billion in 2014, at a CAGR of approximately 3.9%. According to the statistics issued by the Office of the Government Chief Information Officer issued in September 2016, the IT expenditure in public sector significantly increased to approximately HK\$7.3 million in 2015 and is estimated to further increase to approximately HK\$8.4 million in 2016.

(iii) Hong Kong IT manpower

With reference to the report “2014 Manpower Survey Report – Information Technology Sector” issued by Vocational Training Council released in March 2015, the numbers of IT Employees in Hong Kong IT industry shows as following graph.



* Source: Vocational Training Council

LETTER FROM THE BOARD

The number of IT employees in IT sector in Hong Kong has increased steadily from 62,098 in 2004 to 82,937 in 2014, representing a CAGR of approximately 2.9% and the percentage share of IT employees in the labour force rose from approximately 1.78% in 2004 to approximately 2.15% in 2014 stated in “2014 Manpower Survey Report – Information Technology Sector”. In addition, as shown in the above graph, it is predicted that, as driven by the steady growth momentum, the number of IT employees will increase to 91,587 in 2018, representing a CAGR of approximately 2.5% from 2014.

(iv) Supportive government policies and initiatives

The Hong Kong Government has implemented several supportive policies and initiatives. These include the Digital 21 Strategy (2008), the Pan-Government IT Strategy (2011), the creation of a government cloud platform (2013), and Fourth Strategy on IT in Education (2015). In particular, the Digital 21 Strategy and Fourth Strategy on IT in Education highlights the importance of IT in the education sector, and increasing implementation of e-learning in schools may spur the demand for IT infrastructure solutions in the education sector.

Moreover, in November 2015, the Innovation and Technology Bureau was established with the responsibility of formulating holistic innovation and technology policies, thereby fostering the development of innovation and technology and related industries in Hong Kong. The Innovation and Technology Commission under the bureau implements the related policies and measures, and administers the Innovation and Technology Fund to encourage the development of innovative ideas and technology businesses.

Business opportunities have arisen in the IT infrastructure solutions industry in Hong Kong due to these policies and initiatives.

MANAGEMENT TEAM

Subject to entering into of the Service Contracts, each of the Executives will continue his/her employment service to the Target Company for 3 years. The detailed biographies of the Executives are as below:

Mr. Chan Kai Leung (“**Mr. Chan**”), aged 50, who is the founder of Macro Systems Limited in 1997 and serves as the director and general manager. Mr. Chan holds a BSc(Hons) Degree in Computing and Information Systems from London Metropolitan University. Presently, Mr. Chan has more than 20 years’ experience in information system and is responsible for providing the company of vision and leadership, supporting continuous improvement of overall market strategy, business development and operation.

LETTER FROM THE BOARD

Mr. Chan Kwong Choi (“**Mr. K.C. Chan**”), aged 55, joined the Target Group in 2015 and serves as an Executive of the Target Group. Mr. K.C. Chan holds a Bachelor degree in Mathematics from the University of Hong Kong and a Master degree in quantitative analysis for business from the City University of Hong Kong. Mr. K.C. Chan has served the Hong Kong government in provision of IT services for over 20 years. Mr. K.C. Chan has extensive experience in project management, government IT procurement, electronic services delivery, online payment services, security & audit compliance and application support services of database, accounting, document management and mission-critical systems.

Mr. Chow Chun Kit (“**Mr. Chow**”), aged 40, has over 18 years of extensive experience in system integration and application development projects, with solid project management experience and over 6 years professional award on Professional Project Management LPMP by Project Management Institute. Mr. Chow holds a Bachelor Degree of Science in Computing and Networking from The Open University of Hong Kong and Higher Diploma in Electronic Engineering from the Hong Kong Polytechnic University. Mr. Chow has worked for the Target Group since 1999. Mr. Chow is now the Senior Manager of Technical Team to provide coaching and facilitation for the team to provide quality professional service as well as technical deliverable. He is also nominated as the Programme Manager for the Standing Offer Agreement for Quality Professional Services 3 (SOA-QPS3) contract of Hong Kong Government, together with over 6 years of project engagement on the joint-partnership with Hutchison Telephone Company Limited for the Standing Offer Agreement for Mobile Workplace Services of Hong Kong Government.

Mr. Lau Yue Tung Alex (“**Mr. Lau**”), aged 30, joined Macro Systems in 2011. Mr. Lau holds a Bachelor Degree in Psychology in Purdue University, West Lafayette, Indiana. He is the Senior Sales Manager of the Target Group and is responsible for operating and supervising the sales department in the Target Group. Mr. Lau has over 7 years of experience in sales and marketing in Hong Kong.

Ms. Wan Lam (“**Ms. Wan**”), aged 38, has over 17 years of experience in sales and marketing. Ms. Wan holds a Bachelor Degree of Secretary Science from Shanghai JiaoTong University and Diploma in Interior Design from the Raffles Design Institute at Shanghai. Ms. Wan has joined Macro Systems since 2005 and holds the latest position of Senior Manager of business development team. She is managing the business partnership, marketing strategy and activities for the Target Group as well as the strategic alliance with stakeholders at K12 Education sectors. Ms. Wan is also managing the business operation for the Guangzhou office in the Mainland China. Ms. Wan was employed by Eli Lilly Asia, Inc. (A fortune 500 Global pharmaceutical manufacturer) to work at the sales force effectiveness team from 2001 to 2003 and was responsible for the sales force effectiveness system and providing insight of rigorous business performance analysis to support the decision made by commercial leaders.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE SUBSCRIPTION

The principal business of the Group will remain the same after Completion. Following Completion, the Group will hold 84% equity interest of the Target Company and thus members of the Target Group will become indirect non-wholly-owned subsidiaries of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the Group's accounts.

Assets and liabilities

The unaudited consolidated total assets and total liabilities of the Group as at 30 June 2016, as extracted from the interim report of the Company for the six months ended 30 June 2016, were approximately HK\$750.5 million and HK\$166.3 million respectively. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming Completion had taken place on 30 June 2016, the pro forma total assets and total liabilities of the Enlarged Group would have been increased to approximately HK\$765.7 million and HK\$182.0 million respectively. The increase in the pro forma total assets was mainly due to the pro forma adjustments of goodwill arising from the Subscription of approximately HK\$10.7 million. The increase in the pro forma total liabilities was due to the inclusion of current liabilities of the Target Group of approximately HK\$22.7 million, partly offset by the pro forma adjustments of waiver of amount due to ultimate holding company of the Target Group of approximately HK\$2.2 million, waiver of amount due to a director of the Target Group of approximately HK\$2.8 million and elimination of the Group's loan receivables from the Target Group of HK\$2 million.

Earnings

The audited net loss of the Group for the financial year ended 31 December 2015 as extracted from the annual report of the Company for the year ended 31 December 2015 was approximately HK\$105.7 million. According to the unaudited pro forma financial information of the Enlarged Group as set in Appendix IV to this circular, as if Completion had taken place on 31 December 2015, the pro forma loss for the year of the Enlarged Group would have been approximately HK\$111.5 million which was mainly due to the loss incurred by the Target Group of approximately HK\$4.8 million.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Group is principally engaged in the development and sale of computer software and hardware, the provision of system integration and related support services in the PRC. The Company has been seeking for business opportunities to broaden its existing business scope and diversify business of the Group into other jurisdictions and open up new income source.

LETTER FROM THE BOARD

In view of the fact that the Target Group, as one of the major players in the IT service management industry in Hong Kong and the PRC, has strong relationships with well-renowned suppliers and large scale customers, the Subscription also enjoys strong brand awareness and major presence in the Greater China region.

The Board expects that, through bringing in the Group's seasoned management team into the Target Group and sharing technical know-how and existing customer bases between the Group and the Target Group, the Group will be able to raise the corporate governance and management standards of the Target Group and the Subscription will create synergies that allow the Group to better complement its existing business. In addition, given (i) the similarity of the business nature of the Group and the Target Group and (ii) that subject to entering into of the Service Contracts, each of the Executives will continue his/her employment service to the Target Company for 3 years, the integration risks of the Enlarged Group are expected to be minimal. The Board is of the view that the Subscription is in line with the Group's business expansion plan. Furthermore, the Board believes, with financial support of the Group, the cash flow of the Target Group will be improved, which will facilitate the Target Company to engage in those large scale projects, which are generally of high profit margin.

It is noted that (i) an emphasis of matters in relation to the going concern of the Target Group is disclosed in the accountant's report as set out in appendix II of this circular; (ii) the Target Group has been in loss position and (iii) the Target Group recorded a decreasing gross profit margin in the Relevant Period. However, the Board understands that such trend was mainly due to inadequate working capital, which hindered the Target Group to capture business opportunities in the Relevant Period, and thus believes that, through capital injection of HK\$8.4 million by the Group, the Target Group's working capital position will be improved upon Completion. Furthermore, the Target Group has secured a number of large-scale IT infrastructure projects from certain multinational corporations and banks which are expected to enhance revenue level in the coming year and improve the gross profit margin. In addition, the Target Group has implemented effective cost control measures including relocating office premise with lower rental cost and controlling headcount. Such measures have proven to be effective as evidenced by the decreasing trend of administrative expenses during the Relevant Period. The Group would also explore business opportunities to co-operate with the Target Group for provision of IT consultation and development support services in the PRC, which would enable the Target Group to further develop the PRC market and widen its customers base and to enhance the financial results in the future.

Based on the above, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable, and the Subscription is in the interests of the Company and Shareholders as a whole.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As the relevant percentage ratio (as defined in the GEM Listing Rules) in respect of the Subscription exceeds 100%, the Subscription constitutes a very substantial acquisition for the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirement under Chapter 19 of the GEM Listing Rules.

In this connection, a EGM will be convened and held for the Shareholder to consider and, if thought fit, approve the relevant resolutions in relation to the Subscription Agreement and the transactions contemplated thereunder.

EGM

The EGM will be convened and held at Suite 2802, 28/F., Prosperity Tower, 39 Queen's Road Central, Hong Kong on 14 December 2016 at 11:30 a.m. for the Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder. A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

Whether or not you are able to attend the EGM, you are requested to complete the form of proxy 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 at Shops 1712-1716, 17 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 the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM if you so wish. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the transactions contemplated under the Subscription Agreement. As such, no Shareholder is required to abstain from voting under the GEM Listing Rules at the EGM on the resolution(s) to approval the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
China Information Technology Development Limited
Tse Chi Wai
Executive Director and Company Secretary

I. FINANCIAL INFORMATION OF THE GROUP

Financial information on the Group for each of the three years ended 31 December 2013, 2014 and 2015; the six months ended 30 June 2016 and the nine months ended 30 September 2016 are set out in (i) the annual reports of the Group for the years ended 31 December 2013 (pages 27 to 111), 2014 (pages 27 to 93) and 2015 (pages 32 to 97); (ii) the interim report of the Group for the six months ended 30 June 2016 (pages 8 to 27); and (iii) the third quarterly report of the Group for the nine months ended 30 September 2016 (page 8 to 17), respectively, which are published on both the GEM website (www.hkgem.com) and the website of the Company (www.chinainfotech.com.hk).

II. INDEBTEDNESS STATEMENT

At the close of business on 31 October 2016, being the latest practicable date for the purpose of this indebtedness statement, the indebtedness of the Enlarged Group was as follows:

- (i) unsecured borrowings from a company controlled by general managers of a subsidiary of HK\$710,000;
- (ii) secured borrowing from a bank of approximately HK\$60,825,000 which is secured by legal charges over the investment properties with carrying value of approximately HK\$273,237,000;
- (iii) secured borrowing from a bank of approximately HK\$5,000,000 which is guaranteed by a director and a former director of the Target Company and Hong Kong Mortgage Corporation Limited;
- (iv) secured borrowing from a bank of approximately HK\$811,000 which is guaranteed by a director and a former director of the Target Company and Hong Kong Government under Small and Medium Enterprises Loan Guarantee Scheme;
- (v) secured bank overdraft of approximately HK\$1,361,000 which is secured by a property owned by a director and a former director of the Target Company and guaranteed by a director and a former director of the Target Company;
- (vi) unsecured borrowings from various independent third parties of approximately HK\$44,084,000;
- (vii) unsecured borrowings from senior management of subsidiaries of the Company of approximately HK\$942,000;

- (viii) unsecured amount due to a director and ultimate holding company of the Target Company of approximately HK\$3,098,000 and HK\$2,244,000 respectively; and
- (ix) finance lease of approximately HK\$320,000 which is secured by legal charges over a motor vehicles.

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities, the Enlarged Group did not have any outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 October 2016, being the latest practicable date for the purpose of this indebtedness statement prior to printing of this circular.

Save as aforesaid, the Directors are not aware of any material changes in the indebtedness, contingent liabilities and commitments of the Enlarged Group since 31 October 2016, the date to which the indebtedness statement is made and up to the Latest Practicable Date.

III. WORKING CAPITAL

The Directors are of the opinion that taking into account the existing banking and other borrowing facilities available, the existing cash and bank balances and the effect of the Subscription, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

IV. 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 position of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group was made up.

V. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon Completion, members of the Target Group will become indirect subsidiaries of the Group and the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group. According to the annual report of the Company for the year ended 31 December 2015, the Group recorded revenue of approximately HK\$27.8 million and gross profit of approximately HK\$12.6 million for the year ended 31 December 2015. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming Completion had taken place on 31 December 2015, the unaudited pro forma revenue and gross profit of the Enlarged Group will be approximately HK\$65.3 million and HK\$18.2 million respectively.

As mentioned under the paragraph headed “REASONS FOR AND BENEFITS OF THE SUBSCRIPTION” in the Letter from the Board in this circular, the Subscription will create synergies that allow the Group to better complement its existing business. In addition, given (i) the similarity of the business nature of the Group and the Target Group and (ii) that subject to entering into of the Service Contracts, each of the Executives will continue his/her employment service to the Target Company for 3 years, the integration risks of the enlarged Group are expected to be minimal.

Upon Completion, the key management of the Target Group is expected to remain unchanged and the Company will appoint new director(s) and/or legal representative of the Target Group. The Board is of the view that the Subscription is in line with the Group’s business expansion plan. Furthermore, the Board believes, with financial support of the Group, the cash flow of the Target Group will be improved, which will facilitate the Target Company to engage in those large-scale projects, which are generally of high profit margin.

Based on the above, the Directors (including the independent non-executive Directors) consider that Subscription is in the interests of the Company and Shareholders as a whole.



28 November 2016

The Board of Directors
 China Information Technology Development Limited
(Incorporated in the Cayman Islands with limited liability)

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of Macro China Holding Limited (the “Target Company”) and its subsidiaries (hereinafter collectively referred to as the “Target Group”) for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 (the “Relevant Periods”) for inclusion in the circular dated 28 November 2016 (the “Circular”) issued by China Information Technology Development Limited (the “Company”) in connection with the proposed subscription of 84% equity interest in the Target Company.

The Target Company was incorporated on 18 March 2008 in the British Virgin Islands (the “BVI”) with limited liability and acts as an investment holding company. As at the date of this report, the Target Company has the following subsidiaries:

Name of subsidiary	Place and date of incorporation	Issued and fully paid share/registered capital	Attributable equity interest of the Target Company	Principal activities
Macro Systems Limited (“MS Hong Kong”)	Hong Kong 14 March 1997	HK\$1,050,000	100%	Provision of systems integration and maintenance services in Hong Kong
廣州市銀興計算機服務有限公司 (“MS Guangzhou”)	The People’s Republic of China (the “PRC”) 7 August 2012	HK\$1,300,000	100%	Provision of systems integration and maintenance services in the PRC
Velox Technology Limited (“VTL”)	Hong Kong 21 October 2010	HK\$100	100%	Inactive
Macro Systems Group Limited (“MSGSL”)	Hong Kong 11 August 2008	HK\$100	100%	Investment holding

All the companies of the Target Group have adopted 31 December as the financial year end date.

APPENDIX II ACCOUNTANT’S REPORT OF THE TARGET GROUP

The statutory financial statements of MS Hong Kong for each of the three years ended 31 December 2013, 2014 and 2015 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and were audited by Hung Sui Kwan., certified public accountants registered in Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

No audited financial statements of MS Guangzhou, VTL and MSGL have been prepared for the Relevant Periods.

For the purpose of this report, the directors of the Target Company have prepared the consolidated financial statements of the Target Group for the Relevant Periods in accordance with HKFRSs (the “HKFRS Financial Statements”).

We have performed an independent audit on the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 “Prospectus and the Reporting Accountant” issued by the HKICPA.

The Financial Information for the Relevant Periods set out in this report has been prepared from the HKFRS Financial Statements. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

The preparation of the HKFRS Financial Statements are the responsibility of the directors of the Target Company. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the financial position of the Target Group and the Target Company as at 31 December 2013, 2014 and 2015 and 30 June 2016 and of the Target Group’s financial performance and cash flows for the Relevant Periods.

APPENDIX II ACCOUNTANT’S REPORT OF THE TARGET GROUP

COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, the directors of the Target Company have prepared the comparative financial information of the Target Group for the six months ended 30 June 2015 (the “Comparative Financial Information”) in accordance with HKFRSs. We have reviewed the Comparative Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists principally of making enquiries of the Target Group management and applying analytical procedures to the Comparative Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Comparative Financial Information.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Comparative Financial Information.

EMPHASIS OF MATTERS RELATING TO GOING CONCERN BASIS

Without qualifying our opinion, we draw attention to note 3 to the Financial Information which mentions that the Target Group incurred loss of HK\$5,231,886, HK\$1,767,234, HK\$4,840,900 and HK\$3,619,179 for the three years ended 31 December 2015 and six months ended 30 June 2016 respectively and as at 31 December 2013, 2014 and 2015 and 30 June 2016, the Target Group has net current liabilities of HK\$9,611,189, HK\$10,711,518, HK\$16,572,271 and HK\$20,407,191 respectively and net liabilities of HK\$5,985,861, HK\$7,739,905, HK\$12,514,260 and HK\$16,094,244 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Target Group’s ability to continue as a going concern.

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

FINANCIAL INFORMATION

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	Notes	Year ended 31 December			Six months ended 30 June	
		2013	2014	2015	2015	2016
		(audited)	(audited)	(audited)	(unaudited)	(audited)
		HK\$	HK\$	HK\$	HK\$	HK\$
Revenue	8	61,410,414	57,685,537	37,552,801	20,737,664	11,206,729
Cost of sales and services rendered		<u>(53,525,768)</u>	<u>(47,053,684)</u>	<u>(31,997,796)</u>	<u>(16,775,004)</u>	<u>(10,298,956)</u>
Gross profit		7,884,646	10,631,853	5,555,005	3,962,660	907,773
Other income	9	3,201	806	1,391	1,268	21,907
Administrative expenses		<u>(12,929,026)</u>	<u>(11,462,071)</u>	<u>(9,882,980)</u>	<u>(5,807,314)</u>	<u>(3,869,106)</u>
Loss from operations		(5,041,179)	(829,412)	(4,326,584)	(1,843,386)	(2,939,426)
Finance cost	10	<u>(1,028,745)</u>	<u>(1,021,522)</u>	<u>(1,226,812)</u>	<u>(544,647)</u>	<u>(1,030,608)</u>
Loss before taxation		(6,069,924)	(1,850,934)	(5,553,396)	(2,388,033)	(3,970,034)
Income tax credit	11	<u>838,038</u>	<u>83,700</u>	<u>712,496</u>	<u>331,100</u>	<u>350,855</u>
Loss for the year/period	12	<u>(5,231,886)</u>	<u>(1,767,234)</u>	<u>(4,840,900)</u>	<u>(2,056,933)</u>	<u>(3,619,179)</u>
Other comprehensive income after tax:						
<i>Items that may be reclassified to profit or loss:</i>						
Exchange differences on translating foreign operations		<u>19,837</u>	<u>13,190</u>	<u>66,545</u>	<u>(2,279)</u>	<u>39,196</u>
Total comprehensive loss for the year/period		<u>(5,212,049)</u>	<u>(1,754,044)</u>	<u>(4,774,355)</u>	<u>(2,059,212)</u>	<u>(3,579,983)</u>
Loss for the year/period attributable to:						
Owners of the Target Company		(4,828,486)	(1,702,788)	(4,380,786)	(1,884,302)	(3,456,575)
Non-controlling interests		<u>(403,400)</u>	<u>(64,446)</u>	<u>(460,114)</u>	<u>(172,631)</u>	<u>(162,604)</u>
		<u>(5,231,886)</u>	<u>(1,767,234)</u>	<u>(4,840,900)</u>	<u>(2,056,933)</u>	<u>(3,619,179)</u>
Total comprehensive loss for the year/period attributable to:						
Owners of the Target Company		(4,808,649)	(1,689,598)	(4,314,241)	(1,886,581)	(3,417,379)
Non-controlling interests		<u>(403,400)</u>	<u>(64,446)</u>	<u>(460,114)</u>	<u>(172,631)</u>	<u>(162,604)</u>
		<u>(5,212,049)</u>	<u>(1,754,044)</u>	<u>(4,774,355)</u>	<u>(2,059,212)</u>	<u>(3,579,983)</u>

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	At 31 December			At 30 June
		2013	2014	2015	2016
		(audited)	(audited)	(audited)	(audited)
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
NON-CURRENT ASSETS					
Property, plant and equipment	14	821,591	541,060	643,055	547,136
Deposits	15	653,314	199,999	473,629	473,629
Deferred tax assets	16	<u>2,150,423</u>	<u>2,230,554</u>	<u>2,941,327</u>	<u>3,292,182</u>
		<u>3,625,328</u>	<u>2,971,613</u>	<u>4,058,011</u>	<u>4,312,947</u>
CURRENT ASSETS					
Inventories	17	2,302,830	1,025,220	952,017	388,122
Trade receivables	18	4,924,874	4,616,752	2,059,583	1,259,261
Other receivables, deposits and prepayments	15	163,066	878,227	75,534	65,137
Amount due from a director	19	8,726,615	9,144,455	10,749,842	–
Cash and cash equivalents		<u>2,667,483</u>	<u>994,368</u>	<u>453,732</u>	<u>551,391</u>
		<u>18,784,868</u>	<u>16,659,022</u>	<u>14,290,708</u>	<u>2,263,911</u>
CURRENT LIABILITIES					
Trade and bills payables	22	16,646,390	13,865,997	16,278,975	2,945,624
Accruals and other payables	23	1,607,465	2,493,304	3,196,887	4,152,098
Amounts due to contract customers	24	110,500	1,144,841	715,269	893,799
Borrowings and bank overdrafts	25	8,911,930	7,622,176	8,427,626	9,662,290
Amount due to ultimate holding company	26	1,119,772	2,244,222	2,244,222	2,244,223
Amount due to a director	26	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,773,068</u>
		<u>28,396,057</u>	<u>27,370,540</u>	<u>30,862,979</u>	<u>22,671,102</u>
NET CURRENT LIABILITIES		<u>(9,611,189)</u>	<u>(10,711,518)</u>	<u>(16,572,271)</u>	<u>(20,407,191)</u>
NET LIABILITIES		<u>(5,985,861)</u>	<u>(7,739,905)</u>	<u>(12,514,260)</u>	<u>(16,094,244)</u>

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

	<i>Notes</i>	At 31 December		At 30 June	
		2013	2014	2015	2016
		(audited)	(audited)	(audited)	(audited)
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
CAPITAL AND RESERVE					
Share capital	27	778	778	778	778
Reserves		<u>(5,632,326)</u>	<u>(7,321,924)</u>	<u>(11,636,165)</u>	<u>(16,095,022)</u>
Equity attributable to owners of the Target Company		(5,631,548)	(7,321,146)	(11,635,387)	(16,094,244)
Non-controlling interests		<u>(354,313)</u>	<u>(418,759)</u>	<u>(878,873)</u>	<u>–</u>
TOTAL EQUITY		<u><u>(5,985,861)</u></u>	<u><u>(7,739,905)</u></u>	<u><u>(12,514,260)</u></u>	<u><u>(16,094,244)</u></u>

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

STATEMENTS OF FINANCIAL POSITION

		At 31 December			At 30 June
		2013	2014	2015	2016
		(audited)	(audited)	(audited)	(audited)
Notes		HK\$	HK\$	HK\$	HK\$
NON-CURRENT ASSETS					
Investment in subsidiaries	20	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
CURRENT ASSETS					
Due from subsidiaries	21	<u>1,130,450</u>	<u>2,244,900</u>	<u>2,244,900</u>	<u>2,244,901</u>
CURRENT LIABILITIES					
Due to a subsidiary	21	10,000	–	–	–
Amount due to ultimate holding company	26	<u>1,119,772</u>	<u>2,244,222</u>	<u>2,244,222</u>	<u>2,244,223</u>
		<u>1,129,772</u>	<u>2,244,222</u>	<u>2,244,222</u>	<u>2,244,223</u>
NET CURRENT LIABILITIES		<u>678</u>	<u>678</u>	<u>678</u>	<u>678</u>
NET ASSETS		<u><u>778</u></u>	<u><u>778</u></u>	<u><u>778</u></u>	<u><u>778</u></u>
CAPITAL AND RESERVE					
Share capital	27	778	778	778	778
Reserves	28	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
TOTAL EQUITY		<u><u>778</u></u>	<u><u>778</u></u>	<u><u>778</u></u>	<u><u>778</u></u>

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company					
	Share Capital	Accumulated losses	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2013 (audited)	778	(831,348)	7,671	(822,899)	49,087	(773,812)
Loss and total comprehensive loss for the year	<u>–</u>	<u>(4,828,486)</u>	<u>19,837</u>	<u>(4,808,649)</u>	<u>(403,400)</u>	<u>(5,212,049)</u>
At 31 December 2013 and 1 January 2014 (audited)	778	(5,659,834)	27,508	(5,631,548)	(354,313)	(5,985,861)
Loss and total comprehensive loss for the year	<u>–</u>	<u>(1,702,788)</u>	<u>13,190</u>	<u>(1,689,598)</u>	<u>(64,446)</u>	<u>(1,754,044)</u>
At 31 December 2014 and 1 January 2015 (audited)	778	(7,362,622)	40,698	(7,321,146)	(418,759)	(7,739,905)
Loss and total comprehensive loss for the year	<u>–</u>	<u>(4,380,786)</u>	<u>66,545</u>	<u>(4,314,241)</u>	<u>(460,114)</u>	<u>(4,774,355)</u>
At 31 December 2015 and 1 January 2016 (audited)	778	(11,743,408)	107,243	(11,635,387)	(878,873)	(12,514,260)
Loss and total comprehensive loss for the period	–	(3,456,575)	39,196	(3,417,379)	(162,604)	(3,579,983)
Acquisition of partial interest in a subsidiary	<u>–</u>	<u>(1,041,478)</u>	<u>–</u>	<u>(1,041,478)</u>	<u>1,041,477</u>	<u>(1)</u>
At 30 June 2016 (audited)	<u><u>778</u></u>	<u><u>(16,241,461)</u></u>	<u><u>146,439</u></u>	<u><u>(16,094,244)</u></u>	<u><u>–</u></u>	<u><u>(16,094,244)</u></u>
At 1 January 2015 (audited)	778	(7,362,622)	40,698	(7,321,146)	(418,759)	(7,739,905)
Loss and total comprehensive loss for the period (unaudited)	<u>–</u>	<u>(1,884,302)</u>	<u>(2,279)</u>	<u>(1,886,581)</u>	<u>(172,631)</u>	<u>(2,059,212)</u>
At 30 June 2015 (unaudited)	<u><u>778</u></u>	<u><u>(9,246,924)</u></u>	<u><u>38,419</u></u>	<u><u>(9,207,727)</u></u>	<u><u>(591,390)</u></u>	<u><u>(9,799,117)</u></u>

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	Notes	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Cash flows from operating activities					
Loss before taxation	(6,069,924)	(1,850,934)	(5,553,396)	(2,388,033)	(3,970,034)
Adjustments for:					
Bank interest income	(1,174)	(806)	(375)	(249)	(69)
Depreciation	283,911	310,924	268,183	118,577	99,953
Finance cost	1,028,745	1,021,522	1,226,812	544,647	1,030,608
Written off of property, plant and equipment	<u>138,767</u>	<u>–</u>	<u>53,942</u>	<u>–</u>	<u>–</u>
Operating profit before working capital changes	(4,619,675)	(519,294)	(4,004,834)	(1,725,058)	(2,839,542)
Change in inventories	(1,149,762)	1,277,610	73,203	(404,055)	563,895
Change in trade receivables	1,830,118	308,122	2,557,169	2,341,895	800,322
Change in other receivables, deposits and prepayments	232,635	(261,846)	529,063	456,766	10,397
Change in trade payables and bills payables	4,810,440	(2,780,393)	2,412,978	(621,700)	(13,333,351)
Change in accruals and other payables	669,382	885,839	703,583	1,465,684	955,211
Change in amounts due from contract customers	<u>110,500</u>	<u>1,034,341</u>	<u>(429,572)</u>	<u>(934,743)</u>	<u>178,530</u>
Cash generated from/(used in) operations	1,883,638	(55,621)	1,841,590	578,789	(13,664,538)
Interest paid	<u>(1,028,745)</u>	<u>(1,021,522)</u>	<u>(1,226,812)</u>	<u>(544,647)</u>	<u>(1,030,608)</u>
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	<u>854,893</u>	<u>(1,077,143)</u>	<u>614,778</u>	<u>34,142</u>	<u>(14,695,146)</u>
Cash flows from investing activities					
Bank interest received	1,174	806	375	249	69
Acquisition of property, plant and equipment	(137,782)	(32,070)	(425,638)	(193,884)	(4,600)
(Advance to)/repayment from a director	<u>(1,753,166)</u>	<u>(417,840)</u>	<u>(1,605,387)</u>	<u>(1,405,535)</u>	<u>10,749,842</u>
NET CASH (USED IN)/ GENERATED FROM INVESTING ACTIVITIES	<u>(1,889,774)</u>	<u>(449,104)</u>	<u>(2,030,650)</u>	<u>(1,599,170)</u>	<u>10,745,311</u>

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
Notes	HK\$	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Cash flows from financing activities					
Repayment of borrowings	(1,943,179)	(1,951,111)	(1,697,012)	(854,745)	(437,957)
Proceeds from borrowings	–	–	1,800,000	1,800,000	2,000,000
Acquisition of partial interest in a subsidiary	32	–	–	–	(1)
Advance from a director	–	–	–	–	2,773,068
Advance from ultimate holding company	280,000	1,124,450	–	–	1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH (USED IN)/ GENERATED FROM FINANCING ACTIVITIES	<u>(1,663,179)</u>	<u>(826,661)</u>	<u>102,988</u>	<u>945,255</u>	<u>4,335,111</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS					
Effect of foreign exchange rate changes	15,164	18,436	69,786	(2,100)	39,762
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	<u>4,737,383</u>	<u>2,054,487</u>	<u>(279,985)</u>	<u>(279,985)</u>	<u>(1,523,083)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u><u>2,054,487</u></u>	<u><u>(279,985)</u></u>	<u><u>(1,523,083)</u></u>	<u><u>(901,858)</u></u>	<u><u>(1,098,045)</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS					
Bank and cash balances	2,667,483	994,368	453,732	1,014,142	551,391
Bank overdrafts	25	(1,274,353)	(1,976,815)	(1,916,000)	(1,649,436)
	<u>2,054,487</u>	<u>(279,985)</u>	<u>(1,523,083)</u>	<u>(901,858)</u>	<u>(1,098,045)</u>

NOTES TO FINANCIAL INFORMATION**1. General information**

The Target Company was established in the BVI with limited liability on 18 March 2008. The address of its registered office is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands and principal place of business is Unit 1710, 17/F., Millennium City 2, 378 Kwun Tong Road, Kwun Tong, Hong Kong.

The Target Company is an investment holding company. The Target Group is principally engaged in the development and sale of computer software and hardware, the provision of system integration and related support services in Hong Kong and the PRC.

2. Adoption of Hong Kong Financial Reporting Standards

The Target Group had adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2016. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards and Interpretations.

The Target Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Target Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material effect on the results of operations and financial position of the Target Group.

3. Going concern basis

The Target Group incurred loss of HK\$5,231,886, HK\$1,767,234, HK\$4,840,900 and HK\$3,619,719 for the three years ended 31 December 2015 and six months ended 30 June 2016 respectively and as at 31 December 2013, 2014, 2015 and 30 June 2016, the Target Group has net current liabilities of HK\$9,611,189, HK\$10,711,518, HK\$16,572,271 and HK\$20,407,191 respectively and net liabilities of HK\$5,985,861, HK\$7,739,905, HK\$12,514,260 and HK\$16,094,244 respectively. The Financial Information has been prepared on a going concern basis, the validity of which depends upon the financial support of the controlling shareholder, at a level sufficient to finance the working capital requirements of the Target Group. The controlling shareholder has agreed to provide adequate funds for the Target Group to meet its liabilities as they fall due. The directors of the Target Company are therefore of the opinion that it is appropriate to prepare the Financial Information on a going concern basis. Should the Target Group be unable to continue as a going concern, adjustments would have to be made to the Financial Information to adjust the value of the Target Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

4. Significant accounting policies

The Financial Information has been prepared in accordance with HKFRSs and applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost convention. The significant accounting policies applied in the preparation of the Financial Information are materially consistent with those of the Company and are set out below.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 5 to the Financial Information.

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

The significant accounting policies applied in the preparation of the Financial Information are set out below.

Consolidation

The Financial Information include the financial statements of the Target Company and its subsidiaries made up the Relevant Periods. Subsidiaries are entities over which the Target Group has control. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Target Group has power over an entity when the Target Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Target Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Target Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Target Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Target Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. 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 the owners of the Target Company.

Foreign currency translation

(a) Functional and presentation currency

Items included in the Financial Information of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Hong Kong Dollar, which is the Target Company's presentation currency and the functional currency.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

(c) Translation on consolidation

The results and financial position of all the Target Group's entities that have a functional currency different from the Target Company's presentation currency are translated into the Target Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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 Target Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvement	Over the lease term or 5 years, whichever is lower
Furniture and fixtures	20%
Office equipment	20%
Motor vehicle	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Operating leases

Leases that do not substantially transfer to the Target Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. 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.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Target Group transfers substantially all the risks and rewards of ownership of the assets; or the Target Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowances is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Target Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of revenue can be measured reliably.

- a) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- b) Revenue from the rendering of services is recognised on the percentage of completion basis;
- c) Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits***(i) Employee leave entitlements***

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Target Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Target Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Target Group to the funds.

The Target Group also participates in a defined contribution retirement scheme organised by the government in the PRC. The Target Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to consolidated profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Target Group can no longer withdraw the offer of those benefits and when the Target Group recognises restructuring costs and involves the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Target Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target 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.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the 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 Target Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Target Group.

- (A) A person or a close member of that person's family is related to the Target Group if that person:
 - (i) has control or joint control over the Target Group;
 - (ii) has significant influence over the Target Group; or
 - (iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company.

- (B) An entity is related to the Target Group if any of the following conditions applies:
 - (i) The entity and the Target Company 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 employees of either the Target Group or an entity related to the Target Group. If the Target Group is itself such a plan, the sponsoring employers are also related to the Target 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 the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to a parent of the Target Company.

Impairment of assets

At the end of each reporting period, the Target Group reviews the carrying amounts of its assets except receivables and inventories to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal 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.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 (net of amortisation or depreciation) 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a present 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 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 is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Target Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Financial Information when material.

5. Critical judgements and key estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the Financial Information.

Going concern basis

These Financial Information have been prepared on a going concern basis, the validity of which depends upon the financial support of the controlling shareholder at a level sufficient to finance the working capital requirements of the Target Group. Details are explained in note 3 to Financial Information.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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.

Impairment loss for bad and doubtful debts

The Target Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the amount of future taxable profits. There are many significant estimates are required in determining the provision for income taxes and deferred tax, transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Property, plant and equipment and depreciation

The Target Group determines the estimated useful lives, residual values and related depreciation charges for the Target Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Target Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

6. Financial risk management

The Target Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, foreign currency risk and interest rate risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Credit risk

The carrying amount of the cash and cash equivalents, trade receivables, other receivables, deposit and prepayments, amount due from a director included in the consolidated statements of financial position represents the Target Group's maximum exposure to credit risk in relation to the Target Group's financial assets.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Target Group has no significant concentrations of credit risk with exposure spread over a number of counterparties and customers.

(b) Liquidity risk

The Target 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 maturity analysis of the Target Group's financial liabilities is as follows:

	Less than 1 year HK\$	Total HK\$
At 31 December 2013		
Trade and bills payables	16,646,390	16,646,390
Accruals and other payables	713,131	713,131
Borrowings and bank overdrafts	8,911,930	8,911,930
Amount due to ultimate holding company	<u>1,119,772</u>	<u>1,119,772</u>
	<u><u>27,391,223</u></u>	<u><u>27,391,223</u></u>

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	Less than 1 year HK\$	Total HK\$
At 31 December 2014		
Trade and bills payables	13,865,997	13,865,997
Accruals and other payables	1,836,924	1,836,924
Borrowings and bank overdrafts	7,622,176	7,622,176
Amount due to ultimate holding company	<u>2,244,222</u>	<u>2,244,222</u>
	<u>25,569,319</u>	<u>25,569,319</u>
At 31 December 2015		
Trade and bills payables	16,278,975	16,278,975
Accruals and other payables	1,581,112	1,581,112
Borrowings and bank overdrafts	8,427,626	8,427,626
Amount due to ultimate holding company	<u>2,244,222</u>	<u>2,244,222</u>
	<u>28,531,935</u>	<u>28,531,935</u>
At 30 June 2016		
Trade and bills payables	2,945,624	2,945,624
Accruals and other payables	2,658,953	2,658,953
Borrowings and bank overdrafts	9,662,290	9,662,290
Amount due to ultimate holding company	2,244,223	2,244,223
Amount due to a director	<u>2,773,068</u>	<u>2,773,068</u>
	<u>20,284,158</u>	<u>20,284,158</u>

(c) Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates. The Target Group's business are mainly located in Hong Kong and the PRC and are mainly transacted and settled in HK\$ and Renminbi respectively, so the Target Group has minimal exposure to foreign currency risk.

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(d) Interest rate risk

The Target Group has no significant interest-bearing financial assets other than cash and cash equivalents. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Target Group's exposure to the cash flow interest rate risk relates primarily to the interest-bearing bank loans and overdrafts with floating interest rates. The effective interest rates and terms of repayment of the interest-bearing bank loans and overdrafts of the Target Group are disclosed in Note 25 to the Financial Information.

A reasonable possible change of 50 basis points in interest rates would have no material impact on the Target Group's loss and equity for the Relevant period.

(e) Categories of financial instruments

	At 31 December		At 30 June	
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Financial assets:				
Loans and receivables:				
Trade receivables	4,924,874	4,616,752	2,059,583	1,259,261
Other receivables and deposits	775,779	904,418	532,205	531,058
Amount due from a director	8,726,615	9,144,455	10,749,842	–
Cash and cash equivalents	<u>2,667,483</u>	<u>994,368</u>	<u>453,732</u>	<u>551,391</u>
	<u>17,094,751</u>	<u>15,659,993</u>	<u>13,795,362</u>	<u>2,341,710</u>
Financial liabilities:				
Financial liabilities				
at amortised cost:				
Trade and bills payables	16,646,390	13,865,997	16,278,975	2,945,624
Trade and other payables	713,131	1,836,924	1,581,112	2,658,953
Borrowings and bank				
overdrafts	8,911,930	7,622,176	8,427,626	9,662,290
Amount due to ultimate				
holding company	1,119,772	2,244,222	2,244,222	2,244,223
Amount due to a director	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,773,068</u>
	<u>27,391,223</u>	<u>25,569,319</u>	<u>28,531,935</u>	<u>20,284,158</u>

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(f) Fair values

The carrying amounts of the Target Group's financial assets and financial liabilities as reflected in the consolidated statements of financial position approximate their respective fair values.

7. Segment information

Business segments

The Target Group is principally engaged in the development and sale of computer software and hardware, the provision of system integration and related support services. Since this is the only one operating segment of the Target Group, no further analysis thereof is presented.

Geographical information

The Target Group's revenue and non-current assets other than deferred tax assets by analysed by geographical location are detailed below:

	Revenue				
	Year ended		2015	Six months ended	
	2013	2014		2015	2016
	31 December	31 December	31 December	30 June	30 June
	2013	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Hong Kong	58,142,388	55,938,506	34,859,574	19,320,946	11,017,789
The PRC	<u>3,268,026</u>	<u>1,747,031</u>	<u>2,693,227</u>	<u>1,416,718</u>	<u>188,940</u>
	<u>61,410,414</u>	<u>57,685,537</u>	<u>37,552,801</u>	<u>20,737,664</u>	<u>11,206,729</u>

	Non-current assets			
	At 31 December			At 30 June
	2013	2014	2015	2016
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(audited)
Hong Kong	1,395,402	700,738	1,086,660	996,549
The PRC	<u>79,503</u>	<u>40,321</u>	<u>30,024</u>	<u>24,216</u>
	<u>1,474,905</u>	<u>741,059</u>	<u>1,116,684</u>	<u>1,020,765</u>

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Information about major customers

No external customers contributed over 10% of the Target Group's total revenue for the Relevant Periods.

8. Revenue

The Target Group's revenue which represents the invoiced value of computer hardware, software and services rendered less discounts for the Relevant Periods are as follows:

	Year ended			Six months ended	
	31 December			30 June	
	2013	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Revenue from sale of computer hardware and software and services rendered	<u>61,410,414</u>	<u>57,685,537</u>	<u>37,552,801</u>	<u>20,737,664</u>	<u>11,206,729</u>

9. Other income

	Year ended			Six months ended	
	31 December			30 June	
	2013	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Bank interest income	1,174	806	375	249	69
Other income	<u>2,027</u>	<u>–</u>	<u>1,016</u>	<u>1,019</u>	<u>21,838</u>
	<u>3,201</u>	<u>806</u>	<u>1,391</u>	<u>1,268</u>	<u>21,907</u>

10. Finance cost

	Year ended			Six months ended	
	31 December			30 June	
	2013	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Interest on borrowings and overdrafts	<u>1,028,745</u>	<u>1,021,522</u>	<u>1,226,812</u>	<u>544,647</u>	<u>1,030,608</u>

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11. Income tax credit

	Year ended			Six months ended	
	31 December			30 June	
	2013	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Deferred tax (<i>Note 16</i>)	<u>838,038</u>	<u>83,700</u>	<u>712,496</u>	<u>331,100</u>	<u>350,855</u>

No provision for Hong Kong Profits Tax and the PRC Corporate Income Tax are required since the Target Group has no assessable profit for the Relevant Periods.

The reconciliation between the income tax credit and the loss before tax is as follows:

	Year ended			Six months ended	
	31 December			30 June	
	2013	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Loss before tax	<u>(6,069,924)</u>	<u>(1,850,934)</u>	<u>(5,553,396)</u>	<u>(2,388,033)</u>	<u>(3,970,034)</u>
Tax at the domestic income tax rate of 16.5%	(1,001,537)	(305,404)	(916,310)	(394,025)	(655,056)
Tax effect of income that is not taxable	(4)	(2)	(1)	-	-
Tax effect of expenses that are not deductible	32,906	326	222,528	124,975	660
Tax effect of temporary differences not recognised	(14,878)	36,416	(10,218)	(34,015)	11,393
Tax losses for the year not recognised	251,931	280,399	-	-	323,351
Effect of different tax rate of a subsidiary operating in the PRC	<u>(106,456)</u>	<u>(95,435)</u>	<u>(8,495)</u>	<u>(28,035)</u>	<u>(31,203)</u>
Income tax credit	<u>(838,038)</u>	<u>(83,700)</u>	<u>(712,496)</u>	<u>(331,100)</u>	<u>(350,855)</u>

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12. Loss for the year/period

The Target Group’s loss for the Relevant Periods is stated after charging the following:

	Year ended			Six months ended	
	31 December		2015	30 June	
	2013	2014		2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Auditor’s remuneration	17,208	15,305	15,219	7,610	4,159
Cost of sales and services rendered	53,525,768	47,053,684	31,997,796	16,775,004	10,298,956
Depreciation	283,911	310,924	268,183	118,577	99,953
Directors’ emoluments	615,000	616,750	618,000	309,000	321,000
Staff costs including directors’ emoluments					
– Salaries, bonus and allowances	11,627,862	10,426,261	8,923,332	4,675,649	4,635,039
– Retirement benefits scheme contributions	<u>668,998</u>	<u>570,135</u>	<u>575,236</u>	<u>339,492</u>	<u>232,713</u>
	<u>12,296,860</u>	<u>10,996,396</u>	<u>9,498,568</u>	<u>5,015,141</u>	<u>4,867,752</u>
Written off of property, plant and equipment	138,767	–	53,942	–	–
Operating lease charges	<u>2,265,573</u>	<u>2,419,511</u>	<u>1,685,091</u>	<u>1,121,132</u>	<u>568,577</u>

13. Dividends

The directors of the Target Company do not recommend the payment of any dividend in respect of the Relevant periods.

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14. Property, plant and equipment

	Leasehold Improvement	Furniture and fixtures	Office equipment	Motor vehicle	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
COST:					
1 January 2013	616,845	188,780	517,112	375,000	1,697,737
Additions	–	–	137,782	–	137,782
Written off	(335,520)	–	–	–	(335,520)
Exchange realignment	–	–	1,352	–	1,352
	<u>–</u>	<u>–</u>	<u>1,352</u>	<u>–</u>	<u>1,352</u>
31 December 2013 and 1 January 2014	281,325	188,780	656,246	375,000	1,501,351
Additions	–	–	32,070	–	32,070
Exchange realignment	–	–	(1,908)	–	(1,908)
	<u>–</u>	<u>–</u>	<u>(1,908)</u>	<u>–</u>	<u>(1,908)</u>
31 December 2014 and 1 January 2015	281,325	188,780	686,408	375,000	1,531,513
Additions	370,660	3,480	51,498	–	425,638
Written off	(281,325)	(69,130)	–	–	(350,455)
Exchange realignment	–	–	(2,574)	–	(2,574)
	<u>–</u>	<u>–</u>	<u>(2,574)</u>	<u>–</u>	<u>(2,574)</u>
31 December 2015 and 1 January 2016	370,660	123,130	735,332	375,000	1,604,122
Additions	–	–	4,600	–	4,600
Exchange realignment	–	–	(1,219)	–	(1,219)
	<u>–</u>	<u>–</u>	<u>(1,219)</u>	<u>–</u>	<u>(1,219)</u>
30 June 2016	<u>370,660</u>	<u>123,130</u>	<u>738,713</u>	<u>375,000</u>	<u>1,607,503</u>

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	Leasehold Improvement <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Office equipment <i>HK\$</i>	Motor vehicle <i>HK\$</i>	Total <i>HK\$</i>
ACCUMULATED DEPRECIATION AND IMPAIRMENT:					
1 January 2013	262,167	74,862	59,471	196,000	592,500
Charge for the year	56,265	37,756	114,890	75,000	283,911
Written off	(196,753)	–	–	–	(196,753)
Exchange realignment	–	–	102	–	102
	<u>–</u>	<u>–</u>	<u>102</u>	<u>–</u>	<u>102</u>
31 December 2013 and 1 January 2014	121,679	112,618	174,463	271,000	679,760
Charge for the year	55,248	33,702	165,474	56,500	310,924
Exchange realignment	–	–	(231)	–	(231)
	<u>–</u>	<u>–</u>	<u>(231)</u>	<u>–</u>	<u>(231)</u>
31 December 2014 and 1 January 2015	176,927	146,320	339,706	327,500	990,453
Charge for the year	85,691	21,774	122,718	38,000	268,183
Written off	(229,126)	(67,387)	–	–	(296,513)
Exchange realignment	–	–	(1,056)	–	(1,056)
	<u>–</u>	<u>–</u>	<u>(1,056)</u>	<u>–</u>	<u>(1,056)</u>
31 December 2015 and 1 January 2016	33,492	100,707	461,368	365,500	961,067
Charge for the period	30,889	5,715	53,849	9,500	99,953
Exchange realignment	–	–	(653)	–	(653)
	<u>–</u>	<u>–</u>	<u>(653)</u>	<u>–</u>	<u>(653)</u>
30 June 2016	<u>64,381</u>	<u>106,422</u>	<u>514,564</u>	<u>375,000</u>	<u>1,060,367</u>
CARRYING AMOUNTS:					
At 31 December 2013	<u>159,646</u>	<u>76,162</u>	<u>481,783</u>	<u>104,000</u>	<u>821,591</u>
At 31 December 2014	<u>104,398</u>	<u>42,460</u>	<u>346,702</u>	<u>47,500</u>	<u>541,060</u>
At 31 December 2015	<u>337,168</u>	<u>22,423</u>	<u>273,964</u>	<u>9,500</u>	<u>643,055</u>
At 30 June 2016	<u>306,279</u>	<u>16,708</u>	<u>224,149</u>	<u>–</u>	<u>547,136</u>

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15. Other receivables, deposits and prepayments

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Prepayment	40,601	173,808	16,958	7,708
Deposits and other receivables	<u>775,779</u>	<u>904,418</u>	<u>532,205</u>	<u>531,058</u>
	<u><u>816,380</u></u>	<u><u>1,078,226</u></u>	<u><u>549,163</u></u>	<u><u>538,766</u></u>
Analysis for reporting purpose as:				
Non-current portion	653,314	199,999	473,629	473,629
Current portion	<u>163,066</u>	<u>878,227</u>	<u>75,534</u>	<u>65,137</u>
	<u><u>816,380</u></u>	<u><u>1,078,226</u></u>	<u><u>549,163</u></u>	<u><u>538,766</u></u>

16. Deferred tax assets

The followings are the major deferred tax assets recognised by the Target Group.

	Tax losses
	<i>HK\$</i>
At 1 January 2013	1,308,962
Exchange realignment	3,423
Credited to profit or loss	<u>838,038</u>
At 31 December 2013 and 1 January 2014	2,150,423
Exchange realignment	(3,569)
Credited to profit or loss	<u>83,700</u>
At 31 December 2014 and 1 January 2015	2,230,554
Exchange realignment	(1,723)
Credited to profit or loss	<u>712,496</u>
At 31 December 2015 and 1 January 2016	2,941,327
Credited to profit or loss	<u>350,855</u>
At 30 June 2016	<u><u>3,292,182</u></u>

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As at 30 June 2016, the Target Group has unused tax losses of HK\$23,688,889 (31 December 2013: HK\$13,757,017, 31 December 2014: HK\$15,338,152, 31 December 2015: HK\$19,848,062) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$19,952,619 (31 December 2013: HK\$12,733,882, 31 December 2014: HK\$13,226,879, 31 December 2015: HK\$17,831,405) of such losses respectively. No deferred tax asset has been recognised in respect of the remaining HK\$3,736,270 (31 December 2013: HK\$1,023,135, 31 December 2014: HK\$2,111,272, 31 December 2015: HK\$2,016,657) due to the unpredictability of future profit streams. As at 30 June 2016, included in unrecognised tax losses are losses of HK\$2,332,783 (31 December 2013: HK\$1,603,530, 31 December 2014: HK\$2,677,393, 31 December 2015: HK\$2,016,657) that will expire in 2021 (31 December 2013: 2018, 31 December 2014: 2019, 31 December 2015: 2020). Other tax losses may be carried forward indefinitely.

17. Inventories

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Merchandise	<u>2,302,830</u>	<u>1,025,220</u>	<u>952,017</u>	<u>388,122</u>

18. Trade receivables

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Trade receivables	<u>4,924,874</u>	<u>4,616,752</u>	<u>2,059,583</u>	<u>1,259,261</u>

The Target Group's trading terms with its customers are 30 days.

APPENDIX II ACCOUNTANT’S REPORT OF THE TARGET GROUP

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Less than 30 days	2,254,603	4,330,590	1,481,164	497,175
31 days to 90 days	615,004	255,573	331,585	643,430
91 days to 180 days	412,319	30,589	238,958	–
181 days to 365 days	1,595,614	–	–	110,953
Over 365 days	<u>47,334</u>	<u>–</u>	<u>7,876</u>	<u>7,703</u>
	<u>4,924,874</u>	<u>4,616,752</u>	<u>2,059,583</u>	<u>1,259,261</u>

An aging analysis of the trade receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired is as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Neither past due nor impaired	2,323,152	4,328,250	1,453,752	496,825
31 days to 90 days	723,025	257,914	358,388	643,430
91 days to 180 days	369,699	30,588	239,567	9,599
181 days to 365 days	1,461,664	–	–	101,704
Over 365 days	<u>47,334</u>	<u>–</u>	<u>7,876</u>	<u>7,703</u>
	<u>4,924,874</u>	<u>4,616,752</u>	<u>2,059,583</u>	<u>1,259,261</u>

Receivables that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Based on past experience, the directors of the Target Company are of the opinion that no provision for impairment 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 Target Group does not hold any collateral or other credit enhancements over these balances.

APPENDIX II ACCOUNTANT’S REPORT OF THE TARGET GROUP

19. Amount due from a director

Advances to directors disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance are as follows:

Name	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Chan Kai Leung	<u>8,726,615</u>	<u>9,144,455</u>	<u>10,749,842</u>	<u>–</u>

Maximum amount outstanding due from directors disclosed pursuant to section 383(1)(d) of Hong Kong Companies Ordinance are as follows:

Name	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Chan Kai Leung	<u>11,207,917</u>	<u>9,296,013</u>	<u>11,500,752</u>	<u>10,749,842</u>

20. Investment in subsidiaries

The following table shows information of subsidiaries that have non-controlling interests (“NCI”) material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	Macro Systems Limited
Principal place of business and country of incorporation	Hong Kong
% of ownership interests	10%

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

	2013	2014	2015
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(audited)	(audited)	(audited)
At 31 December:			
Non-current assets	3,400,727	2,789,763	4,027,987
Current assets	18,557,081	16,517,120	14,172,180
Non-current liabilities	<u>(25,500,932)</u>	<u>(23,494,471)</u>	<u>(26,988,895)</u>
Net liabilities	<u>(3,543,124)</u>	<u>(4,187,588)</u>	<u>(8,788,728)</u>
Accumulated NCI	(354,313)	(418,759)	(878,873)
Year ended 31 December:			
Revenue	58,142,388	55,938,506	34,859,574
Loss	(4,033,997)	(644,464)	(4,601,140)
Loss allocated to NCI	(403,400)	(64,446)	(460,114)
Net cash generated from operating activities	1,349,525	(727,384)	698,473
Net cash used in investing activities	(1,812,027)	(395,928)	(2,029,339)
Net cash generated from financing activities	<u>(1,663,179)</u>	<u>(826,661)</u>	<u>102,988</u>
Net increase in cash and cash equivalents	<u>(2,125,681)</u>	<u>(1,949,973)</u>	<u>(1,227,878)</u>

21. Due from/(to) subsidiaries

The advances are unsecured, interest free and repayable on demand.

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22. Trade and bills payables

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Trade payables	5,954,030	3,721,325	5,846,934	2,945,624
Bills payables	<u>10,692,360</u>	<u>10,144,672</u>	<u>10,432,041</u>	<u>–</u>
	<u><u>16,646,390</u></u>	<u><u>13,865,997</u></u>	<u><u>16,278,975</u></u>	<u><u>2,945,624</u></u>

An aging analysis of trade payables, based on the invoice date, are as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Less than 30 days	3,846,506	1,940,673	1,376,461	193,147
31 days to 90 days	1,819,363	1,484,859	2,080,766	1,528,389
91 days to 365 days	288,161	69,633	2,159,683	1,012,817
Over 365 days	<u>–</u>	<u>226,160</u>	<u>230,024</u>	<u>211,271</u>
	<u><u>5,954,030</u></u>	<u><u>3,721,325</u></u>	<u><u>5,846,934</u></u>	<u><u>2,945,624</u></u>

23. Accruals and other payables

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Accruals and other payables	713,131	1,836,924	1,581,112	2,658,953
Advances from customers	<u>894,334</u>	<u>656,380</u>	<u>1,615,775</u>	<u>1,493,145</u>
	<u><u>1,607,465</u></u>	<u><u>2,493,304</u></u>	<u><u>3,196,887</u></u>	<u><u>4,152,098</u></u>

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

24. Amounts due to contract customers

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Gross amounts due from contract customers	-	-	-	-
Gross amount due to contract customers	<u>110,500</u>	<u>1,144,841</u>	<u>715,269</u>	<u>893,799</u>
	<u>110,500</u>	<u>1,144,841</u>	<u>715,269</u>	<u>893,799</u>
Contract costs incurred plus recognised profits less recognised losses to date	293,000	2,825,840	2,050,849	2,671,894
Less: Progress billing	<u>(182,500)</u>	<u>(1,680,999)</u>	<u>(1,335,580)</u>	<u>(1,778,095)</u>
	<u>110,500</u>	<u>1,144,841</u>	<u>715,269</u>	<u>893,799</u>

25. Borrowings and bank overdrafts

	Note	At 31 December			At 30 June
		2013	2014	2015	2016
		HK\$	HK\$	HK\$	HK\$
Bank overdrafts	(i)	612,996	1,274,353	1,976,815	1,649,436
Mortgage loan	(ii)	735,716	412,191	80,631	-
Instalment loans	(iii)	2,563,218	935,632	1,370,180	1,012,854
Revolving loans	(iv)	5,000,000	5,000,000	5,000,000	5,000,000
Other borrowing	(v)	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
		<u>8,911,930</u>	<u>7,622,176</u>	<u>8,427,626</u>	<u>9,662,290</u>

The borrowings and bank overdrafts are repayable as follows:

On demand or within one year	<u>8,911,930</u>	<u>7,622,176</u>	<u>8,427,626</u>	<u>9,662,290</u>
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APPENDIX II ACCOUNTANT’S REPORT OF THE TARGET GROUP

Notes:

- (i) The bank overdrafts is charged at a rate of 0.75% per annum over Hong Kong prime rate during the Relevant Period, secured by a property owned by a director and a former director of the Target Company, guaranteed by a director and a former director of the Target Company and repayable on demand.
- (ii) The mortgage loan is charged at a rate of 1.75% per annum below Hong Kong prime rate during the Relevant Period, secured by a property owned by a director and a former director of the Target Company, guaranteed by a director and a former director of the Target Company and repayable on demand.
- (iii) The instalment loans are charged at the following interest rate per annum over Hong Kong prime rate, guaranteed by a director and a former director of the Target Company and Hong Kong Government under Small and Medium Enterprises Loan Guarantee Scheme and repayable on demand.

	At 31 December			At 30 June
	2013	2014	2015	2016
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Over Hong Kong prime rate per annum	0.25%	0.25%	0.25% – 4.8%	0.25% – 4.8%

- (iv) The revolving loan is charged at Hong Kong prime rate per annum, guaranteed by a director and a former director of the Target Company and Hong Kong Mortgage Corporation Limited and repayable on demand.
- (v) Other borrowing from an independent third party is secured by the entire equity shares of the Target Company, is guaranteed by a director of the Target Company, bearing an interest rate of 9% per annum and repayable in July 2016.

26. Amount due to ultimate holding company and amount due to a director

The advances are unsecured, non-interest bearing and repayable on demand.

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

27. Share capital

	At 31 December		At 30 June	
	2013 HK\$	2014 HK\$	2015 HK\$	2016 HK\$
<i>Authorised:</i>				
50,000 Ordinary shares of US\$1 each	<u>389,000</u>	<u>389,000</u>	<u>389,000</u>	<u>389,000</u>
<i>Issued and fully paid:</i>				
100 Ordinary shares of US\$1 each	<u>778</u>	<u>778</u>	<u>778</u>	<u>778</u>

The Target Company's objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

28. Reserves

The amounts of the Target Company's reserves and movements therein for the Relevant Periods are as follows:

	Accumulated losses HK\$	Total equity HK\$
At 1 January 2013	–	–
Loss and total comprehensive loss for the year	<u>–</u>	<u>–</u>
At 31 December 2013 and 1 January 2014	–	–
Loss and total comprehensive loss for the year	<u>–</u>	<u>–</u>
At 31 December 2014 and 1 January 2015	–	–
Loss and total comprehensive loss for the year	<u>–</u>	<u>–</u>
At 31 December 2015 and 1 January 2016	–	–
Loss and total comprehensive income for the period	<u>–</u>	<u>–</u>
At 30 June 2016	<u>–</u>	<u>–</u>

29. Operating lease commitments

(a) As lessee

At the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases of the Target Group are falling due as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
	HK\$	HK\$	HK\$	HK\$
Within one year	2,408,255	1,569,921	1,105,197	996,831
In the second to fifth years inclusive	<u>1,346,584</u>	<u>204,726</u>	<u>1,213,472</u>	<u>758,420</u>
	<u><u>3,754,839</u></u>	<u><u>1,774,647</u></u>	<u><u>2,318,669</u></u>	<u><u>1,755,251</u></u>

30. Contingent liabilities

The Target Group had no material contingent liabilities as the end of each reporting period.

31. Related party transactions

In addition to those related party transactions and balances disclosed elsewhere in the Financial Information, the Target Group had no other transactions with its related parties during the Relevant Periods.

32. Notes to the consolidated statement of cash flows

Acquisition of interests from non-controlling interests

During the period ended 30 June 2016, MSGL, a directly wholly-owned subsidiary of the Target Company, acquired 10% interests in MS Hong Kong at a consideration of HK\$1 from a director of the Target Company. MS Hong Kong had net liabilities of HK\$10,414,770 as at the acquisition date.

APPENDIX II ACCOUNTANT'S REPORT OF THE TARGET GROUP

The effect of change in the ownership interests of MS Hong Kong on the equity attributable to owners of the Target Company during the six months ended 30 June 2016 were summarised as follows:

	2016 <i>HK\$</i>
Carrying amount of non-controlling interest acquired	(1,041,477)
Consideration paid	<u>(1)</u>
Movement in parent equity	<u><u>(1,041,478)</u></u>

33. Subsequent financial statements

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 June 2016.

Yours faithfully,

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Ng Ka Lok

Practising Certificate Number P06084

Hong Kong

A. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group extracted from (i) the annual reports of the Company for each of the three years ended 31 December 2013, 2014 and 2015; and (ii) the interim report of the Company for the six months ended 30 June 2016. Terms used below shall have the same meanings as defined in the aforesaid reports.

For the year ended 31 December 2013***Business Review***

In January 2013, the Company disposed its equity interests in Astoria Innovations Limited (“Astoria”) and hence Beijing Enterprises Sanxing Information Technology Co., Limited (“Sanxing”) at a consideration of RMB50 million (equivalent to HK\$62.24 million) and recognised a gain on disposal of approximately HK\$10.91 million from the transaction. More details on background of the disposal had been disclosed in the relevant circular of the Company dated 21 December 2012.

In May 2013, the Company repaid all the outstanding long term loans amounted to HK\$31,968,000 to reduce interest expense for the future.

In June 2013, the Company acquired certain bonds with a total nominal value of USD2,800,000 at a total consideration of USD2,825,390 (equivalent to approximately HKD21,784,000 and HK\$21,981,000 respectively). Their respective maturities range from 2015 to 2023. The coupon rates are from 3.625% to 9.75% per annum and bond interests are paid semi-annually. More details on the bonds acquired had been disclosed in the relevant announcement of the Company dated 4 June 2013.

In September 2013, the Company, Bloom Faith Holdings Limited and Shenzhen Qian Ti Investment Limited have entered into an agreement, pursuant to which the Company had conditionally agreed to purchase 21.45% of the partnership interest in the Shanghai Rui Hung Jiu Fong Investment Partnership Enterprise (“Jiu Fong”), for the consideration of RMB25,000,000 (equivalent to approximately HK\$31,518,000). More details on the acquisition had been disclosed in the relevant announcement of the Company dated 6 September 2013.

In December 2013, China Luck International Limited, an associated company of the Group, acquired a 7.254% equity interest in Sterile Doctor LLC (“SD”) a company incorporated in Denton, Texas, the United State of America at a consideration of USD2 million. SD focuses on the development and sales of environmental friendly sterilization technology products.

In March 2014, the Company issued 1,796,981,000 offer shares of HK\$0.11 each by way of an open offer on the basis of two offer shares for every one share held on the record date and raised a gross proceeds of approximately HK\$197.7 million. More details on the open offer had been disclosed in the relevant circular of the Company dated 10 January 2014 and the prospectus of the Company dated 12 February 2014.

Other than the above, during the year ended 31 December 2013, revenue from provision of information technology related services to authorities of the Beijing Municipal Government remained as staple income of the Group.

Outlook and Prospect

Total revenue of the Company and its subsidiaries (collectively the “Group”) shrunk in 2013 subsequent to the disposal of Astoria and hence Sanxing. Nonetheless, the Group will continue to focus on the development of information technology related services in the PRC via the remaining operations of the Group, namely, Beijing Enterprises VST Software Technology Co. Ltd. (“VST”) and Shanghai Pantosoft Company Ltd. (“Pantosoft”) and to launch into new businesses with promising prospects.

VST is principally engaged in the provision of system integration and related services including system set up, system upgrading, and long-term maintenance to the systems in social insurance and land resources of the relevant authorities of the Beijing Municipal Government. VST secured lesser than expected revenue from Beijing state owned land resources as a result of change in IT service tender methods by the latter. The revenue from its key income drivers, namely, provision of integrated information services to Beijing social insurances, is expected to maintain stable in 2014.

Pantosoft is principally engaged in the development of educational software as well as digital education campus in the PRC. In 2013, Pantosoft launched a new product, e-campus (數字化校園) and is gradually gaining acceptance by the market. The Group is committed to expand the sales network of Pantosoft to enable it to further promote its e-campus product to new schools and generate additional income.

Mainland China’s economic growth is expected to slowdown in 2014 as compared to 2013. The Group faces more intensified competition in areas of e-government and e-educational administration businesses. The Group will strive to maintain stability of operation in 2014.

Among other plans, which have been more fully discussed in the Company's circular dated 10 January 2014, the Company intends to apply approximately HK\$181 million on investments in certain IT projects in 2014, namely:-

- (1) City emergency management ("CEM") system in the areas of automated air and water pollution level monitoring;
- (2) Automated control and monitoring system for new steel refining technology;
- (3) Medical related information technology system ("MRS"); and
- (4) Other medium to small size projects of electronic business platforms.

The Group looks forward to increasing its operation scale with the above listed potential investments and to benefiting therefrom.

Financial Review

Revenue

The Group's revenue from continuing operations for 2013 amounted to HK\$59,923,000, increased by 6.2% from HK\$56,414,000 in 2012. The increase in revenue as compared to the same period of the year 2012 was mainly due to the increase in sales revenue of e-campus application by Pantosoft amounted to approximately HK\$4.1 million.

Cost of sales and services

The Group had a total cost of sales and services from continuing operations of HK\$33,132,000 for 2013, which increased by 23.5% compared with HK\$26,831,000 in 2012. The increase was a result of the general increase in cost and especially staff costs.

Gross profit

The gross profit of the Group from continuing operations in 2013 amounted to HK\$26,791,000 which decreased by HK\$2,792,000 compared with HK\$29,583,000 in 2012. The gross profit margin was 44.7% compared with 52.4% in 2012. The decrease of gross profit margin was mainly attributable to increase in staff costs.

Other income and gains, net

During the financial year ended 31 December 2013, the Group generated other income and gains from continuing operations of HK\$3,425,000 (2012: HK\$1,530,000) which comprised: (i) bank interest income amounted to HK\$1,420,000 (2012: HK\$1,263,000); (ii) investment income from held-to-maturity investments and financial assets at fair value

through profit or loss investments amounted to HK\$803,000 (2012: nil); (iii) gain on deemed disposal of a subsidiary amounted to HK\$45,000 (2012: nil); (iv) tax refund amounted to HK\$759,000 (2012: HK\$nil) and (v) other miscellaneous items in an aggregate amount of HK\$398,000 (2012: HK\$267,000).

Selling and distribution expenses

The Group's selling and distribution expenses from continuing operations in 2013 amounted to HK\$7,950,000, which slightly increased by 0.7% compared with HK\$7,894,000 in 2012.

Administrative expenses

Administrative expenses of the Group from continuing operations in 2013 were HK\$26,610,000, decreased by 2.5% comparing to HK\$27,279,000 in 2012. The Company no longer incurred professional expenses for resumption of share trading in 2013, which explained the decrease.

Other expenses

Other expenses of the Group from continuing operations were HK\$9,928,000 for 2013 compared to HK\$1,502,000 for the previous year which comprised; (i) impairment provision on certain other receivables amounted to HK\$9,563,000 (2012: HK\$nil); (ii) impairment provision on trade receivables amounted to HK\$315,000 (2012: HK\$850,000) and (iii) other miscellaneous expenses in an aggregate amount of HK\$50,000 (2012: HK\$602,000).

Finance costs

Finance costs of the Group from continuing operations for 2013 were HK\$800,000, a decrease of HK\$330,000 comparing to HK\$1,130,000 in 2012. The finance costs of HK\$730,000 for 2013 were attributed to interest bearing term loans during the year while finance costs for the corresponding period in 2012 were all attributed to the imputed interest on the interest-free promissory notes. The finance costs of HK\$70,000 for 2013 were related to certain loans from senior management personnel of a subsidiary which charged an interest rate of 10% per annum.

Income tax expenses

The Group's tax expenses in 2013 amounted to HK\$118,000, as compared with tax expenses of HK\$1,160,000 for 2012.

Loss attributable to owners

The Group's loss attributable to owners of the Company from continuing operations was HK\$18,843,000 in 2013 (2012: HK\$7,897,000). The increase in loss was mainly due to (i) impairment provision on certain other receivables amounted to approximately HK\$9,563,000 (2012: HK\$Nil), and (ii) impairment of goodwill amounted to HK\$3,000,000.

The Board did not recommend the payment of final dividend for 2013.

Financial Position***Liquidity and Financial Resources***

- (i) As at 31 December 2013, cash and bank balances held by the Group decreased from HK\$156,335,000 as of 31 December 2012 to HK\$73,961,000. As at 31 December 2013, the Group's total borrowings amounted to HK\$1,269,000 (2012: HK\$31,968,000). The gearing ratio (calculated as total borrowings over total equity) of the Group was 0.01 (2012: 0.21).
- (ii) For the year ended 31 December 2013, the Group had capital expenditure of approximately HK\$204,000 (2012: HK\$2,331,000).

Capital Structure

There has been no material change in the capital structure of the Group for the year ended 31 December 2013.

Exposure to exchange rate fluctuation and hedging activities

As the Group carried out its operations in China, and substantially all of its related business transactions, assets and liabilities are denominated in Renminbi, the foreign exchange risk of the Group was considered minimal and no hedging activities had been conducted.

Employee and remuneration policies

The total number of full-time employees hired by the Group maintained at 240 as of 31 December 2013. (2012: 482 employees, out of which 229 was related to Astoria and Sanxing). Total expenses on employee benefits amounted to HK\$35,113,000 for the year ended 31 December 2013 (2012: HK\$45,436,000). The decrease in both headcounts and staff costs were mainly attributed to the Group ceased to consolidate the Sanxing operation since February 2013. The management believes the remuneration packages offered by the Group to its employees are competitive.

Purchase, sale or redemption of the Company's listed securities

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

For the year ended 31 December 2014***Business Review***

In January 2014, pursuant to an ordinary resolution passed at the related extraordinary general meeting, the authorised share capital of the Company was increased from HK\$100 million to HK\$400 million by creation of an additional 3,000 million new shares of HK\$0.10 each.

In March 2014, the Company issued 1,796,981,272 offer shares of HK\$0.11 each by way of an open offer on the basis of two offer shares for every one share held on the record date and raised net proceeds of approximately HK\$195 million. The open offer was completed on 6 March 2014. More details on the open offer had been disclosed in the relevant circular of the Company dated 10 January 2014 and the prospectus of the Company dated 13 February 2014.

In April 2014, the Company completed the acquisition of 21.45% partnership interest in Jiu Fong. More details on the transaction had been disclosed in the relevant announcements of the Company dated 6 September 2013, 30 December 2013, 28 March 2014 and 16 April 2014 respectively.

In May 2014, the Company and Favour Time Investments Limited entered into an agreement pursuant to which the Company acquired 60% of the equity interest in China Luck International Limited ("China Luck") and took over US\$1.2 million (equivalent to approximately HK\$9,336,000) loan to China Luck from the vendor, for the consideration of approximately US\$1.25 million (equivalent to approximately HK\$9,711,000). Immediately after completion of the transaction, the Company owns 100% of the equity interest in China Luck. China Luck holds 7.254% equity interest in SD, which has an exclusive right to manufacture and sell Sterile Doctor™ sterilization products. More details on the transaction had been disclosed in the relevant announcements of the Company dated 28 May 2014 and 29 May 2014.

In June 2014, the Company, Bloom Faith Holdings Limited and Shenzhen Qian Ti Investment Limited entered into an agreement, pursuant to which the Company had conditionally agreed to purchase a further 24% of the partnership interest in Jiu Fong, for the consideration of RMB28 million (equivalent to approximately HK\$34,796,000). The transaction was approved by the shareholders at the related extraordinary meeting dated 19 September 2014. The Company is waiting for all the specified conditions precedent to be

fulfilled to complete the transaction. More details on the proposed acquisition had been disclosed in the relevant announcement of the Company dated 6 June 2014 and the circular dated 29 August 2014.

In June 2014, the Company acquired certain bonds with a total nominal value of USD4,000,000 at a total consideration of USD4,116,000 (equivalent to approximately HKD31,040,000 and HK\$31,940,160 respectively). All those bonds will mature in 2019. The coupon rates range from 3.125% to 5.25% per annum and bond interests are paid semi-annually. More details on the bonds acquired had been disclosed in the relevant announcement of the Company dated 16 June 2014.

In July 2014, the Company entered into an agreement with Beijing Group Information Limited pursuant to which the Company had conditionally agreed to dispose its holding of the entire equity interest in Wisdom Elite Holdings Limited (“Wisdom Elite”) at a consideration of RMB72 million (equivalent to approximately HK\$89.37 million). The disposal was completed on 29 September 2014. More details on the disposal had been disclosed in the relevant announcements of the Company dated 10 July 2014 and 30 September 2014, and the circular dated 28 August 2014.

In February 2015, the Company disposed of all its bonds investment in the principal amount of USD6,400,000 (equivalent to approximately HK\$49,623,000) through the open market at a total consideration of approximately USD6,499,000 (equivalent to approximately HK\$50,391,000). The bonds disposal provided the Group with a good opportunity to realise the bonds investment with a positive investment return and to minimize its exposure to the impacts of financial market turbulence. More details on bonds disposal are disclosed in the relevant announcement of the Company dated 4 February 2015.

Other than the above, during the year ended 31 December 2014, revenue from provision of information technology related services in the PRC remained as stable income of the Group.

Outlook and Prospect

Subsequent to the disposal of Wisdom Elite, the Group will focus more on development of the Pantosoft’s operation, and to broaden the scope of investment in the IT field as planned.

As discussed in the prospectus for the open offer dated 13 February 2014, among other matters, the Company intended to apply approximately HK\$181 million on investments in certain IT projects in 2014, namely:-

- (1) City emergency management (“CEM”) system in the areas of automated air and water pollution level monitoring;

- (2) Automated control and monitoring system for new steel refining technology (“ACM”);
- (3) Medical related information technology system (“MRS”); and
- (4) Other medium to small size projects of electronic business platforms.

The CEM project did not proceed. The Company is monitoring the progress of ACM and MRS projects and will move forward with the investments when those projects are proven to be commercially viable. The two projects together calls for investment of approximately HK\$69 million. The Company will apply the remaining funds in the area of electronic business platform investments and the Group’s general working capital.

The Group received net proceeds of approximately HK\$85 million from the disposal of Wisdom Elite. The Company will apply those funds to acquire projects with good potential in e-education administration, other IT areas and other new technology applications, and to provide general working capital to the Group.

Financial Review

Revenue

The Group’s revenue from continuing operations for 2014 amounted to approximately HK\$23,097,000, increased by 26% from approximately HK\$18,333,000 in 2013. The increase in revenue as compared to the same period of the year 2013 was mainly due to the increase in sales revenue of e-campus application by Pantosoft amounted to approximately HK\$4.8 million.

Cost of sales and service

The Group had a total cost of sales and services from continuing operations of approximately HK\$15,882,000 for 2014, which increased by 75.6% compared with approximately HK\$9,044,000 in 2013. The increase was a result of the general increase in cost and especially staff costs.

Gross profit

The gross profit of the Group from continuing operations in 2014 amounted to approximately HK\$7,215,000 which decreased by approximately HK\$2,074,000 compared with approximately HK\$9,289,000 in 2013. The gross profit margin was 31.2% compared with 50.7% in 2013. The decrease of gross profit margin was mainly attributable to the increase in staff costs.

Other income and gains

During the financial year ended 31 December 2014, the Group generated other income and gains from continuing operations of approximately HK\$5,922,000 (2013: approximately HK\$1,270,000) which comprised: (i) bank interest income amounted to approximately HK\$20,000 (2013: approximately HK\$24,000); (ii) investment income from held-to-maturity investments and financial assets at fair value through profit or loss investments amounted to approximately HK\$1,802,000 (2013: approximately HK\$803,000); (iii) reversal of impairment loss on other receivables amount to approximately 2,967,000 (2013:Nil); (iv) government grants amount to approximately HK\$356,000 (2013:Nil); (v) waived other payable amount to approximately HK\$315,000 (2013: Nil) and (vi) other miscellaneous items in an aggregate amount of approximately HK\$462,000 (2013: approximately HK\$443,000).

Selling and distribution expenses

The Group's selling and distribution expenses from continuing operations in 2014 amounted to approximately HK\$5,267,000, which increased by 20% compared with approximately HK\$4,388,000 in 2013. The increase was mainly due to increased staff cost and increased in expenses spent to explore new markets.

Administrative expenses

Administrative expenses of the Group from continuing operations in 2014 were approximately HK\$18,292,000, increased by 21.4% comparing to approximately HK\$15,062,000 in 2013. The increase was mainly attributable to increase in staff cost and other expenses of Pantosoft as the Group had been scaling up the Pantosoft operation.

Other expenses

Other expenses of the Group from continuing operations were approximately HK\$1,140,000 for 2014 compared to approximately HK\$9,891,000 for the previous year which comprised; (i) impairment provision on certain other receivables amounted to approximately HK\$33,000 (2013: approximately HK\$9,563,000); (ii) impairment provision on trade receivables amounted to approximately HK\$795,000 (2013: approximately HK\$315,000) and (iii) other miscellaneous expenses in an aggregate amount of approximately HK\$312,000 (2013: approximately HK\$13,000).

Finance costs

Finance costs of the Group from continuing operations for 2014 were approximately HK\$374,000, a decrease of approximately HK\$426,000 comparing to approximately HK\$800,000 in 2013. All the finance costs were attributed to loan interest incurred by China Luck in 2014. The loan was fully repaid in June 2014. All the finance costs were attributed to the long term loan interest for 2013. The long term loan was fully repaid in May 2013.

Loss attributable to owners

The Group's loss attributable to owners of the Company from continuing operations was approximately HK\$11,927,000 for 2014 (2013: approximately 20,235,000). The Group's loss attributable to owners of the Company for 2013 was significantly higher than that for 2014 as there was an impairment provision of approximately HK\$9,563,000 made on other receivables in 2013.

The Board did not recommend the payment of final dividend for 2014.

Financial Position***Liquidity and Financial Resources***

- (i) As at 31 December 2014, cash and bank balances held by the Group increased from approximately HK\$73,961,000 as of 31 December 2013 to approximately HK\$207,622,000.
- (ii) As at 31 December 2014, the Group's total borrowings and finance lease amounted approximately HK\$720,000 (2013: HK\$1,269,000). The gearing ratio (calculated as total borrowings and finance lease over total equity) of the Group was 0.02 (2013: 0.01).
- (iii) For the year ended 31 December 2014, the Group had capital expenditure of approximately HK\$836,000 (2013: HK\$204,000).

Capital structure

In January 2014, the authorised share capital of the Company was increased from HK\$100 million to HK\$400 million by creation of an additional 3,000 million new shares of HK\$0.10 each.

In March 2014, the Company issued 1,796,981,272 offer shares of HK\$0.11 each by way of an open offer on the basis of two offer shares for every one share held on the record date and raised net proceeds of approximately HK\$195 million.

Exposures to exchange rate fluctuation and hedging activities

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group did not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities.

Employees and remuneration policies

The total number of full-time employees hired by the Group maintained at 136 as of 31 December 2014. (2013: 240 employees, out of which 129 was related to Wisdom Elite and its subsidiary). Total expenses on employee benefits amounted to approximately HK\$18,737,000 for the year ended 31 December 2014 (2013: HK\$38,721,000, out of which HK\$22,458,000 was related to Wisdom Elite and its subsidiary). The decrease in both headcounts and staff costs were mainly attributed to the Group ceased to consolidate the Wisdom Elite and hence VST since the end of September 2014. The management believes the remuneration packages offered by the Group to its employees are competitive.

For the year ended 31 December 2015

Business Review

In February 2015, the Company disposed of all its bonds investment in the principal amount of USD6.4 million (equivalent to approximately HK\$49,623,000) through the open market at a total consideration of approximately USD6,499,000 (equivalent to approximately HK\$50,391,000). The bonds disposal provided the Group with a good opportunity to realise the bonds investment with a positive investment return and to minimize its exposure to the impacts of financial market turbulence. More details on bonds disposal had been disclosed in the relevant announcement of the Company dated 4 February 2015. The realised proceeds remain as working capital for the Company.

In April 2015, the Company and Mr. Cheng Shing Tak entered into an agreement, pursuant to which the Company had acquired 40% interest in Faithful Asia Group Limited (“Faithful Asia”) at the consideration of HK\$80 million. Faithful Asia, together with its subsidiaries, primarily focuses on business intelligence, big data, facilities management, financial technology solutions consulting and implementation. It is also engaged in IT outsourcing and secondment assignments on business intelligence, IT cloud infrastructure,

networking, application programming, mobile solution and technical support services. More details on the acquisition of Faithful Asia had been disclosed in the relevant announcement of the Company dated 20 April 2015.

In May 2015, the Company and IWT Group Limited entered into an agreement, pursuant to which the Company had acquired 25% interest in Wise Visual Holdings Limited (“Wise Visual”) at the consideration of HK\$80 million. Wise Visual, together with its subsidiaries, primarily focuses on solutions in big data and analytics for business intelligence and carrying on the principal business of developing and providing intelligent video recording surveillance system for security, safety alarm such as fire detection, business intelligence and process improvement. More details on the acquisition had been disclosed in the relevant announcement of the Company dated 7 May 2015.

In June 2015, the Company placed 539,088,000 new shares at HK\$0.188 per share to certain independent places under general mandate and fetched a net proceed of approximately HK\$98 million. Approximately HK\$36 million of the net proceeds has been used for deposits for the acquisition of the entire interest of Joyunited Investments Limited (“Acquisition”) and the remaining HK\$62 million for general working capital of the Group and reserved to pay the remaining balance of the consideration for Acquisition.

In July 2015, the Company had decided not to proceed on the acquisition of further 24% of the partnership interest of Jiu Fong. Details of which is set in the announcement dated 2 July 2015.

In October 2015, the Company placed 646,800,000 new shares at HK\$0.10 per share to certain independent places under general mandate and fetched a net proceed of approximately HK\$62.8 million.

In November 2015, the Company, Mr. Wong Kui Shing, Danny, the Chairman and Chief Executive Officer of the Company and Nihon Unisys, Ltd.(“Nihon Unisys”), an independent third party, entered into an agreement, pursuant to which the parties agreed to jointly establish China Information Technology Development Japan Limited (“CITD Japan”) in Japan with intention to promote and sell the Japanese products in the PRC, Hong Kong and countries which are members of the Association of Southeast Asia Nations Countries. More details on the formation of the joint venture had been disclosed in the relevant announcement of the Company dated 13 November 2015.

In November 2015, Giant Prestige Investments Limited (“Giant Prestige”), a wholly owned subsidiary of the Company, entered into an agreement with three independent third parties (the “Vendors”) pursuant to which Giant Prestige conditionally agreed to purchase and the Vendors conditionally agreed to sell 100% of the issued share capital of the Joyunited Investments Limited (“Joyunited”) and all obligations, liabilities and debts owing or incurred by the Joyunited to the Vendors on or at any time prior to the completion at the

aggregate consideration of RMB178 million (equivalent to HK\$215,380,000). The transactions were duly passed as ordinary resolutions of the Company at the extraordinary general meeting held on 10 March 2016. More details on Acquisition had been disclosed in the relevant announcement dated 25 November 2015 and the circular dated 23 February 2016.

In December 2015, the Company and Kingston Securities Limited (“Kingston”) entered into the placing agreement, pursuant to which, subject to the approval of the shareholders of the Company at the extraordinary general meeting on 7 April 2016, the Company will place up to 1,830,792,000 new shares of the Company to not less than six independent places at a price of HK\$0.13 each on a best effort basis and raise a maximum net proceeds of approximately HK\$230 million. It was expected that the net proceed will be: HK\$73 million for the refurbishment of and operation of the business in the PRC properties as acquired in the Acquisition (“PRC Properties”), the Company would have approximately HK\$69 million for the general working capital and approximately HK\$88 million for the projects that are currently in progress. More details on the placement had been disclosed in the relevant announcement of the Company dated 8 December 2015 and the circular dated 18 March 2016.

Other than the above, during the year ended 31 December 2015, revenue from provision of information technology related services in the PRC remained as staple income of the Group.

Outlook and Prospect

Subsequent to the disposal of Wisdom Elite Holdings Limited (“Wisdom Elite”) in 2014, the Group will focus more on development of the Shanghai Pantosoft Company Limited (“Pantosoft”) operation, and to broaden the scope of investment in the IT field as planned.

The Group received net proceeds of approximately HK\$85 million from the disposal of Wisdom Elite. It is the Company’s intention to apply those funds to acquire projects with good potential in e-education administration, other IT areas and other new technology applications, and to provide general working capital to the Group. In April 2015, the Company had applied HK\$80 million to acquire 40% equity interest in Faithful Asia, which is a comprehensive IT service provider.

As discussed in the prospectus for the open offer dated 13 February 2014, among other matters, the Company intended to apply approximately HK\$181 million on investments in certain IT projects in 2014, namely:-

- (1) City emergency management (“CEM”) system in the areas of automated air and water pollution level monitoring;

- (2) Automated control and monitoring system for new steel refining technology (“ACM”);
- (3) Medical related information technology system (“MRS”); and
- (4) Other medium to small size projects of electronic business platforms.

The CEM project did not proceed. Alternatively, the Company had made a HK\$80 million investment on 7 May 2015 to acquire 25% equity interest in Wise Visual, a company that focus on solutions in big data and analytics for business intelligence and carrying on the principal business of developing and providing intelligent video recording surveillance system for security, safety alarm such as fire detection, business intelligence and process improvement.

The Company is monitoring the progress of ACM and MRS projects and will move forward with the investments when those projects are proven to be commercially viable. The two projects together calls for investment of approximately HK\$69 million. The Company will apply the remaining funds in the area of electronic business platform investments and the Group’s general working capital.

The Company had completed two placements of shares in June and October 2015 respectively and raised net proceeds of approximately HK\$160,800,000. The Company also looks forward to completing another announced placing of shares to raise net proceeds of approximately HK\$230 million. Acquisition of Joyunited calls for a total outlay of approximately HK\$215,380,000. The Company is also prepared to invest HK\$73 million to renovate and convert the PRC office properties acquired pursuant to the Joyunited transaction to turn those properties into the PRC headquarter of the Group and an advanced IT centre to facilitate future development of the Group’s businesses. The remaining HK\$102,420,000 will equip the Group with resources to invest in promising IT projects and to strengthen the working capital of the Group.

The Group looks forward to expand its operation scale with plans as discussed in the above and to derive profits there from in future.

Financial Review

Revenue

The Group’s revenue from continuing operations for 2015 amounted to approximately HK\$27,793,000, increased by 20.3% from approximately HK\$23,097,000 in 2014. The increase in revenue as compared to the same period of the year 2014 was mainly due to the increase in sales revenue of e-campus applications by Pantosoft amounted to approximately HK\$4.7 million.

Cost of sales and service

The Group had a total cost of sales and services from continuing operations of approximately HK\$15,186,000 for 2015, which decreased by 4.4% compared with approximately HK\$15,882,000 in 2014. The decrease was due to reduced research and development expenses charged to cost of sales as the e-campus applications became more matured.

Gross profit

The gross profit of the Group from continuing operations in 2015 amounted to approximately HK\$12,607,000 which increased by approximately HK\$5,392,000 compared with approximately HK\$7,215,000 in 2014. The gross profit margin was 45.4% compared with 31.2% in 2014. The increase of gross profit margin was mainly attributable to the e-campus software became more matured and lesser research and development charges were required.

Other income and gains

During the financial year ended 31 December 2015, the Group generated other income and gains from continuing operations of approximately HK\$3,814,000 (2014: approximately HK\$5,922,000) which comprised: (i) bank interest income amounted to approximately HK\$16,000 (2014: approximately HK\$20,000); (ii) loans interest income amounted to approximately HK\$828,000 (2014: nil); (iii) investment income from held-to-maturity investments and financial assets at fair value through profit or loss investments amounted to approximately HK\$249,000 (2014: approximately HK\$1,802,000); (iv) reversal of impairment loss on other receivables amounted to nil (2014: approximately 2,967,000); (v) reversal of impairment loss on trade receivables amounted to approximately HK\$400,000 (2014: nil); (vi) government grants amounted to approximately HK\$911,000 (2014: approximately HK\$356,000); (vii) waived other payable amounted to approximately HK\$305,000 (2014: approximately HK\$315,000) and (viii) other miscellaneous items in an aggregate amounted of approximately HK\$1,105,000 (2014: approximately HK\$462,000).

Selling and distribution expenses

The Group's selling and distribution expenses from continuing operations in 2015 amounted to approximately HK\$12,690,000, which increased by 140.9% compared with approximately HK\$5,267,000 in 2014. The increase was mainly due to increased staff cost and increase in expenses incurred to explore new markets.

Administrative expenses

Administrative expenses of the Group from continuing operations in 2015 were approximately HK\$22,614,000, increased by 23.6% comparing to approximately HK\$18,292,000 in 2014. The increase was mainly attributable to increase in staff cost and traveling expenses to explore new markets.

Other expenses

Other expenses of the Group from continuing operations were approximately HK\$3,608,000 for 2015 compared to approximately HK\$1,140,000 for the previous year, which comprised: (i) impairment of intangible assets amounted to approximately HK\$2,191,000 (2014: nil); (ii) impairment of investment in a joint venture amounted to approximately HK\$1,281,000 (2014: nil); (iii) impairment provision on certain other receivables amounted to approximately nil (2014: approximately HK\$33,000); (iv) impairment provision on trade receivables amounted to approximately nil (2014: approximately HK\$795,000) and (v) other miscellaneous expenses in an aggregate amount of approximately HK\$136,000 (2014: approximately HK\$312,000).

Loss on disposal of a subsidiary

During the year, the Group disposed of its equity interests in China Luck, which holds 7.254% investment in SD. The original acquisition cost was HK\$15,632,000 and the disposal price was HK\$12,480,000. SD has not been contributing as the management might have expected therefore management decided to realize the investment therein to apply funds on profitable alternatives in future.

Fair value loss on financial assets

As at 31 December 2015, the Group held an investment portfolio comprising of marketable securities that are listed on the Stock Exchange. The mark to market loss for the portfolio amounted to approximately HK\$23,973,000.

Finance costs

Finance costs of the Group from continuing operations for 2015 were approximately HK\$360,000, a decrease of approximately HK\$14,000 comparing to approximately HK\$374,000 in 2014. Finance costs were mainly attributed to finance lease interest expenses for a motor vehicle of Pantosoft of approximately HK\$45,000 and margin finance interest for purchase of securities of approximately HK\$280,000 in 2015. All the finance costs were attributed to loan interest incurred by China Luck in 2014. The loan was fully repaid in June 2014.

Impairment loss of an associate

As of the 2015 financial year end, the Group performed a year end goodwill impairment test on its investment in those associates. As a result of change in macro-economic climate, especially the more conservative outlook on the growth of the PRC market, and taking into consideration the updated projections on future performance of those associates, an impairment provision of approximately HK\$22,597,000 was made against the goodwill attributable to Wise Visual.

Share of results of a joint venture

Full provision was made against investment on 21.45% partnership interest in Jiu Fong.

Loss attributable to owners

The Group's loss attributable to owners of the Company from continuing operations was approximately HK\$105,462,000 for 2015 (2014: approximately HK\$11,927,000). The Group's loss attributable to owners of the Company for 2015 was significantly higher than that for 2014 as a result of (i) share of loss of a joint venture and impairment of investments in a joint venture of approximately HK\$30,696,000; (ii) share of results of associates and impairment loss of an associates of approximately HK\$25,764,000; (iii) fair value loss on financial assets at fair value through profit or loss of approximately HK\$23,973,000; (iv) loss on disposal of a subsidiary of approximately HK\$3,152,000; and (v) written off of other intangible assets of approximately HK\$2,192,000.

The Board did not recommend the payment of final dividend for 2015.

Financial Position***Liquidity and Financial Resources***

- (i) As at 31 December 2015, cash and bank balances held by the Group decreased from approximately HK\$207,622,000 as of 31 December 2014 to approximately HK\$119,229,000.
- (ii) As at 31 December 2015, the Group's total borrowings and finance lease amounted approximately HK\$937,000 (2014: HK\$720,000). The gearing ratio (calculated as total borrowings and finance lease over total equity) of the Group was 0.003 (2014: 0.002).
- (iii) For the year ended 31 December 2015, the Group had capital expenditure of approximately HK\$11,308,000 (2014: HK\$836,000) for addition of property, plant and equipment and approximately HK\$160 million (2014: HK\$ nil) for acquisition of associates.

Capital structure

In June 2015, the authorised share capital of the Company was increased from HK\$400 million to HK\$800 million by creation of an additional 4,000 million new shares of HK\$0.10 each.

In June 2015 and October 2015, 539,088,000 and 646,800,000 new ordinary shares were issued to certain independent places under general mandate pursuant to the terms and conditions of the placing agreements dated 13 May 2015 and 23 September 2015 respectively and raised net proceeds of approximately HK\$161,558,000.

Exposures to exchange rate fluctuation and hedging activities

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities.

Employees and remuneration policies

The total number of full-time employees hired by the Group maintained at 138 as of 31 December 2015. (2014: 136 employees). Total expenses on employee benefits amounted to approximately HK\$29,106,000 for the year ended 31 December 2015 (2014: HK\$18,737,000). The increase in staff cost was due to more staff have been employed to expand the operation of Pantosoft during the year and more senior management have been employed to explore new markets. The management believes the remuneration packages offered by the Group to its employees are competitive.

For the period ended 30 June 2016***Business Review***

There were two matters initiated in late 2015 that are now completed.

In November 2015, Giant Prestige Investments Limited (“Giant Prestige”), a wholly owned subsidiary of the Company, entered into an agreement with the “Vendors pursuant to which Giant Prestige conditionally agreed to purchase and the Vendors conditionally agreed to sell 100% of the issued share capital of the Joyunited and all obligations, liabilities and debts owing or incurred by the Joyunited to the Vendors on or at any time prior to the completion at the aggregate consideration of RMB178 million (equivalent to approximate HK\$215 million) (the “Acquisition”). The transactions were duly passed as ordinary resolutions of the Company at the extraordinary general meeting held on 10 March 2016. More details on the Acquisition had been disclosed in the relevant announcement dated 25

November 2015 and the circular dated 23 February 2016. The Acquisition had been completed on 7 April 2016. The Group started to consolidate the operations of Joyunited commencing from April 2016.

In December 2015, the Company and Kingston Securities Limited, as the placing agent, entered into the placing agreement, pursuant to which, subject to the approval of the shareholders of the Company at the extraordinary general meeting on 7 April 2016, the Company will place up to 1,830,792,000 new shares of the Company to not less than six independent places at a price of HK\$0.13 each on a best effort basis and raised a maximum net proceeds of approximately HK\$230 million (the “Placement”). It was expected that the net proceed of approximately HK\$232 million raised would be utilized as follows: HK\$73 million for the refurbishment of and operation of the business in the PRC properties, the Company would have approximately HK\$69 million for the general working capital and approximately HK\$88 million for the projects that are currently in progress. The transactions were duly passed as ordinary resolutions of the Company at the extraordinary general meeting held on 7 April 2016. More details on the Placement had been disclosed in the relevant announcement of the Company dated 8 December 2015 and the circular dated 18 March 2016. The Placement had been completed on 9 May 2016. As at 30 June 2016, the use of net proceeds from the Placement is as follows:- (1) approximately HK\$17 million for refurbishment and other expenses relating to the PRC Properties; (2) approximately HK\$10 million for loan to an independent third party to enhance yield of idle cash of the Group; (3) as a result of the loss in book value of the listed securities held by the Group, the Group has not realised such listed securities to settle part of the consideration for the PRC Properties. Instead, approximately HK\$54 million had been applied to settle the consideration for the PRC Properties; (4) approximately HK\$6 million for administrative expenses and other expenses incurred by the Group. The unutilised proceeds has been held in cash in bank.

In June 2016, the Company entered into an agreement with Mr. Yang Jie, pursuant to which the Company had conditionally agreed to dispose its 25% shares in Wise Visual at a consideration of HK\$80 million (the “Disposal”). More details on the Disposal had been disclosed in the relevant announcement of the Company dated 28 June 2016. The disposal was completed in the same month and the sale proceeds has yet to be received.

Apart from that, in June 2016, the Company’s subsidiary in Japan had entered into an agreement with Jiji Press, Ltd. (時事通信社) (“Jiji Press”) which is a prominent news agency in Japan, having 82 branch offices, general bureau in Japan and 28 general bureau globally (the “Agreement”). Pursuant to the Agreement, the Group shall procure advertising channels, through print and digital media in Hong Kong for Japanese products and Jiji Press will be the exclusive distributor for advertising channels so procured for the Japanese market in Japan. With the vast networks of Jiji Press in Japan, Jiji Press has valuable source of different famous and unique products around Japan. By cooperating with Jiji Press, the

Group can further extend and build up its business networks in Japan and also in Hong Kong especially in the media industry where the Group can apply its technology to explore for new business opportunities. As announced in November 2015, the Company had formed a joint venture in Japan to launch into the business of promotion and distribution of Japanese products in Great China Region and ASEAN Regions, this Agreement has further strengthened the Group's ability to promote the Japanese products in China and ASEAN Regions and indicated the determination of Company to continue on this business strategy to broaden its income source and enhance its financial performance. It further equips and gives synergy to the Group as to further its step to develop a comprehensive one-stop IT services platform that can be applied in the existing businesses of the Company. Details of the Agreement has been disclosed in the relevant announcement of the Company dated 20 June 2016.

Other than the above, during the period ended 30 June 2016, revenue from provision of information technology related services in the PRC remained as staple income of the Group.

Outlook and Prospect

Currently, the Pantosoft operation is the main revenue and income drivers of the Group. During the period under review, the Group has also the equity interest in two associates in the field of big data analysis and surveillance monitoring, of which one of them, Wise Visual, engaging in surveillance monitoring business, has been disposed in June 2016.

During the period ended 30 June 2016, the Company has further demonstrated its determination to broaden the business scope, diversify business of the Group and open up new income source. The business structure of the Company has been more complete and refined upon the corporate actions. The Company shall continue with the refurbishment of the PRC office properties and occupy the same as the Group's future headquarters in the PRC to tie up the existing and new businesses together and completes the whole strategic business development plan of the Group. In this nurturing ground where different businesses of the Group will be located, the resources and different knowledge gained from various businesses of the Group can be more efficiently utilised and shared. Together with the experience and knowledge of the Group in the IT field, the Group believes that the Acquisition can help further to equip the Group to further expand its existing and future businesses in the PRC and the ASEAN Countries.

With the aforesaid, the Company is fueled up and equipped so as to expand the Group's footprint in the PRC and ASEAN Regions with the new headquarter in Guangzhou and the joint venture arrangement and cooperation with Jiji Press described in the above, together with the existing business and other new IT related projects to come in future.

Employees

The total number of full-time employees hired by the Group maintained at 135 as of 30 June 2016. (2015: 150 employees). Total expenses on employee benefits amounted to HK\$32,449,000, HK\$19,625,000 related to equity-settled share based payment for the six months ended 30 June 2016 (2015: HK\$13,817,000). The management believes the salaries offered by the Group to its employees are competitive.

Financial Review

For the six months ended 30 June 2016, the Group recorded a revenue of HK\$7,040,000, a decrease of 40.9% from HK\$11,907,000 in the corresponding period in last year. The revenue of Pantosoft shrank for the first half year of 2016 as compared to 2015. Pantosoft had a soft first quarter for 2016. Though the revenue for the second quarter of 2016 was comparable to 2015, the total revenue for first half of 2016 still significantly fell short of that for 2015.

The Group had a total cost of sales and services of HK\$7,568,000 for the first half of year 2016, a decrease of 3.3% compared with HK\$7,828,000 in the same period of year 2015. There was a fixed cost element of approximately HK\$2,500,000 for R&D costs charged as cost of sales and services for a quarter. Other than that, the decrease in cost of sales and services was a direct result of the decrease in revenue.

The gross loss of the Group for the first half of year 2016 was HK\$528,000, representing a decrease of HK\$4,607,000 compared with a gross profit of HK\$4,079,000 for the corresponding period of last year. Overall, Pantosoft had insufficient gross profit from revenue to cover the fixed cost element mentioned above so it generated a gross loss as compared to a profit.

During the six months ended 30 June 2016, the Group generated other income and gains of HK\$1,885,000 (2015: HK\$17,062,000) which comprised: (i) bank interest income amounted to HK\$3,000 (2015: HK\$15,000); (ii) loans interest income amounted to HK\$974,000 (2015: nil); (iii) bonus issue of shares from financial assets at fair value through profit or loss amounted to HK\$0 (2015: 16,055,000); (iv) investment income from financial assets at fair value through profit or loss amounted to HK\$320,000 (2015: HK\$246,000); and (v) other income amounted to HK\$588,000 (2015: HK\$746,000).

The Group's selling and distribution expenses for the first half of year 2016 were HK\$2,949,000, a decrease of 48.6% compared with HK\$5,734,000 in the corresponding period in 2015. The decrease was mainly due to the fact that Pantosoft reduced its promotion activity efforts significantly this year.

Administrative expenses for the period were HK\$33,570,000, an increase of 229.6% as compared to HK\$10,184,000 for the corresponding period last year. The increase was mainly due to the accounting for share options granted to employees and consultants for the amount of HK\$19,625,000 during the period.

During the first half of 2016, the Group profited from trading of marketable securities and recorded a net gain of HK\$8,211,000 as compared to a loss of HK\$32,000 for 2015.

The Group made an impairment provision of HK\$22,597,000 against investment in Wise Visual in 2015. The provision was reversed upon disposal of interest in the associate thus a gain of the same amount was recognised.

The Group's loss attributable to owners of the Company was HK\$20,382,000 for the six months ended 30 June 2016 (2015: HK\$24,535,000).

Financial Position

Liquidity and Financial Resources

- (i) As at 30 June 2016, the Group had cash and bank balances of HK\$150,714,000 (31 December 2015: HK\$119,229,000).
- (ii) As at 30 June 2016, the Group's total borrowings and finance lease amounted from approximately HK\$66,228,000 (31 December 2015: HK\$937,000). The gearing ratio (calculated as total borrowings and finance lease over total equity) of the Group was 0.11 (31 December 2015: 0.003).
- (iii) As the Group carried out a major portion of its operations in China, and substantially all of its business transactions, assets and liabilities are denominated in either Renminbi, US dollars or Hong Kong dollars, the foreign exchange risk of the Group was considered minimal thus no hedging activities were conducted.

Capital expenditure

The Group incurred a capital expenditure of HK\$84,720,000 (31 December 2015: HK\$11,308,000) for addition of property, plant and equipment and HK\$176,090,000 (31 December 2015: HK\$36,225,000) for acquisition of a subsidiary for the six months ended 30 June 2016.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2015 and 30 June 2016 respectively.

Capital Commitment

The Group did not have any material capital commitments as at 31 December 2015 and 30 June 2016.

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for (i) each of the three years ended 31 December 2013, 2014, 2015 and (ii) the six months ended 30 June 2016. The following financial information is based on the financial information of the Target Group as set out in Appendix II to this circular. Capitalised terms used herein shall have the same meanings as those defined in this circular, unless the context requires otherwise.

Business and financial review

The revenue of the Target Group represents service income from the provision of IT infrastructure solutions and maintenance services. Revenue of the Target Group was approximately HK\$61,410,000, HK\$57,686,000, HK\$37,553,000 and HK\$11,207,000 for the three years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016 respectively. From 2013 to 2015, the revenue of the Target Group decreased by approximately HK\$23,857,000, which was mainly due to the insufficient operating funds of the Target Group, adversely affecting the operating capacity and hence leading to decrease in number of contracts.

The gross profit margin of the Target Group was approximately 13%, 18%, 15% and 8% for the three years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016 respectively. The decline in the gross profit margin was mainly due to the decrease in revenue contribution from large-scale projects which are generally of high gross profit margin.

Finance costs of the Target Group were approximately HK\$1,029,000, HK\$1,022,000, HK\$1,227,000 and HK\$1,031,000 for the three years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016 respectively. The increase in finance costs was mainly due to increased usage of trade loans from banks for procurement of hardware and software on behalf of customers.

Administrative expenses of the Target Group were approximately HK\$12,929,000, HK\$11,462,000, HK\$9,883,000 and HK\$3,869,000 for the three years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016 respectively. Such decrease was mainly attributable to the reduced headcount by natural wastage as well as lower rental expenses following the office relocation in 2015.

Total comprehensive loss of the Target Group was approximately HK\$5,212,000, HK\$1,754,000, HK\$4,774,000 and HK\$3,580,000 for the three years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016 respectively. Such increase was mainly due to the decrease in revenue and the increase in finance costs as explained above.

Liquidity and financial resources

- (i) As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, cash and cash equivalents of the Target Group amounted to approximately HK\$2,667,000, HK\$994,000, HK\$454,000 and HK\$551,000 respectively.
- (ii) As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the current ratio (defined as total current assets divided by total current liabilities) of the Target Group were approximately 0.66 times, 0.61 times, 0.46 times and 0.10 times respectively and the gearing ratio, being the ratio of the total liabilities to total assets, was approximately 1.27 times, 1.39 times, 1.68 times and 3.45 times respectively.
- (iii) As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Group had bank borrowings of approximately HK\$8,912,000, HK\$7,622,000, HK\$8,428,000 and HK\$9,662,000 respectively. The bank borrowings as at 30 June 2016 are secured by a leasehold property owned by a director and a former director of the Target Group and guaranteed by a director and a former director of the Target Group. Apart from bank borrowings, as at 30 June 2016, there was a loan from an indirect subsidiary of the Company in the principal amount of HK\$2,000,000. The loan is interest bearing at 9% per annum pledged by the entire issued shares of the Target Company.
- (iv) The Target Group had net liabilities of approximately HK\$5,986,000, HK\$7,740,000, HK\$12,514,000 and HK\$16,094,000 for the three years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016 respectively. The increase in net liabilities was mainly due to the operating loss resulted in recent years and increase in director's borrowings as to maintain the Target Group's operating level.
- (v) The amount due to ultimate holding company as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 were approximately HK\$1,120,000, HK\$2,244,000, HK\$2,244,000 and HK\$2,244,000. The amount due to ultimate holding company was unsecured, non-interest bearing and repayable on demand.

Capital Commitment

The Target Group had no material capital commitment for the three years ended 31 December 2013, 31 December 2014, 31 December 2015 and for the six months ended 30 June 2016.

Treasury Policy

The Target Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the three years ended 31 December 2013, 31 December 2014, 31 December 2015 and for the six months ended 30 June 2016.

Exchange exposure

Most of the trading transactions, assets and liabilities of the Target Group were denominated in Hong Kong Dollar. The Target Group had an insignificant exchange risk exposure since the Target Group's principal businesses were conducted and recorded in Hong Kong Dollar during the three years ended 31 December 2013, 31 December 2014, 31 December 2015 and for the six months ended 30 June 2016.

Employees and remuneration

As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Group had a total number of employees of approximately 46, 35, 32 and 29 respectively. Remuneration packages and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. The Target Group's PRC subsidiary participated in various statutory employee benefit plans maintained by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans in accordance with relevant PRC regulations, and the Target Group contributed to these plans at specified percentages of the salaries, bonuses and allowances paid to their employees based on applicable local government requirements.

Dividend

No dividend was declared for the three years ended 31 December 2013, 31 December 2014, 31 December 2015 and for the six months ended 30 June 2016.

Contingent liabilities

The Target Group did not have any material contingent liabilities for the three years ended 31 December 2013, 31 December 2014, 31 December 2015 and for the six months ended 30 June 2016.

**(1) INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

Capitalised terms used herein shall have the same meanings as those defined in this circular, unless the context requires otherwise.

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Subscription might have affected the financial information of the Group.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2015 are prepared based on the audited consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 as extracted from the annual report of the Company for the year ended 31 December 2015 and the audited consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows of the Target Company for the year ended 31 December 2015 as extracted from the accountant's report set out in Appendix II to this circular as if the Subscription had been completed on 1 January 2015.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2016 is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2016 as extracted from the interim report of the Company for the six months ended 30 June 2016 and the audited consolidated statement of financial position of the Target Group as at 30 June 2016 as extracted from the accountant's report set out in Appendix II to this circular as if the Subscription had been completed on 30 June 2016.

The unaudited pro forma financial information of the Enlarged Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position, results of operation or cash flows of the Enlarged Group that would have been attained had the Subscription actually occurred on the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I, the financial information of the Target Group as set out in Appendix II and other financial information included elsewhere in this circular.

APPENDIX IV

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

**(2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR
THE YEAR ENDED 31 DECEMBER 2015**

	The Group	The Target Group	Pro forma adjustments		The Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>(Note 4)</i>	
Revenue	27,793	37,553			65,346
Cost of sales and service	<u>(15,186)</u>	<u>(31,998)</u>			<u>(47,184)</u>
Gross profit	12,607	5,555			18,162
Other income and gains	3,814	1			3,815
Selling and distribution expenses	(12,690)	–			(12,690)
Administrative expenses	(22,614)	(9,882)	(1,000)		(33,496)
Other expenses	(3,608)	–			(3,608)
Loss on disposal of a subsidiary	(3,152)	–			(3,152)
Fair value loss on financial assets at fair value through profit or loss	(23,973)	–			(23,973)
Finance costs	(360)	(1,227)			(1,587)
Share of results of associates	(3,167)	–			(3,167)
Impairment loss of an associate	(22,597)	–			(22,597)
Share of results of a joint venture	<u>(29,415)</u>	<u>–</u>			<u>(29,415)</u>
Loss before tax	(105,155)	(5,553)			(111,708)
Income tax expenses	<u>(531)</u>	<u>712</u>			<u>181</u>
Loss for the year	<u>(105,686)</u>	<u>(4,841)</u>			<u>(111,527)</u>
OTHER COMPREHENSIVE LOSS					
<i>Items that may be reclassified to profit or loss:</i>					
Share of other comprehensive loss of a joint venture	(398)	–			(398)
Exchange differences on translation of foreign operations	<u>273</u>	<u>67</u>			<u>340</u>
Other comprehensive loss for the year, net of income tax	<u>(125)</u>	<u>67</u>			<u>(58)</u>
Total comprehensive loss for the year	<u><u>(105,811)</u></u>	<u><u>(4,774)</u></u>			<u><u>(111,585)</u></u>

APPENDIX IV**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group	The Target Group	Pro forma adjustments		The Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>(Note 4)</i>	
Loss for the year attributable to:					
Owners of the Company	(105,462)	(4,381)	(1,000)	315	(110,528)
Non-controlling interests	<u>(224)</u>	<u>(460)</u>		(315)	<u>(999)</u>
	<u>(105,686)</u>	<u>(4,841)</u>			<u>(111,527)</u>
Total comprehensive loss for the year attributable to:					
Owners of the Company	(105,575)	(4,314)	(1,000)	304	(110,585)
Non-controlling interests	<u>(236)</u>	<u>(460)</u>		(304)	<u>(1,000)</u>
	<u>(105,811)</u>	<u>(4,774)</u>			<u>(111,585)</u>

APPENDIX IV

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

**(3) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL
POSITION OF THE ENLARGED GROUP AS AT 30 JUNE 2016**

	The Group	The Target	Pro forma adjustments			The
	HK\$'000	Group	HK\$'000	HK\$'000	HK\$'000	Enlarged
	(Note 5)	Group	(Note 7)	(Note 8)	(Note 9)	Group
		HK\$'000				HK\$'000
		(Note 6)	(Note 10)			
Non-current assets						
Investment properties	273,237	-				273,237
Property, plant and equipment	97,397	547				97,944
Goodwill	-	-			10,650	10,650
Investment in a subsidiary	-	-	8,400		(8,400)	-
Investment in associates	71,773	-				71,773
Investment in a joint venture	-	-				-
Deposits	-	474				474
Available-for-sale financial assets	1,000	-				1,000
Deferred tax assets	-	3,292				3,292
	<u>443,407</u>	<u>4,313</u>				<u>458,370</u>
Current assets						
Inventories	782	388				1,170
Trade receivables	6,054	1,259				7,313
Prepayments, deposits and other receivables	85,910	65				85,975
Financial assets at fair value through profit or loss	38,625	-				38,625
Loan receivables	25,000	-			(2,000)	23,000
Bank and cash balances	150,714	551	(8,400)	8,400		151,265
	<u>307,085</u>	<u>2,263</u>				<u>307,348</u>
Current liabilities						
Trade and bills payables	6,076	2,946				9,022
Other payables and accruals	77,796	4,152				81,948
Amounts due to contract customers	-	894				894
Income tax payables	8,546	-				8,546
Bank and other borrowings	6,360	9,662			(2,000)	14,022
Finance lease payables	232	-				232
Amount due to ultimate holding company	-	2,244			(2,244)	-
Amount due to a director	-	2,773			(2,773)	-
	<u>99,010</u>	<u>22,671</u>				<u>114,664</u>
Net current assets/(liabilities)	<u>208,075</u>	<u>(20,408)</u>				<u>192,684</u>
Total assets less current liabilities	<u>651,482</u>	<u>(16,095)</u>				<u>651,054</u>
Non-current liabilities						
Bank borrowings	59,552	-				59,552
Deferred tax liabilities	7,653	-				7,653
Finance lease payables	84	-				84
	<u>67,289</u>	<u>-</u>				<u>67,289</u>
NET ASSETS/(LIABILITIES)	<u>584,193</u>	<u>(16,095)</u>				<u>583,765</u>
EQUITY						
Share capital	571,215	1		4	(5)	571,215
Reserves	15,101	(16,096)		8,396	7,700	15,101
Equity attributable to owners of the Company	586,316	(16,095)				586,316
Non-controlling interests	(2,123)	-			(428)	(2,551)
Total equity	<u>584,193</u>	<u>(16,095)</u>				<u>583,765</u>

APPENDIX IV

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

**(4) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF
THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2015**

	The Group	The Target	Pro forma adjustments		The
	HK\$'000	Group HK\$'000	HK\$'000	HK\$'000	Enlarged Group HK\$'000
	(Note 11)	(Note 12)	(Note 3)	(Note 13)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before tax	(105,155)	(5,553)	(1,000)		(111,708)
Adjustments for:					
Share of results of associates	3,167	–			3,167
Impairment loss of an associate	22,597	–			22,597
Share of results of a joint venture	29,415	–			29,415
Finance costs	360	1,227			1,587
Bank interest income	(16)	(1)			(17)
Investment income from financial assets at fair value through profit or loss	(249)	–			(249)
Loss on disposal of subsidiaries	3,152	–			3,152
Loan interest income	(828)	–			(828)
Written off of property, plant and equipment	72	54			126
Fair value loss on financial assets at fair value through profit or loss	23,973	–			23,973
Depreciation	857	268			1,125
Amortisation of other intangible assets	114	–			114
Written off of intangible assets	2,192	–			2,192
Impairment of investment in a joint venture	1,281	–			1,281
Reversal of impairment of trade receivable	(400)	–			(400)
Waiver of other payables	(305)	–			(305)
Operating cash flows before working capital change	(19,773)	(4,005)			(24,778)
Change in inventories	(410)	73			(337)
Change in trade receivables	371	2,557			2,928
Change in prepayments, deposits and other receivables	1,006	529			1,535
Changes in financial assets at fair value through profit or loss	(34,239)	–			(34,239)
Change in trade and bills payables	2,189	2,413			4,602
Change in other payables and accruals	1,643	703	1,000		3,346
Change in amounts due from customers	–	(429)			(429)
Cash (used in)/generated from operations	(49,213)	(1,841)			(47,372)
Interest paid	(325)	(1,227)			(1,552)
Net cash (used in)/generated from operating activities	(49,538)	614			(48,924)

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group	The Target Group	Pro forma adjustments		The Enlarged Group
	<i>HK\$'000</i> (Note 11)	<i>HK\$'000</i> (Note 12)	<i>HK\$'000</i> (Note 3)	<i>HK\$'000</i> (Note 13)	<i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property, plant and equipment	(11,308)	(426)			(11,734)
Proceeds from disposal of property, plant and equipment	102	–			102
Purchase of intangible assets	(1,875)	–			(1,875)
Refund from a joint venture	500	–			500
Acquisition of associates	(164,639)	–			(164,639)
Payment for acquisition of a subsidiary	(36,225)	–		(280)	(36,505)
Disposals of subsidiaries	12,480	–			12,480
Interest received	16	1			17
Investment income from financial assets at fair value through profit or loss	249	–			249
Grant of loans	(30,000)	–			(30,000)
Repayment of loans received	30,000	–			30,000
Advance to a director	–	(1,605)			(1,605)
Net cash used in investing activities	(200,700)	(2,030)			(203,010)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	460	1,800			2,260
Repayment of borrowings	–	(1,697)			(1,697)
Net proceeds from issue of new shares	161,558	–			161,558
Repayment of finance lease payables	(238)	–			(238)
Net cash generated from financing activities	161,780	103			161,883
NET DECREASE IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year	207,421	(280)		280	207,421
Effect of foreign exchange rate changes	65	69			134
CASH AND CASH EQUIVALENTS AT END OF YEAR	119,028	(1,524)			117,504
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances other than time deposits	119,028	453			119,481
Time deposits	201	–			201
Bank overdrafts	–	(1,977)			(1,977)
Cash and cash equivalents	119,229	(1,524)			117,705
Less: Time deposits with maturity of more than three months when acquired	(201)	–			(201)
Cash and cash equivalents	119,028	(1,524)			117,504

(5) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

- (1) The figures are extracted from the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2015 as set out in the Company's published annual report for the year ended 31 December 2015.
- (2) The audited consolidated statement of profit or loss and other comprehensive income of Target Group for the year ended 31 December 2015 is extracted from the accountant's report of the Target Group as set out in Appendix II to this circular.
- (3) The adjustment represents the estimated legal and professional fees and other expenses of approximately HK\$1,000,000 payable by the Company which is directly attributable to the Subscription.
- (4) The adjustment represents the loss and total comprehensive loss for the year ended 31 December 2015 attributable to non-controlling interests of the Target Group (the "NCI") which are calculated as follows:

	<i>HK\$'000</i>
Target Group's loss for the year ended 31 December 2015	(4,841)
Non-controlling interest's equity interest in the Target Group	<u>16%</u>
Loss for the year ended 31 December 2015 attributable to the NCI (assuming the Subscription has been completed on 1 January 2015)	(775)
Less: Loss for the year ended 31 December 2015 of the Target Group attributable to the NCI extracted from the accountant's report of the Target Group as set out in Appendix II to this circular	<u>460</u>
Pro forma adjustment in respect of loss for the year attributable to the NCI	<u><u>(315)</u></u>

HK\$'000

Target Group's total comprehensive loss for the year ended 31 December 2015	(4,774)
Non-controlling interest's equity interest in the Target Group	<u>16%</u>
Total comprehensive loss for the year ended 31 December 2015 of attributable to the NCI (assuming the Subscription has been completed on 1 January 2015)	(764)
Less: Total comprehensive loss for the year ended 31 December 2015 of the Target Group attributable to the NCI extracted from the accountant's report of Target Group as set out in Appendix II to this circular	<u>460</u>
Pro forma adjustment in respect of total comprehensive loss for the year attributable to the NCI	<u><u>(304)</u></u>

- (5) The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2016 as set out in the Company's published interim report for the six months ended 30 June 2016.
- (6) The audited consolidated statement of financial position of the Target Group as at 30 June 2016 is extracted from the accountant's report on Target Group as set out in Appendix II to this circular.
- (7) The Subscription will be satisfied by cash of HK\$8,400,000.
- (8) The adjustment represents the issue of 525 new MS shares by the Target Company to the Group at a cash consideration of HK\$8,400,000.
- (9) The adjustment reflects the recognition of goodwill of approximately HK\$10,650,000, arising from the Subscription, as if the Subscription had been completed on 30 June 2016.

For the preparation of the unaudited pro forma statement of financial position of the Enlarged Group, the Group's share of adjusted net liabilities ("Adjusted Net liabilities") of the Target Group of approximately HK\$2,250,000 (calculated as 84% of the aggregate amounts of HK\$2,678,000 arising from (i) net liabilities of the Target Group of approximately HK\$16,095,000; (ii) proceeds of HK\$8,400,000 from issuing shares to the Group by the Target Company; (iii) HK\$2,244,000 waiver of amount due to ultimate holding company and (iv) HK\$2,773,000 waiver of amount due to a director) have been assumed to approximate the fair values of the underlying assets and liabilities of the Target Group at the completion date of the Subscription.

The goodwill of approximately HK\$10,650,000 is calculated based on the excess of the fair value of the Consideration of HK\$8,400,000 over the Group's share of Adjusted Net Liabilities of approximately HK\$2,250,000. Since the actual fair values of assets and liabilities of the Target Group as at the date of Completion would be different from the amounts used in the preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the actual goodwill arising from the Subscription to be recognised by the Group might be different from the amount shown in this note.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the directors of the Company have assessed whether the goodwill will be impaired as at 30 June 2016 on a pro forma basis in accordance with Hong Kong Accounting Standard 36 ("HKAS 36") "Impairment of Assets" and concluded that there is no indication of impairment of the goodwill arising from the Subscription as at 30 June 2016, and the Company's reporting accountant has agreed with the relevant assessments. The Company will adopt consistent accounting policies, principal assumptions and valuation methods as used in the Unaudited Pro Forma Financial Information to assess impairment of the goodwill arising from the Subscription in future financial statements.

Non-controlling interests of approximately HK\$428,000 is calculated as 16% of the aggregate amounts of HK\$2,678,000 arising from (i) net liabilities of the Target Group of approximately HK\$16,095,000; (ii) proceeds of HK\$8,400,000 from issuing shares to the Group by the Target Company; (iii) HK\$2,244,000 waiver of amount due to ultimate holding company and (iv) HK\$2,773,000 waiver of amount due to a director.

- (10) The adjustment represents elimination of the Group's loan receivables of HK\$2,000,000 from the Target Group.

- (11) The amounts are extracted from the audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 as set out in the Company's published annual report for the ended 31 December 2015.
- (12) The audited consolidated statement of cash flows of Target Group for the year ended 31 December 2015 is extracted from the accountant's report of the Target Group as set out in Appendix II to this circular.
- (13) The adjustment represents net cash effect of the Subscription of the Target Company.
- (14) Save as set out above, the Unaudited Pro Forma Financial Information does not take into account any trading results or other transactions of the Group and the Target Group subsequent to the date of the financial statements as included in the Unaudited Pro Forma Financial Information.

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong.



ZHONGHUI ANDA CPA Limited
Certified Public Accountants

28 November 2016

The Board of Directors
China Information Technology Development Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of China Information Technology Development Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company for illustrative purposes only. The Unaudited Pro Forma Financial Information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2016, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2015 and related notes as set out on pages IV-2 to IV-10 of the circular (the “Circular”) issued by the Company. The applicable criteria on the basis of which the directors have compiled the pro forma financial information are described in Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed subscription of the 84% equity interest in Macro China Holding Limited on the Group's financial position as at 30 June 2016 as if the transaction had been taken place on 30 June 2016, and on the Group's financial performance and cash flows for the year ended 31 December 2015 as if the transaction had been taken place on 1 January 2015. As part of this process, information about the Group's financial performance and cash flows has been extracted by the directors from the Group's consolidated financial statements as included in the annual report for the year ended 31 December 2015, on which an audit report has been published and information about the Group's financial position has been extracted by the directors from the Group's consolidated financial statements as included in the interim report for the period ended 30 June 2016, on which no review report was published.

Directors' Responsibilities for the Pro Forma Financial Information

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 31 of Chapter 7 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 ("AG") 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the 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 pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction on 1 January 2015 and 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant’s judgment, having regard to the reporting accountant’s understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled 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 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Ng Ka Lok

Practicing Certificate Number P06084

Hong Kong, 28 November 2016



VALUE WITH VIRTUES

VALOR APPRAISAL & ADVISORY LIMITED

Date: 28 November 2016

The Board of Directors

China Information Technology Development Limited

Room 2802, 28th Floor, Prosperity Tower

39 Queen's Road Central

Hong Kong

Dear Sir/Madam,

RE: Valuation of Macro China Holding Limited and its Subsidiaries for Circular Reference

In accordance with the instruction of China Information Technology Development Limited (“**CITDL**”), we have made an appraisal of the fair value of 100% equity interest in Macro China Holding Limited and its subsidiaries for circular reference as at the valuation date (30 September 2016).

The details and conclusion of the valuation are presented in the attached valuation report, which outlines the factors considered, valuation methodology, basis and assumptions employed in formulating our opinion of value.

Valor Appraisal & Advisory Limited (“**Valor**”) is an independent firm providing full range of valuation and advisory services. This report has been prepared independently. Neither Valor nor any authors of this report hold any interest in CITDL or its related parties. The fee for providing this report is based on Valor's normal professional rates, whilst expenses (if incurred) are being reimbursed at cost. Payment of fees and reimbursements are not contingent upon the conclusions drawn in the report.

Yours faithfully,
For and on behalf of
Valor Appraisal & Advisory Limited
Haydn Y.C. Lee, CFA
Director

1. Introduction & Purpose of Valuation

In accordance with the instruction of China Information Technology Development Limited (“**CITDL**” or the “**Company**”), Valor Appraisal & Advisory Limited (“**Valor**”) is required to provide an independent valuation report (the “**Valuation Report**”) to assess the fair value (the “**Fair Value**”) of 100% equity interest (the “**Equity Interest**”) in Macro China Holding Limited (“**MCHL**” or the “**Target Company**”) and its subsidiaries as at 30 September 2016 (the “**Valuation Date**”). As at the Valuation Date, there are four wholly-owned subsidiaries under MCHL (collectively referred to as the “**Target Group**”).

Relevant enquiries have been made and required information have been obtained that Valor considers to be necessary in forming an independent opinion of the Fair Value of the Equity Interest, as at the Valuation Date.

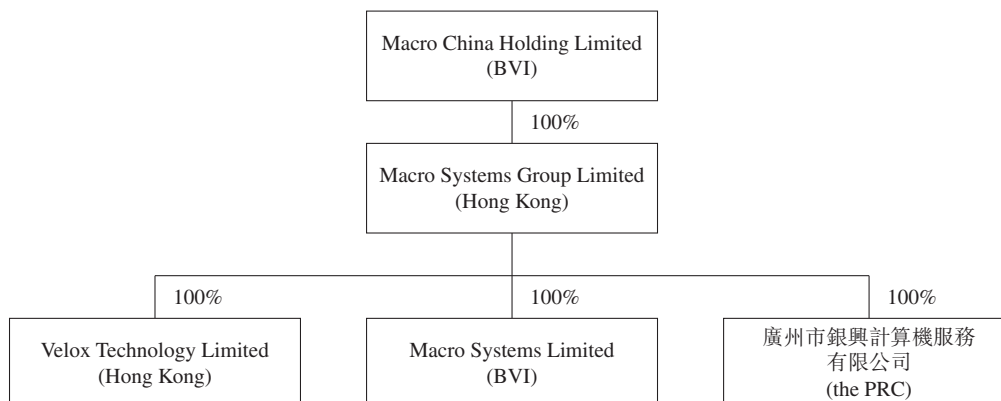
This Valuation Report states valuation methodology and approach adopted in assessing the Fair Value of the Equity Interest, as well as outlines Valor’s latest findings and valuation conclusion, which is prepared solely for the purpose of circular reference for CITDL or its subsidiaries (collectively referred to as the “**Group**”).

In this Valuation Report, words in the singular number include the plural and vice versa; the words asset or assets are deemed to include liability or liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded; headings are inserted for convenient reference only and have no effect in limiting or extending the language to which they refer.

2. Background Information of the Target Group

The following background information of the Target Group has been compiled with reference to the announcement made by CITDL and representation by the management of the Group and the Target Group (the “**Management**”), which are assumed to be accurate and relied upon when conducting this valuation exercise.

The organisation chart of the Target Group is set forth below:



The Target Company is an investment holding company incorporated in British Virgin Islands with limited liability and is wholly-owned by Premier Excel Holdings Limited (“**PEHL**”), which is legally and beneficially owned by Mr. Chan Kai Leung, Mr. Chow Chun Kit, Mr. Lau Yue Tung Alex, Ms. Wan Lam and Mr. Chan Kwong Choi, at equal shares.

Macro Systems Group Limited (“**MSGL**”) is an investment holding company in Hong Kong, which is wholly-owned by the Target Company. Velox Technology Limited (“**VTL**”) is a limited company in Hong Kong with no operation, which is wholly-owned by MSGL.

Macro Systems Limited (“**Macro Systems**”), a limited company incorporated in Hong Kong in 1997, is the major operating subsidiary of the Target Group, focusing on provision of “One-stop” IT services in Hong Kong.

The Target Group provides comprehensive end-to-end solutions and services, ranging from (i) procurement and deployment of IT equipment and facilities; (ii) systems integration; (iii) consulting services on IT infrastructure and business solutions; and (iv) technical support and managed services. Over the past 18 years, the Target Group has successfully provided services to over 1,000 enterprises in Hong Kong and the PRC, covering diverse business sectors, including but not limited to, telecommunications, logistic, tourism and hospitality education, and financial segments. Moreover, the Target Group has maintained long-term partnerships with a number of well-renowned enterprises, for instance, IBM, Lenovo and Huawei, etc. In addition, the Target Group is one of the 42 companies awarded with the Standard Offer Agreement for Quality Professional Services 3 (“**SOA-QPS3**”) from the Office of the Government Chief Information Officer of the Government of the Hong Kong Special Administrative Region.

To build a competitive edge through higher quality IT service and enhance customer satisfactions, Macro Systems has obtained a number of international professional certificates, including but not limited to, International Professional Organisation of Standard 20000 (ISO 20000) in relation to IT service management by Bureau Veritas Certification with effective from 22 May 2015.

With a view to expanding its business to the People's Republic of China (the "PRC"), a wholly-owned foreign enterprise, namely 廣州市銀興計算機服務有限公司 ("MS Guangzhou"), was incorporated in the PRC in 2012.

3. Scope of Work

In conducting this valuation exercise, Valor's appraisers have:

- gathered all relevant information, including projected financial data from the Management;
- discussed with the Management;
- collected market data from reliable sources;
- investigated into the information, and considered the basis and assumptions of the opinion of value;
- analysed the financial information of companies in a similar industry;
- designed an appropriate valuation model to derive the Fair Value of the Equity Interest; and
- conducted an site visit to Macro Systems.

4. Basis of Valuation

The valuation was carried out on a fair value basis. According to International Valuation Standards 2013 ("IVS 2013") issued by International Valuation Standards Council ("IVSC"), fair value is defined as "*the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties*". In particular, the Fair Value of the Equity Interest in this valuation exercise refers to the equity value, which is defined as "*the value of a business to all of its shareholders*" in accordance with International Valuation Standard 200 *Businesses and Business Interests* in IVS 2013.

5. Basis of Opinion

The valuation was conducted in accordance with IVS 2013 issued by IVSC. The valuation procedure includes review of the financial and economic conditions of the subject business interest, an assessment of key assumptions, estimates, and representations made by the Management. All matters essential to the proper understanding of the valuation are disclosed in the valuation report. Opinion of value included in the valuation report is impartial, independent, and unbiased.

The following factors also form a considerable part of the basis of opinion:

- assumptions on the market and on the subject business interest that are considered to be fair and reasonable;
- financial performance that shows a consistent trend of the operation of the subject business interest;
- consideration and analysis on the micro and macro economic factors; and
- analytical review of the subject business interest.

In the course of conducting the valuation, all the information and explanations considered necessary have been obtained so that there are sufficient evidences and reasonable basis in forming the opinion of value on the subject business interest.

6. Sources of Information

In conducting the valuation of the subject business interest, the following key information, including but not limited to those provided by the Management and derived from the public have been considered, reviewed, and relied upon:

- Financial forecast of the Target Group for the Valuation Date (30 September 2016);
- Group structure and shareholding of the Target Group;
- Certificate of Incumbency of PEHL;
- Memorandum and Articles of Association, Certificates of Incumbency, Certificate of Incorporation and Registered Members and Directors of MCHL;
- Memorandum and Articles of Association, Business Registration, Certificate of Incorporation and Annual Return of MSGS;
- Business Registration, Certificate of Incorporation and Annual Return of VTL;

- Articles of Association, Business Registration and Certificate of Incorporation of Macro Systems;
- Relevant incorporation documents of MS Guangzhou;
- Business plans, marketing materials and website of Macro Systems;
- Property, plant and machinery register, tenancy agreement and salary report of Macro Systems;
- Insurance of employee compensation and professional indemnity insurance of Macro Systems;
- Profits Tax Computations of Macro Systems for the three years ended 31 December 2012, 31 December 2013 and 31 December 2014;
- Draft Tax Computations of Macro Systems for the year ended 31 December 2015;
- Profits Tax Return of Macro Systems for the year ended 31 December 2014;
- Profits Tax Return of MSHL for the year ended 31 December 2015;
- Letters of banking facilities of Macro Systems;
- Audit Reports of Macro Systems for the two years ended 31 December 2013 and 31 December 2014;
- Draft Audit Report of Macro Systems for the year ended 31 December 2015;
- Unaudited management accounts of the Target Group for the 9 months ended 30 September 2016;
- Announcement titled “VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE SUBSCRIPTION OF 84% EQUITY INTEREST IN THE TARGET COMPANY” issued by the Company on 12 September 2016;
- Draft circular titled “VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE SUBSCRIPTION OF 84% EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF EXTRAORDINARY GENERAL MEETING”;

- Draft Accountant’s Report of the Target Group for each of the three years ended 31 December 2016, 2014 and 2015 and the six months ended 30 June 2016;
- IVS 2013 issued by IVSC;
- Overview of the nature of the subject business interest;
- Discount for Lack of Marketability – Job Aid for IRS Valuation Professional issued by Internal Revenue Service (the “**IRS DLOM Job Aid**”);
- Determining Discounts for Lack of Marketability – A Companion Guide to The FMV Restricted Stock Study 2016 issued by FMV Opinions, Inc. (the “**FMV Companion Guide 2016**”);
- 2016 Valuation Handbook: Guide to Cost of Capital issued by Duff & Phelps (the “**2016 Valuation Handbook**”);
- Supporting documents for the financial forecast;
- Discussions with the Management;
- Annual reports, interim reports and announcements of results of Computer & Technologies Holdings Limited (46:HK), Automated Systems Holdings Limited (771:HK) and Wai Chun Group Holdings Limited (1013:HK); and
- Hong Kong Exchanges and Clearing Limited, Hong Kong Monetary Authority (“**HKMA**”), Google, Yahoo, ET Net Limited and other reliable sources of market data.

In arriving at the opinion of the Fair Value, the accuracy and completeness of the information reviewed for the purpose of this valuation have been assumed and relied on. In addition, the statements, information, opinion and representations provided by CITDL and the Target Group have been relied upon.

Research was conducted using various sources including government statistical releases and other publications to assess the reasonableness and fairness of information provided.

The opinion is based upon economic, market, financial and other conditions as exist and can be evaluated on the date of this report and no responsibility is assumed to update or revise the opinion based on events or circumstances occurring after the date of this report. In reaching the opinion, assumptions have been made with respect to such economic, market, financial and other conditions and other matters, many of which are beyond the control of Valor or any party involved in this valuation exercise.

7. Valuation Approach and Methodology

In carrying out this valuation exercise, the following approaches and methodologies have been considered:

Cost Approach – The cost approach provides an indication of value using the economic principal that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. This approach is based on the principle that the price that a buyer in the market would pay for the asset being valued would, unless undue time, inconvenience, risk or other factors are involved, be not more than the cost to purchase or construct an equivalent asset. Often the asset being valued will be less attractive than the alternative that could be purchased or constructed because of age or obsolescence. Where this is the case, adjustments may need to be made to the cost of the alternative asset depending on the required basis of value.

The cost approach cannot normally be applied to the valuation of a business or business interest except in the case of early stage or start-up businesses where profits and/or cash flow cannot be reliably determined and adequate market information is available on the entity's assets.

Unlike market and income approaches which either incorporate market sentiments or future earnings capacity of an asset as a function to determine its current value, cost approach considers the fundamental cost it takes to form the asset. In our opinion this method is inapplicable to the current analysis as there is no convincing association of the values of the subject business interest with its cost.

Market Approach – The market approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. Under this approach the first step is to consider the prices for transactions of identical or similar assets that have occurred recently in the market. If few recent transactions have occurred, it may also be appropriate to consider the prices of identical or similar assets that are listed or offered for sale provided the relevance of this information is clearly established and critically analysed. It may be necessary to adjust the price information from other transactions to reflect any differences in the terms of the actual transaction and the basis of value and any assumptions to be adopted in the valuation being undertaken. There may also be differences in the legal, economic or physical characteristics of the assets in other transactions and the asset being valued.

The market approach compares the subject business to similar businesses, business ownership interests and securities that have been exchanged in the market and any relevant transactions of shares in the same business. Prior transactions or offers for any component of the business may be also indicative of value.

This method is not preferred in this exercise because insufficient market data are available from comparable companies engaged in the same or similar business which were regarded as arm's length transactions of the subject business interest for analysis and comparison.

Income Approach – The income approach provides an indication of value by converting future cash flows to a single current capital value. This approach considers the income that an asset will generate over its useful life and indicates value through a capitalisation process. Capitalisation involves the conversion of income into a capital sum through the application of an appropriate discount rate. The income stream may be derived under a contract or contracts, or be non-contractual, for example the anticipated profit generated from either the use of or holding of the asset.

Enterprise value is typically derived through the capitalisation of profits or cash flows through the application of a capitalisation rate or discount rate before debt servicing costs. The capitalisation or discount rate applied is the weighted average cost of capital of an appropriate mix of debt and equity. The market value of the interest bearing debt is deducted from the enterprise value to determine the overall equity value. Redundant, ie non-operating, assets need to be considered when calculating enterprise or equity value.

In this valuation exercise, the value of the subject business interest is developed through the application of the income approach technique known as discounted cash flow (“**DCF**”) method where a discount rate is applied to a series of cash flows for future periods to discount them to a present value. The following key inputs are required for the DCF method:

- determination of the explicit period over which the cash flows will be forecasted;
- cash flow forecasts for that period;
- the asset of business value at the end of the forecast period, ie the terminal value; and
- an appropriate discount rate to apply to the forecasted future cash flows, including the terminal value.

Under the DCF method, free cash flow to the firm (“**FCFF**”) approach is adopted in this exercise. FCFF is the cash flow available to the company’s suppliers of capital after all operating expenses have been paid and necessary investments in working capital and fixed capital have been made, and is given by the following formula:

$$\text{FCFF} = \text{NI} + \text{NCC} + \text{Interest Expense} \times (1 - \text{Tax rate}) - \text{FCInv} - \text{WCInv}$$

where

NI = net income available to common shareholders

NCC = net noncash charges

FCInv = investment in fixed capital

WCInv = investment in working capital

The FCFF approach estimates the value of the firm as the present value of future FCFF discounted at the weighted average cost of capital (“**WACC**”):

$$\text{Enterprise Value} = \sum_{t=1}^{\infty} \frac{\text{FCFF}_t}{(1 + \text{WACC})^t}$$

Because FCFF is the cash flow available to all suppliers of capital, using WACC to discount FCFF gives the total value of all of the firm’s capital. The value of equity is calculated as:

$$\text{Equity value} = \text{Firm value} + \text{Debt} - \text{Cash and Cash Equivalents}$$

8. Key Assumptions, Selection of Comparable Listed Companies, Discount Rate, Terminal Value and Discount for Lack of Marketability

Key Assumptions

The assumptions considered having significant sensitivity effects in this valuation have been evaluated in arriving at the assessed value with key assumptions listed as follows:

- there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the operation of the subject business interest;
- there will be no major changes in the current taxation laws in Hong Kong;

- there will be no material fluctuation of the finance costs and availability of finance in Hong Kong;
- the Target Group will fulfil all legal and regulatory requirements for the principal business;
- the development of the subject business interest will not be constrained by the availability of finance and there will be no material fluctuation of the finance costs;
- there will not be any adverse events beyond the control of the management of the Target Group and CITDL, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and terrorism and epidemics that may adversely affect the operation of the subject business interest;
- the future movement of exchange rates and interest rates will not differ materially from prevailing market rates;
- the Target Group will retain competent management, key personnel and technical staff for its operations and the relevant shareholders will support its ongoing operations;
- cash flow projection was based on the most recent financial budgets/forecasts provided by the Management;
- capital expenditure projection was assumed to be same as depreciation projection;
- income tax expense projection was based on 16.5% statutory Hong Kong corporate tax rate; and
- working capital projection was based on historical average working capital turnover ratios of the Target Group;

Selection of Comparable Listed Companies

With a view to selecting appropriate comparable listed companies, we focus on those companies providing information and communication technology (“ICT”) services in Hong Kong and the PRC.

Selection criteria of comparable companies are listed as follows:

1. Companies listed in Hong Kong;
2. Companies engaged in ICT business in Hong Kong and the PRC; and
3. Companies listed for not less than 2 years from the Valuation Date.

Companies listed in the Shanghai and Shenzhen stock exchanges are not included in the selection criteria due to issues in these markets such as capital controls and the liquidity risk that may result from widespread voluntary suspensions in trading of companies, although these issues are gradually eased or addressed with the internationalization of the Renminbi and the newly announced measures on suspension treatment by the Shanghai and Shenzhen stock exchanges.

The following searching procedures have been adopted in order to obtain a full and exhaustive list of potential comparable companies:

- Using Google Finance to search comparable companies based on the above criteria; and
- Cross checking the list of comparable companies with financial websites such as etnet.com.hk and Bloomberg.

Upon procuring the list of potential comparable companies, the following review procedures have been adopted in order to select the appropriate comparable companies:

- Reviewing the potential comparable companies’ annual reports, news and announcements; and
- Cross checking the potential comparable companies with the management of the Target Group to ensure relevancy and comparability.

Based on the above selection criteria, searching and review procedures, we have selected the following comparable companies:

Stock Code	Company Name	Company Description
00046 (HK)	Computer & Technologies Holdings Ltd	<i>“Computer And Technologies Holdings Limited is a Hong Kong-based company principally engaged in software development. The Company operates through three segments. The Application Services segment is engaged in the provision of enterprise applications software and related operation outsourcing, business process outsourcing, e-business services and related maintenance services. The Integration and Solutions Services segment is engaged in the sales of computer networks and system platforms, the provision of system and network integration services, the development and implementation of information technology (IT) solutions, and the provision related maintenance services. The Investments segment is engaged in property investment and treasury investment in securities.” (Source: Google Finance)</i>
00771 (HK)	Automated Systems Holdings Ltd	<i>“Automated Systems Holdings Limited is a Hong Kong-based investment holding company principally engaged in information technology (IT) related businesses. The Company mainly operates through two segments. IT Products segment is engaged in the provision of IT and related products. IT Services segment is engaged in the provision of systems integration, software and consulting services, engineering support for products and solutions, as well as management services. Its services and solutions include infrastructure, security, data intelligence, mobile and cloud categories. The Company operates businesses in Hong Kong, Mainland China, Taiwan, Macau, Thailand, Singapore and Malaysia, among others.” (Source: Google Finance)</i>

Stock Code	Company Name	Company Description
01013 (HK)	Wai Chun Group Holdings Ltd	“Wai Chun Group Holdings Ltd. is an investment holding company principally engaged in network and system integration businesses. The Company operates through two business segments. The Sales and Integration Services segment is engaged in the sales of computer and communication systems and the provision of related integration services. The Services Income segment is engaged in the design, consultation and production of information system software and the provision of management training services. The Securities Investment segment is engaged in the investment of listed securities. The Company is also involved in the provision of financial services and telecommunication infrastructure solution services through its subsidiaries.” (Source: Google Finance)

To the best of our knowledge, the above list of comparable companies is full and exhaustive.

Discount Rate

- The cost of equity, according to the modified capital asset pricing model, is given by:

$$\text{Cost of Equity} = R_f + \beta \times (RP_m) + RP_s + \varepsilon$$

where

R_f = risk-free rate

β = beta, which is the measure of the systematic risk of a stock; the tendency of a stock's price to correlate with changes in the market

RP_m = equity risk premium, which is the extra return that investors demand to compensate them for investing in a diversified portfolio of large common stocks rather than investing in risk-free securities

RP_s = size premium, represents the difference between actual historical excess returns and the excess return predicted by beta and the “size effect” is based on the empirical observation that companies of smaller size are associated with greater risk and, therefore, have greater cost of capital

ε = specific risk premium, to account for factors independent of the general market such as quality of management, maturity of business, liquidity of assets and others

2. The yield of HKMA Exchange Fund Note with longest maturity as at 30 September 2016 was employed as the risk-free rate of Hong Kong, which is 1.048%.
3. The equity risk premium as at 30 September 2016 was estimated to be 6.9%, as obtained from the 2016 Valuation Handbook.
4. The value of relevered β , as derived from the β values of the comparable listed companies, is 0.7726.
5. Size premium of 8.76% was applied, as obtained from 2016 Valuation Handbook.
6. The cost of equity was found to be 15.14%.
7. For a company with both debt and equity in its capital structure for which interest expense is tax deductible, the WACC is:

$$\text{WACC} = w_d r_d (1-t) + w_e r_e$$

where

w_d = the proportion of debt that the company uses in its capital structure

r_d = the before-tax cost of debt

t = the company's tax rate

w_e = the proportion of equity that the company uses in its capital structure

r_e = the cost of equity

8. As at 30 September 2016, the average debt-to-equity ratio of 3.98% of the above comparable listed companies was adopted.
9. The pre-tax cost of debt as at 30 September 2016 was estimated to be 4.2%, as obtained from average effective interest rate of the above comparable listed companies.
10. Tax rate of 16.5% was adopted, which is the statutory Hong Kong corporate tax rate as at 30 September 2016.
11. The WACC or discount rate was found to be 14.69%.

Terminal Value

1. Where the asset or business is expected to continue beyond the explicit forecast period, it is necessary to determine the continuing value of the asset or business as at the end of the explicit forecast period. In calculating this terminal value, regard must be had to the potential for further growth for the asset or business beyond the explicit forecast period.
2. The constant growth method used to derive the terminal value of the asset or business assumes that the asset or business grows at a constant rate into perpetuity. The formula used is:

$$\text{Terminal Value} = (\text{FCFn} \times (1 + g)) / (r - g)$$

where

FCFn = the normalised free cash flow of the final year of the explicit forecast period

r = the perpetual growth rate

g = the discount rate

3. Since the subject business interest effectively have indefinite life, terminal value is used in deriving the Fair Value. Perpetual growth rate and discount rate used in determining terminal value are 2% and 14.69% respectively for 30 September 2016.

Discount for Lack of Marketability

According to the IRS DLOM Job Aid, marketability is defined as “*the ability to quickly convert property to cash at minimal cost... with a high degree of certainty of realizing the anticipated amount of proceeds*” and a discount for lack of marketability (“**DLOM**”) is defined as “*an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability*”. It is expected that a higher price will be paid by investors for business interest with high marketability and a lesser price will be paid by investors for business interest with low marketability.

In this valuation exercise, a DLOM has been applied to reflect that the Target Company is a private company, hence having lower marketability than the comparable listed companies. With reference to the FMV Companion Guide 2016, the FMV restricted stock study in 2016 has examined 736 transactions of restricted stock of publicly traded companies in the United States across all industries, with a view to assessing DLOM with empirical data. Considering the business nature of the Target Group, a DLOM of 24.4% has been adopted, which is the median discount of the 155 transactions from the services industry in the FMV restricted stock study in 2016.

9. Valuation Comments

As part of the analysis, the information and documents provided by the Management, the financial and business information from public sources with such available financial information, client representation, project documentation and other pertinent data concerning the Equity Interest have been reviewed. The accuracy of such information have been assumed and relied on to a considerable extent in arriving at the opinion of value.

Relevant searches and enquiries have been made and such further information as considered necessary has been obtained for the purpose of this valuation exercise.

The opinion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are regarded to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of CITDL, the Target Group and Valor. No assurance is provided on the achievability of any financial results estimated by CITDL and/or the Target Group because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of the management. In addition, the other limiting and general service conditions are attached in Appendix I.

10. Risk Factors

Economic, political and social considerations

The financial crisis in 2008 has caused big impacts to the global economy. It is very difficult to predict when the economy will be able to recover although certain statistics indicated that the economy will be at its bottom in the second half of year 2009. Due to the uncertainties in economic situation, there is no guarantee that the expected financial performance will materialize. Any changes in global political, economic and social conditions, laws, regulations and policies may have significant impacts on the projections of the future income of the Equity Interest. In view of the current situation, the possibility of trade protectionism cannot be ruled out. None of these changes can be foreseen with certainty.

Technological changes

Any change in the technological developments and advancements may have significant impacts on the projections of the future income of the Equity Interest. To remain competitive in the industry, the Target Group may be required to make substantial capital expenditures to keep up with technological changes.

Inflation

The concurrent loosening of monetary policies by the central banks in many developed and developing countries poses a significant risk of inflation, which may erode the profitability of the Equity Interest.

Company specific risk

The operation of the Equity Interest may perform better or worse than the expectation, and the resulting earnings and cash flows will be very different from the estimates. The possibility of severe operational incidence, whether it is exogenous or endogenous, cannot be precluded.

11. Opinion of Value

Based on the investigation and analysis outlined in this report, we are of the opinion that as at the Valuation Date, which is 30 September 2016, the Fair Value of the Equity Interest is HKD10,392,000 (HONG KONG DOLLAR TEN MILLION THREE HUNDRED NINETY TWO THOUSAND).

Yours faithfully,
For and on behalf of
Valor Appraisal & Advisory Limited
Haydn Y.C. Lee, CFA
Director

Appendix I – Limiting and General Service Conditions

1. As part of the analysis, Valor’s appraisers have reviewed financial and business information from public sources together with such financial information, client representation, project documentation and other pertinent data concerning the project made available to Valor during the course of the valuation. Valor’s appraisers have assumed the accuracy of, and have relied on the information and client representations provided in arriving at the opinion of value.
2. It is assumed that the Management is responsible to ensure proper books of accounts are maintained, and the financial statements give a true and fair view and have been prepared in accordance with the relevant companies’ ordinance.
3. Valor shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made.
4. No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by Valor’s appraisers.
5. The conclusions assume continuation of prudent client policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the asset valued.
6. It is assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, it is assumed that no responsibility for changes in market conditions after the date of this report.
7. This valuation report has been prepared solely for the use of the designated parties. The valuation report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without prior written consent from Valor.
8. This report is confidential to the client for the specific purpose to which it refers. In accordance with Valor’s standard practice, it is stated that this report and valuation is for the use only of the party to whom it is addressed and no responsibility is accepted with respect to any third party for the whole or any part of its contents.
9. Valor have made no investigation of and assumed no responsibility for the title to or any liabilities against the asset appraised.

Appendix II – Calculations

Company under valuation: Macro China Holding Limited

Valuation Date: 30 September 2016

Unit: HKD

1. Profit and Loss

	Sep-Dec 16	2017	2018	2019	2020	2021	Terminal
Turnover	8,349,606	33,118,050	43,195,950	53,907,123	64,013,421	73,850,756	73,850,756
Cost of sales	(5,757,173)	(25,018,275)	(32,537,441)	(40,725,818)	(49,208,568)	(56,913,382)	(56,913,382)
Gross profit	2,592,433	8,099,775	10,658,509	13,181,305	14,804,854	16,937,374	16,937,374
Gross margin	31.05%	24.46%	24.67%	24.45%	23.13%	22.93%	22.93%
Other income	-	-	-	-	-	-	-
Advertising and promotion expenses	(38,058)	(167,453)	(184,198)	(202,618)	(222,880)	(227,338)	(227,338)
Administrative expenses	(1,785,793)	(9,856,387)	(10,284,292)	(10,694,044)	(8,771,367)	(8,947,755)	(8,947,755)
Other expenses	(223,611)	(912,334)	(930,581)	(949,193)	(968,176)	(987,540)	(987,540)
Finance costs	(319,717)	(395,027)	(389)	-	-	-	-
Profit before tax	225,255	(3,231,426)	(740,952)	1,335,450	4,842,430	6,774,742	6,774,742
PBT margin	2.70%	-9.76%	-1.72%	2.48%	7.56%	9.17%	9.17%
Income tax expenses	-	-	-	-	-	-	(1,117,832)
Net profit	225,255	(3,231,426)	(740,952)	1,335,450	4,842,430	6,774,742	5,656,909
Net profit margin	2.70%	-9.76%	-1.72%	2.48%	7.56%	9.17%	7.66%

2. Free Cash Flow to Firm

	Sep-Dec 16	2017	2018	2019	2020	2021	Terminal
Net profit	225,255	(3,231,426)	(740,952)	1,335,450	4,842,430	6,774,742	5,656,909
Add: Depreciation	54,141	216,564	216,564	216,564	216,564	216,564	216,564
Add: Finance costs × (1 - Tax rate)	319,717	395,027	389	-	-	-	-
Less: Capital expenditure	(54,141)	(216,564)	(216,564)	(216,564)	(216,564)	(216,564)	(216,564)
Less: Increase in working capital	(3,742,611)	17,264	382,931	442,499	554,095	439,690	62,667
Free Cash Flow to Firm	(3,197,639)	(2,819,135)	(357,631)	1,777,949	5,396,525	7,214,432	5,719,576

3. Valuation

	Sep-Dec 16	2017	2018	2019	2020	2021	Terminal
Free Cash Flow to Firm	(3,197,639)	(2,819,135)	(357,631)	1,777,949	5,396,525	7,214,432	5,719,576
Discount Rate	14.69%	14.69%	14.69%	14.69%	14.69%	14.69%	
Time from Valuation Date	<u>0.13</u>	<u>0.75</u>	<u>1.75</u>	<u>2.75</u>	<u>3.75</u>	<u>4.75</u>	
Discount Factor	0.983	0.902	0.787	0.686	0.598	0.521	
	<u>(3,143,307)</u>	<u>(2,543,668)</u>	<u>(281,345)</u>	<u>1,219,502</u>	<u>3,227,282</u>	<u>3,761,701</u>	
Total Present Value	2,240,164						
Terminal growth rate	2%	Rounded geometric mean of HK CPIs from 2001 to 2015. Source: Annual reports on the Consumer Price Index 2010-2015, Census and Statistics Department, HKSAR					
Terminal Value	23,963,399						
Fair Value of 100% Enterprise Value	26,203,563						
Add: Cash	3,017,998						
Minus: Debt	(15,475,005)						
Fair Value of 100% Equity Value before DLOM	13,746,556						
Discount for lack of marketability	24.4%	For services industry. Source: 2016 edition of The FMV Restricted Stock Study Companion Guide, FMV Opinions, Inc.					
Fair Value of 100% Equity Value	<u>10,392,000</u>						

The following is the text of the letter from Zhonghui Anda, for inclusion in this circular.

The Board of Directors
China Information Technology Development Limited

Dear Sirs,

We have examined the calculations of the discounted cash flow forecast (the “Forecast”) underlying the valuation (the “Valuation”) of Macro China Holding Limited (the “Target Company”) performed by Valor Appraisal & Advisory Limited (the “Valuer”) in respect of the appraisal of the fair value of the Target Company as at the reference date of 30 September 2016 in connection with the circular of China Information Technology Development Limited (the “Company”) dated 28 November 2016 (the “Circular”). The Valuation based on the discounted future estimated cash flows 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.

Directors’ Responsibilities

The directors of the Company are solely responsible for the preparation of the Forecast and the reasonableness and validity of the assumptions based on which the Forecast is prepared (the “Assumptions”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion on the calculations of the Forecast based on our procedures and to report our opinion solely to you, as a body, solely for the purpose in connection with the Circular and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Forecast in accordance with the Assumptions adopted by the directors and as to whether the Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

The Assumptions include hypothetical assumptions about future events and management actions that may or may not necessarily be expected to occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the 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.

Because the Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation.

Opinion

In our opinion, so far as calculations are concerned, the Forecast has been properly compiled in accordance with the Assumptions adopted by the directors as set out in Appendix V of the Circular.

Yours faithfully,

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Ng Ka Lok

Practising Certificate Number P06084

Hong Kong, 28 November 2016

The following is the text of the letter from INCU, for inclusion in this circular.



28 November 2016
The Board of Directors
China Information Technology Development Limited
Suite 2802, 28/F.,
Prosperity Tower,
39 Queen's Road Central,
Hong Kong

Dear Sirs,

We refer to the discounted cash flow forecast (the “**Forecast**”) underlying the business valuation (the “**Valuation**”) prepared by Valor Appraisal & Advisory Limited (“**Valor Appraisal**”) dated 28 November 2016 in relation to the appraisal of the fair value of the business enterprise of Macro China Holding Limited (“**Macro China**”) as at 30 September 2016. The Valuation 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 reviewed the Forecast upon which the Valuation has been made for which you as the directors of China Information Technology Development Limited (the “**Company**”) are solely responsible, and have discussed with you and Valor Appraisal the information and documents provided by you which formed part of the bases and assumptions set out in the Valuation report. We have also considered the letter dated 28 November 2016 addressed to you from Zhonghui Anda CPA Limited regarding their review on the arithmetical accuracy of the calculations of the Valuation. We note that the preparation of the Forecast does not involve the adoption of accounting policies as it relates to discounted future estimated cash flows.

On the basis of the foregoing and in the absence of unforeseeable circumstances, we are of the opinion that the Forecast upon which the Valuation has been made, for which you as the directors of the Company are solely responsible, had been made after due and careful enquiry. However, we express no opinion on how closely the actual cash flow and profit eventually will correspond with the Forecast.

Our work in connection with the Forecast has been undertaken solely for the compliance of Rule 19.62(3) of the GEM Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,
For and on behalf of
INCUB Corporate Finance Limited
Gina Leung
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, 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. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long position in shares and underlying shares of the Company

Name	Number of Shares	Number of share options outstanding (Note 1)	Total number of underlying Shares	Approximate Percentage of total shareholding
Chen Shengrong – Beneficial owner	–	2,016,000	2,016,000	0.04%
Hung Hing Man – Beneficial owner	–	2,016,000	2,016,000	0.04%
May Tai Keung, Nicholas – Beneficial owner	–	2,016,000	2,016,000	0.04%
Takashi Togo – Beneficial owner	–	32,328,000	32,328,000	0.57%
Tse Chi Wai – Beneficial owner	–	32,328,000	32,328,000	0.57%
Wong Chi Yung – Beneficial owner	–	32,328,000	32,328,000	0.57%

Name	Number of Shares	Number of share options outstanding (Note 1)	Total number of underlying Shares	Approximate Percentage of total shareholding
Wu Jingjing – Beneficial owner	–	2,016,000	2,016,000	0.04%
Wong Kui Shing, Danny – Beneficial owner	–	936,000	936,000	0.02%
– Through a controlled corporation (Note 2)	388,131,449	–	388,131,449	6.79%
– Subtotal			389,067,449	6.81%

Notes:

- The share options were granted on 11 April 2016, each with an exercise price of HK\$0.185 per Share and validity period from 11 April 2016 to 10 April 2017 under the share option scheme adopted by the Company on 2 August 2012.
- Mr. Wong Kui Shing, Danny was deemed to be interested in the 388,131,449 Shares held by his wholly-owned company, namely Discover Wide Investments Limited.

(b) Interests of substantial Shareholders

As far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who had interests 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 were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long position in shares and underlying shares of the Company

Name	Number of Shares	Number of share options outstanding	Total number of underlying shares	Approximate Percentage of total shareholding
Discover Wide Investments Limited – Beneficial owner	388,131,449	–	388,131,449	6.79%
Zhang Rong – Beneficial owner	364,672,000	–	364,672,000	6.38%

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person who 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 directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

4. LITIGATION

As at the Latest Practicable Date, as far as the Directors are aware, neither the Company nor any member of the Enlarged Group was 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 the Company or any member of the Enlarged Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contract with any member of the Enlarged Group which is not expiring or terminable by the Enlarged 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 or controlling shareholder of the Company or their respective close associates (as defined in the GEM Listing Rules) was interested in any business apart from the business of the Enlarged Group, which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

7. DISCLOSURE OF OTHER INTEREST

As at the Latest Practicable Date,

- (a) save for Mr. Wong Kui Shing, Danny's interest in the joint venture agreement dated 13 November 2015 in relation to the formation of China Information Technology Development Japan 株式會社, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group; and
- (b) none of the Directors in this appendix had any direct or indirect interest in any assets which had been, since 31 December 2015 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, disposed of by, or leased to any member of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) of the Enlarged Group have been entered into by the members of the Enlarged Group during the period commencing two years preceding the date of this circular and are or may be material:

- (i) the memorandum of understanding dated 2 April 2015 entered into between China Luck International Limited (a wholly-owned subsidiary of the Company) and Mr. Cheng Shing Tak in respect of the possible acquisition of not more than 50% of the issued share capital of Faithful Asia Group Limited;

- (ii) the sale and purchase agreement dated 20 April 2015 entered into between Rosy Depot Limited (a wholly-owned subsidiary of the Company) and Mr. Cheng Shing Tak in respect of the acquisition of 40% of the issued share capital of Faithful Asia Group Limited at a consideration of HK\$80,000,000;
- (iii) the sale and purchase agreement dated 7 May 2015 entered into between Rosy Faith Investments Limited (a wholly-owned subsidiary of the Company) and IWT Group Limited in respect of the acquisition of 25% of the issued share capital of Wise Visual Holdings Limited at a consideration of HK\$80,000,000;
- (iv) the joint venture agreement dated 13 November 2015 entered into among the Company, Mr. Wong Kui Shing, Danny and Nihon Unisys, Ltd. in relation to the formation of China Information Technology Development Japan株式会社 (China Information Technology Development Japan Limited);
- (v) the memorandum of understanding dated 18 November 2015 entered into between Giant Prestige Investments Limited (a wholly-owned subsidiary of the Company) and Mr. Yan Wai Ping, Mr. Tang Chuen Pong and Mr. Zhang Rong in relation to the possible acquisition of 100% of issued capital of Joyunited Investments Limited and all obligations, liabilities and debts owing or incurred by Joyunited Investments Limited to the Vendors;
- (vi) the acquisition agreement dated 25 November 2015 entered into between Giant Prestige Investments Limited (a wholly-owned subsidiary of the Company) and Mr. Yan Wai Ping, Mr. Tang Chuen Pong and Mr. Zhang Rong in relation to the acquisition of 100% of issued capital of Joyunited Investments Limited and all obligations, liabilities and debts owing or incurred by Joyunited Investments Limited to the Vendors at the aggregate consideration of RMB178,000,000 (equivalent to HK\$215,380,000);
- (vii) the placing agreement dated 8 December 2015 entered between the Company and Kingston Securities Limited in respect of placing of a maximum of 1,830,792,000 new Shares to not less than six independent placees at the placing price of HK\$0.13 per placing Share under specific mandate;
- (viii) the sale and purchase agreement dated 28 June 2016 entered into between the Rosy Faith Investments Limited (a wholly-owned subsidiary of the Company) and Mr. Yang Jie in relation to the disposal of 25% of the issued share capital of the Wise Visual Holdings Limited at a consideration of HK\$80,000,000;
- (ix) the Subscription Agreement;

- (x) the loan agreement dated 11 April 2016 entered into between Great Achieve Management Limited (an indirect subsidiary of the Company) as lender and the Target Company as borrower and Mr. Chan Kai Leung as guarantor in relation to a loan of HK\$2,000,000 to the Target Company with annual interest rate of 9%;
- (xi) the share mortgage agreement dated 11 April 2016 entered into between Great Achieve Management Limited (an indirect subsidiary of the Company) as mortgagee and the Executives as mortgagors in relation to the pledge of the shares in the Target Company beneficially owned by the Executives as security for repayment of the made in accordance with the loan agreement dated 11 April 2016 mentioned above; and
- (xii) the loan agreement dated 5 August 2016 entered into between Great Achieve Management Limited (an indirect subsidiary of the Company) as lender and the Target Company as borrower and Mr. Chan Kai Leung as guarantor in relation to a loan of HK\$2,000,000 to the Target Company with annual interest rate of 9%.

9. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee comprises three members, Mr. Hung Hing Man, Mr. May Tai Keung, Nicholas and Dr. Chen Shengrong being all the independent non-executive directors of the Company. The primary duties of the audit committee are to review and supervise the financial reporting process, audit plan and relationship with external auditors, the internal control systems of the Group and to provide advices and recommendations to the Board for review and follow-up.

Mr. Hung Hing Man (“**Mr Hung**”), aged 46, holds a master’s degree in Business Administration from the University of Western Sydney. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong and a member of the Society of Chinese Accountants and Auditors. Mr. Hung is currently a proprietor of a certified public accountants firm. He has extensive working experience in corporate finance, accounting, auditing and taxation sectors. Mr. Hung was an independent non-executive director of Ping An Securities Group (Holdings) Limited (Former Name: Madex International (Holdings) Limited) (Stock Code: 231) and China Baoli Technologies Holdings Limited (Stock Code: 164). Mr. Hung joined the Group on 24 April 2015.

Mr. May Tai Keung, Nicholas (“**Mr May**”), aged 55, holds a Bachelor of Arts degree in Economics from Macquarie University and a master’s degree in Commerce from University of New South Wales. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He has over 20 years of accounting, finance and general management experience. Currently, Mr. May is a consultant in accounting, tax, internal control and finance. Mr. May had worked at the audit department of Deloitte Touche Tohmatsu. After leaving Deloitte Touche Tohmatsu, he had worked at senior management level in a number of sizeable private enterprises and listed groups including Hopewell Holdings Limited (Stock Code: 54) as group financial controller and Hopewell Highway Infrastructure Limited (Stock Code: 737) as an

alternate director; and China Resources Property Limited as chief financial officer and internal audit director. He was also an independent non-executive director of Wealth Glory Holdings Limited (stock code: 8269) from September 2013 to July 2014. Mr. May joined the Group on 24 April 2015.

Dr. Chen Shengrong (“**Dr Chen**”), aged 34, obtained a doctorate degree in Business Administration from the Pacific States University of the USA in 2011. She was an audit manager with Baker Tilly China Certified Public Accountants and had been the vice general manager of New Times Securities Company Limited in charge of risk control. Since August 2014, Dr. Chen serves as the vice president of finance of Skyslink New Energy Asset Management Limited. Dr. Chen has extensive experience in internal control of enterprises, risk control in investment businesses, project risk evaluation and assets restructuring management. Dr. Chen joined the Group on 30 January 2015.

10. EXPERTS AND CONSENTS

The following is the qualification of the experts or professional advisers (collectively, the “**Experts**”) who have given opinion or advice contained in this circular:

Name	Qualification
ZHONGHUI ANDA CPA Limited	Certified Public Accountants
Valor Appraisal & Advisory Limited	Independent professional valuer
INCUB Corporate Finance Limited	A licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, each of the Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, none of the Experts had any interest, either direct or indirect, in any assets which have been, since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group nor had any shareholding in any member of the Enlarged Group nor 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.

11. 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. from Monday to Friday) at the principal place of business of the Company in Hong Kong at Suite 2802, 28/F., Prosperity Tower, 39 Queen's Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2013, 2014 and 2015;
- (c) the interim report of the Company for the six months ended 30 June 2016;
- (d) the third quarterly report of the Company for the nine months ended 30 September 2016;
- (e) the accountants' report on the Target Group, the text of which is set out in Appendix II to this circular;
- (f) the letter on the unaudited pro forma financial information of the Enlarged Group issued by ZHONGHUI ANDA CPA Limited set out in Appendix IV to this circular;
- (g) the valuation report on the Target Group, prepared by the Valuer, the text of which is set out in Appendix V of this circular;
- (h) the letter from ZHONGHUI ANDA CPA Limited on profit forecasts, the text of which is set out in Appendix VI to this circular;
- (i) the letter from INCU Corporate Finance Limited on profit forecasts, the text of which is set out in Appendix VI to this circular;
- (j) the letters of consent referred to under the paragraph headed "Experts and Consents" in this appendix;
- (k) the material contracts disclosed in the paragraph under the heading "Material Contracts" in this appendix to this circular;
- (l) the circular of the Company dated 23 February 2016; and
- (m) this circular.

12. MISCELLANEOUS

- (a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands and the principal place of business of the Company in Hong Kong is located at Suite 2802, 28/F., 39 Queen's Road Central, Hong Kong
- (b) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong
- (c) The company secretary and compliance officer of the Company is Mr. Tse Chi Wai, who is a member of The Institute of Chartered Accountants.
- (d) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

NOTICE OF EXTRAORDINARY GENERAL MEETING



中國信息科技發展有限公司

China Information Technology Development Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8178)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting of China Information Technology Development Limited (the “**Company**”) will be held at Suite 2802, 28/F., Prosperity Tower, 39 Queen’s Road Central, Hong Kong on 14 December 2016 at 11:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (A) the subscription agreement dated 12 September 2016 (the “**Subscription Agreement**”) entered into between Golden Sunweave Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company (the “**Subscriber**”), Macro China Holding Limited, a company incorporated in the British Virgin Islands with limited liability (the “**Target Company**”) and Mr. Chan Kai Leung, being the sole director of the Target Company (the “**Guarantor**”), pursuant to which the Target Company has conditionally agreed to allot and issue and the Subscriber has conditionally agreed to subscribe for a total of 525 new ordinary shares of the Target Company (the “**Subscription Shares**”), representing 525% of the issued share capital of the Target Company as at the date of the Subscription Agreement and 84% of the total issued share capital of the Target Company as enlarged by the allotment and issue of the Subscription Shares, at the total subscription price of HK\$8,400,000 and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

(B) any of the director of the Company (the “**Director**”) be and is hereby authorised to do all such further acts and things, negotiate, approve, agree, sign, initial, ratify and/or execute such further documents, instruments and agreements (whether under common seal or not) and to take all steps and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Subscription Agreement and the transactions contemplated thereunder as he/she may in his/her absolute discretion consider necessary, desirable or expedient to give effect to the Subscription Agreement and the implementation of all transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

By order of the Board
China Information Technology Development Limited
Tse Chi Wai
Executive Director and Company Secretary

Hong Kong, 28 November 2016

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:

Suite 2802, 28/F.,
Prosperity Tower,
39 Queen’s Road Central,
Hong Kong

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy needs not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged at the Company’s branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.
4. As of the Latest Practicable Date, the Board comprises Mr. Wong Kui Shing, Danny (Chairman and Chief Executive Officer), Mr. Tse Chi Wai, Ms. Wu Jingjing, Mr. Takashi Togo as executive Directors; Mr. Wong Chi Yung as non-executive Director; Mr. Hung Hing Man, Mr. May Tai Keung, Nicholas and Dr. Chen Shengrong as independent non-executive Directors.