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

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

**If you have sold or transferred** all your shares in Gay Giano International Group Limited, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, licenced securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The circular appears for information purpose only and does not constitute an invitation of offer to acquire, purchase or subscribe for securities of Gay Giano International Group Limited.

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### **GAY GIANO INTERNATIONAL GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 686)**

**VERY SUBSTANTIAL ACQUISITION:  
OPTION TO ACQUIRE INTERESTS IN  
HIGHWAYS IN THE PRC  
INVOLVING ISSUE OF CONVERTIBLE BONDS  
TO AN OPTION GRANTOR;  
AND  
CHANGE IN NAME OF THE COMPANY**

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A letter from the board of directors of Gay Giano International Group Limited is set out on pages 7 to 30. The notice convening the special general meeting of Gay Giano International Group Limited to be held at Function Room (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 28 November 2008 at 3:30 p.m. is set out on pages 215 to 217 of this circular.

Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon 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 or any adjournment thereof should you so wish.

31 October 2008

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## DEFINITIONS

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

|                           |                                                                                                                                                                                                                                                                                         |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Acquisition”             | the acquisition by the Grantee of the Option Interests from Equity Realty HK and the assignment of the Option Loan from Universal Summit to the Group upon exercise of the Purchase Option by the Group (if any) pursuant to the terms of the Option Agreement                          |
| “Airui Highway”           | a 31-kilometer highway to be built from Ailing (隘岭) at the border of Jiangxi Province and Fujian Province, to Ruijin (瑞金) of Jiangxi Province                                                                                                                                           |
| “Board”                   | the board of Directors                                                                                                                                                                                                                                                                  |
| “Board Letter”            | the letter from the Board as set out on pages 7 to 30 of this circular                                                                                                                                                                                                                  |
| “BVI”                     | British Virgin Islands                                                                                                                                                                                                                                                                  |
| “Call Options for Shares” | up to 40,026,000 call options granted by the Company to placees for the allotment and issue of up to 40,026,000 new Shares upon exercise of the subscription rights attaching to the call options, details of which was disclosed in the Company’s announcement dated 18 September 2007 |
| “Company”                 | Gay Giano International Group Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Stock Exchange                                                                                                                                |
| “Completion”              | completion of the Acquisition upon exercise of the Purchase Option by the Group (if any) pursuant to the terms of the Option Agreement                                                                                                                                                  |
| “Completion Date”         | date of completion of the Acquisition following the exercise of the Purchase Option by the Group (if any) pursuant to the terms of the Option Agreement                                                                                                                                 |

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## DEFINITIONS

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|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Conditions”        | conditions that the Grantors and Guarantor have undertaken to fulfil before the expiry of the Option Period, details of these conditions are set out in the paragraph headed “Undertaking from the Grantors and the Guarantor in respect of fulfillment of the Conditions within the Option Period” under the section headed “The Option Agreement” of the Board Letter |
| “Conversion Period” | the period during which the holder(s) of the Convertible Bonds may exercise the conversion rights attaching to the Convertible Bonds to subscribe for the Conversion Shares at the Conversion Price, details of which are set out in the section headed “The Convertible Bonds” of the Board Letter                                                                     |
| “Conversion Price”  | the price of subscription of the Conversion Shares in effect upon exercise of the conversion rights attaching to the Convertible Bonds by the holder(s) thereof, being HK\$0.90 initially and subject to certain customary anti-dilution adjustments set out in the section headed “The Convertible Bonds” of the Board Letter                                          |
| “Conversion Shares” | a total of up to 204,285,709 Shares to be issued upon exercise of the Convertible Bonds in full at the Initial Conversion Price                                                                                                                                                                                                                                         |
| “Convertible Bonds” | the US\$ denominated convertible bonds in the total principal amount of US\$23,571,428 to be issued by the Company to Universal Summit and/or its nominee(s) upon Completion (if it takes place upon exercise of the Purchase Option by the Group if any) for partial settlement of the Consideration                                                                   |
| “Directors”         | the directors of the Company                                                                                                                                                                                                                                                                                                                                            |
| “Enlarged Group”    | the Group as enlarged by the Acquisition upon Completion                                                                                                                                                                                                                                                                                                                |
| “Equity Airui”      | 大益隘瑞高速公路發展（江西）有限公司（Equity Airui Highway Development (Jiangxi) Co., Ltd.), a company established in the PRC which is wholly owned by Equity Realty HK                                                                                                                                                                                                                    |
| “Equity Pinghong”   | 大益萍洪高速公路發展（江西）有限公司（Equity Pinghong Highway Development (Jiangxi) Co., Ltd.), a company established in the PRC which is wholly owned by Equity Realty HK                                                                                                                                                                                                                 |

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## DEFINITIONS

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|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Equity Realty HK”             | Equity Realty Development Company, Limited, a company incorporated in Hong Kong with 75% of its shares directly held by New Alliance, 12.5% of its shares directly held by an Independent Third Party, and 12.5% of its shares directly held by another Independent Third Party, being one of the Grantors |
| “Grantee” or “Yield Long”      | Yield Long Limited, a wholly-owned subsidiary of the Company incorporated in the BVI and the grantee of the Purchase Option under the Option Agreement                                                                                                                                                     |
| “Grantors”                     | Equity Realty HK and Universal Summit                                                                                                                                                                                                                                                                      |
| “Group”                        | the Company and its subsidiaries                                                                                                                                                                                                                                                                           |
| “Guarantor”                    | Mr. Huang Guo Dong, the direct shareholder of Universal Summit and is an Independent Third Party                                                                                                                                                                                                           |
| “Heads of Agreement”           | the heads of agreement dated 28 April 2008 entered into between the Company and the Guarantor setting out the principal terms of the proposed acquisition by the Group of interests in certain companies, among others, the Target Companies                                                               |
| “Hong Kong”                    | the Hong Kong Special Administrative Region of the PRC                                                                                                                                                                                                                                                     |
| “Independent Third Party(ies)” | an independent third party(ies) which, to the best knowledge and belief of the Directors having made all reasonable enquiries, is/are not connected with the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates                      |
| “Initial Conversion Price”     | the initial conversion price of HK\$0.90 per Conversion Share upon exercise of the conversion rights attaching to the Convertible Bonds                                                                                                                                                                    |
| “Issue Date”                   | the date of issue of the Convertible Bonds which shall take place upon Completion (if takes place)                                                                                                                                                                                                         |
| “Latest Practicable Date”      | 28 October 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein                                                                                                                                                            |

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## DEFINITIONS

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| “Listing Rules”    | Rules Governing the Listing of Securities on the Stock Exchange                                                                                                                                                                    |
| “Maturity Date”    | the maturity date of the Convertible Bonds, being the date falling three years after the Issue Date                                                                                                                                |
| “New Alliance”     | New Alliance International Limited, a company incorporated in the BVI which is solely owned by Universal Summit, and the direct holding company of 75% shares of Equity Realty HK                                                  |
| “Option Agreement” | the deed of call option dated 26 September 2008 entered into by the Parties for the purpose of granting the Purchase Option by the Grantors to the Grantee                                                                         |
| “Option Interests” | the subject of the Purchase Option, being 75% equity interests in each of the Target Companies                                                                                                                                     |
| “Option Loan”      | the non-interest bearing outstanding amounts, repayable on demand due from Equity Airui to Universal Summit as at the Completion Date, which amounted to approximately RMB19.80 million in total as at the Latest Practicable Date |
| “Option Period”    | the period commencing from the date of the Option Agreement until 31 July 2009                                                                                                                                                     |
| “Parties”          | parties to the Option Agreement, being the Company, the Grantee, the Grantors and the Guarantor                                                                                                                                    |
| “Pinghong Highway” | a 34.4-kilometer toll highway to be built from Pingxian City (萍鄉市) to Hongkoujie (洪口界) at the border of Hunan                                                                                                                      |
| “PRC”              | the Peoples’ Republic of China, for the purpose of this circular, not including Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan                                                                          |

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## DEFINITIONS

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|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Purchase Option”             | the option granted by the Grantors to the Grantee under the Option Agreement, pursuant to which the Grantee has the right at its absolute discretion, but is not obliged, to acquire the Option Interests and the Option Loan at the Total Consideration                                                                                                                                                                                                          |
| “Refundable Deposit”          | a total of RMB25 million (equivalent to approximately HK\$28 million) which has been paid by the Group to the Grantors in cash as refundable deposit and part payment of the Total Consideration upon signing of the Option Agreement                                                                                                                                                                                                                             |
| “Sale and Purchase Agreement” | the sale and purchase agreement dated 27 May 2008 entered into amongst the Company, Yield Long (as purchaser), Universal Summit (as vendor) and the Guarantor relating to the proposed acquisition by the Group of interests in certain Companies (which hold controlling interests in four highways and certain investment properties in the PRC), which has been subsequently agreed to be terminated by the parties by entering into the Termination Agreement |
| “SFO”                         | The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)                                                                                                                                                                                                                                                                                                                                                                                       |
| “SGM”                         | the special general meeting of the Company to be held on 28 November 2008 for the purposes of considering and, if thought fit, approving, among other things, (i) the Option Agreement and the transactions contemplated thereunder (including the exercise of the Purchase Option and the issue of the Convertible Bonds); and (ii) the proposed change of name of the Company                                                                                   |
| “Share(s)”                    | share(s) of HK\$0.10 each in the issued share capital of the Company                                                                                                                                                                                                                                                                                                                                                                                              |
| “Shareholder(s)”              | holder(s) of Share(s)                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| “Stock Exchange”              | The Stock Exchange of Hong Kong Limited                                                                                                                                                                                                                                                                                                                                                                                                                           |
| “Target Companies”            | Equity Pinghong and Equity Airui, currently wholly-owned by Equity Realty HK                                                                                                                                                                                                                                                                                                                                                                                      |

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## DEFINITIONS

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|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Target Highways”       | the Airui Highway and the Pinghong Highway                                                                                                                                                                                      |
| “Termination Agreement” | the termination agreement entered into by the parties to the Sale and Purchase Agreement on 26 September 2008 for the purpose of terminating the Sale and Purchase Agreement                                                    |
| “Total Consideration”   | the total consideration of RMB190 million for the acquisition of the Option Interests and the Option Loan upon exercise of the Purchase Option (if any) by the Group pursuant to the terms of the Option Agreement              |
| “Universal Summit”      | Universal Summit Investment Limited, a company incorporated in the BVI with limited liability which is solely owned by the Guarantor and is the indirect holding company of 75% shares of Equity Realty HK through New Alliance |
| “HK\$”                  | Hong Kong dollars, the lawful currency of Hong Kong                                                                                                                                                                             |
| “RMB”                   | Renminbi, the lawful currency of the PRC                                                                                                                                                                                        |
| “US\$”                  | United States dollars, the lawful currency of the United States                                                                                                                                                                 |
| “km”                    | Kilometers                                                                                                                                                                                                                      |
| “%”                     | per cent                                                                                                                                                                                                                        |

*In this circular, unless otherwise specified, amounts in RMB are converted to HK\$ and US\$ at the conversion rates of RMB1.00 = HK\$1.11 and RMB7.00 = US\$1.00 respectively for illustration only. No representation is made that any amounts in RMB or HK\$ or US\$ could have been or could be converted at such rate or any other rates.*

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

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## LETTER FROM THE BOARD

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GAY GIANO  
INTERNATIONAL

### GAY GIANO INTERNATIONAL GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 686)**

*Executive Directors:*

Mr. Wong Pak Lam, Louis  
Mr. Wong Kwong Lung, Terence  
Mr. Lam Ho Fai  
Ms. Lin Xiayang

*Registered office and principal  
place of business:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent non-executive Directors:*

Mr. Chan Ka Ling, Edmond  
Mr. Ching Kwok Ho, Samuel  
Mr. Lo Wa Kei, Roy

*Place of business in Hong Kong:*

Suites 701-702, 7th Floor  
Grandtech Centre  
8 On Ping Street  
Siu Lek Yuen, Shatin  
New Territories  
Hong Kong

31 October 2008

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION:  
OPTION TO ACQUIRE INTERESTS IN  
HIGHWAYS IN THE PRC  
INVOLVING ISSUE OF CONVERTIBLE BONDS  
TO AN OPTION GRANTOR;  
AND  
CHANGE IN NAME OF THE COMPANY**

#### INTRODUCTION

On 28 April 2008, the Company and the Guarantor entered into the Heads of Agreement for the purpose of setting out the principal terms of the proposed acquisition by the Group from Universal Summit of interests in certain companies which hold controlling interests in four highways (including the Pinghong Highway, the Airui Highway and two other highways (the “other two highways”)) and certain investment properties in the PRC. Based

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## LETTER FROM THE BOARD

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on the terms stipulated in the Heads of Agreement, on 27 May 2008, the Company, Yield Long (as purchaser), Universal Summit (as vendor) and the Guarantor entered into the Sale and Purchase Agreement. Details of the Sale and Purchase Agreement were set out in the Company's announcement dated 10 June 2008. Pursuant to the terms of the Sale and Purchase Agreement, due diligence in respect of, among other things, the four highways and the investment properties has been carried out by the Group. However, the Group has not been provided with sufficient information for the due diligence in respect of the companies holding the other two highways and the investment properties due to the unavailability of such information as per Universal Summit. In addition, the Group has noticed that there are issues, in particular issues regarding the extension/renewal of the concession rights of the Pinghong Highway and the Airui Highway, have yet to be dealt with and/or clarified by Equity Pinghong, Equity Airui and their holding company. After further negotiation, on 26 September 2008, the parties to the Sale and Purchase Agreement have agreed to terminate the Sale and Purchase Agreement by entering into the Termination Agreement, which execution took place simultaneously with the execution of the Option Agreement in order to (i) streamline the acquisition targets of the Group by focusing investment on the development and operation of the Pinghong Highway and the Airui Highway; (ii) grant the Purchase Option, pursuant to which the Group has the rights at its absolute discretion, but is not obliged, to acquire the Option Interests, being 75% equity interests in each of Equity Pinghong (which holds the Pinghong Highway) and Equity Airui (which holds the Airui Highway) currently owned by Equity Realty HK (one of the two Grantors) and the Option Loan, being the outstanding amounts due from Equity Airui to Universal Summit (the other Grantor) as at the Completion Date, to the Group by the Grantors; and (iii) set out the principle terms of the Convertible Bonds which will be issued by the Company as part payment of the Total Consideration for the Acquisition upon exercise of the Purchase Option by the Group (if the Group decides to exercise the Purchase Option). Details of the Termination Agreement and the Option Agreement were set out in the Company's announcement dated 26 September 2008.

It was also set out in the announcement dated 10 June 2008 made by the Company that the Board proposes to change the name of the Company to "Time Infrastructure Holdings Limited". In addition, as set out in the Company's announcement dated 16 October 2008, the Directors have proposed the adoption of the new Chinese name "太益控股有限公司" (for identification purpose only).

The purpose of this circular is to provide you with, among others, (i) further information on the Option Agreement together with the transactions contemplated thereunder (including the Acquisition and the issue of the Convertible Bonds), and the change of name of the Company; and (ii) the notice of the SGM to be convened for the purposes of considering and, if thought fit, approving the Option Agreement and the transactions contemplated thereunder (including the exercise of the Purchase Option together with the Acquisition, and the issue of the Convertible Bonds) as well as the change of name of the Company.

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## LETTER FROM THE BOARD

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### THE OPTION AGREEMENT

#### Date of the Option Agreement

26 September 2008

#### Parties to the Option Agreement

- (1) The Company;
- (2) Yield Long, a wholly-owned subsidiary of the Company incorporated in the BVI, being the Grantee;
- (3) Equity Realty HK, a company incorporated in Hong Kong with limited liability which 75% of its shares are indirectly owned by Universal Summit, being one of the two Grantors;
- (4) Universal Summit, a company incorporated in the BVI with limited liability which is beneficially and solely owned by the Guarantor, being one of the two Grantors; and
- (5) Mr. Huang Guo Dong, a PRC citizen principally engages in construction business in highways and infrastructures, being the Guarantor who entered into the Option Agreement to, among other things, guarantee the due performance of the Option Agreement by the Grantors.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Grantors and their ultimate beneficial owner (i.e. the Guarantor) are Independent Third Parties.

#### **Grant of the Purchase Option to the Group and assets to be acquired by the Group upon exercise of the Purchase Option**

Under the Option Agreement, the Grantors have jointly and severally granted the Purchase Option to the Grantee, a wholly-owned subsidiary of the Company. Pursuant to the Option Agreement, the Group has the rights at its absolute discretion, but is not obliged, to acquire (a) the Option Interests, being 75% equity interests in each of Equity Pinghong and Equity Airui currently held by Equity Realty HK (a company with 75% of its shares being indirectly held by Universal Summit which in turn is beneficially and solely owned by the Guarantor), and (b) the Option Loan, being the outstanding amounts due from Equity Airui to Universal Summit as at the Completion Date (which amounted to approximately RMB19.80 million in total as at the Latest Practicable Date, and which has been warranted by the Grantors in the Option Agreement to be not less than RMB19.80 million on Completion), at the Total

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## LETTER FROM THE BOARD

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Consideration of RMB190 million. The Grantee may exercise the Purchase Option in respect of all of the Option Interests and the Option Loan at any time once during the Option Period (being the period commencing from the date of the Option Agreement to 31 July 2009) by serving a written notice of exercise of the Purchase Option to the Grantors.

Equity Pinghong and Equity Airui are principally engaged in the development and operation of the Pinghong Highway and the Airui Highway respectively. The execution of the Option Agreement has enabled the Group to obtain the rights, but not obligation, to acquire the Option Interests and the Option Loan if the Grantee determines to exercise the Purchase Option such that the Group is able to participate in the development and operation of the Pinghong Highway and the Airui Highway thereafter through Equity Pinghong and Equity Airui, which will be 75% owned subsidiaries of the Company upon Completion.

### **Total Consideration for the Option Interests and the Option Loan**

Pursuant to the Option Agreement, the Total Consideration for the Option Interests and the Option Loan to be acquired by the Group upon its exercise of the Purchase Option (if any) amounted to RMB190 million (equivalent to approximately HK\$211 million) in total, which will be satisfied by the Group in the following manner:

- i. a total of RMB25 million (equivalent to approximately HK\$28 million) (“Refundable Deposit”) has been paid by the Group to the Grantors in cash as refundable deposit and as part payment of the Total Consideration upon signing of the Option Agreement; and
- ii. the balance of the Total Consideration in the amount of RMB165 million (equivalent to approximately HK\$183 million) will be settled by the issue of the Convertible Bonds by the Company to Universal Summit and/or its nominee(s) upon completion of the acquisition of the Option Interests and the Option Loan by the Group following exercise by the Group of the Purchase Option (if any) pursuant to the terms of the Option Agreement.

No option premium is payable under the Option Agreement. Upon exercise of the Purchase Option by the Group (if the Group decides to exercise the Purchase Option), the Total Consideration for the Acquisition will be RMB190 million pursuant to the terms of the Option Agreement. The Purchase Option may be exercised by the Group any time during the Option Period.

The cash portion of the Total Consideration in the total amount of RMB25 million was financed by internal resources of the Group. Principal terms of the Convertible Bonds are set out in the section headed “Convertible Bonds” below.

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## LETTER FROM THE BOARD

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The terms of the Option Agreement, including the Total Consideration and the payment terms thereof, were determined after arm's length negotiations between the Parties and after taking into account (a) the factors set out in the section headed "Reasons for entering into the Option Agreement and the benefits of the Acquisition" below (in particular, the Directors' views that (i) the Group's existing business is subject to pressure of increase in operating costs and keen competition in the fashion apparel retail market in Hong Kong, (ii) it will be in the interests of the Group and the Shareholders as a whole for the Group to diversify its business and markets as well as to broaden its source of income, and (iii) the Acquisition which shall take place following exercise of the Purchase Option by the Group (if any) provides the Group with an opportunity to attain these objectives); (b) the then available financial information on the Target Companies, in particular the unaudited net asset value of Equity Pinghong of approximately RMB223.25 million as at 31 March 2008 and the unaudited net liability value of Equity Airui of approximately RMB1.17 million as at 31 March 2008 (as per the then available management accounts of the Target Companies); and (c) the acquisition of 75% equity interests in each of Equity Pinghong and Equity Airui and the Option Loan (which amounted to approximately RMB19.80 million in total as at the Latest Practicable Date) by the Group, upon its exercise of the Purchase Option (if the Group decides to exercise the Purchase Option).

The professional and legal fees and other expenses in the amount of approximately HK\$5.5 million will be directly attributable to the Acquisition.

The Directors (including the independent non-executive Directors) consider that the terms of the Option Agreement, including the Total Consideration, are fair and reasonable and the entering into of the Option Agreement by the Group, as well as the Acquisition together with the issue of the Convertible Bonds as part payment of the Total Consideration which shall take place following exercise of the Purchase Option by the Group (if the Group decides to exercise the Purchase Option) are in the interests of the Group and the Shareholders as a whole.

### **Undertaking from the Grantors and the Guarantor in respect of fulfillment of the Conditions within the Option Period**

Pursuant to the Option Agreement, the Group has the rights at its absolute discretion, but is not obliged, to acquire the Option Interests from Equity Realty HK and the Option Loan from Universal Summit by exercising the Purchase Option. The Grantors and the Guarantor have agreed and undertaken to use their best endeavors to procure the fulfillment of the following Conditions as soon as practicable and in any event before the expiry of the Option Period:

- (a) the Company and the Grantee being satisfied in their absolute discretion with the results of the due diligence review and investigation conducted by the Grantee and/or its agents on the assets, liabilities, operations, and affairs of the Target Companies as the Grantee may reasonably consider appropriate;

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## LETTER FROM THE BOARD

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- (b) there shall not have occurred any effect or change that would be (or could reasonably be expected to be) materially adverse to the business, operations, properties, prospects, assets or conditions (financial or otherwise) of the Target Companies (“Material Adverse Effect”), taken as a whole, or any event, change, effect or development that would, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect on the Target Companies;
- (c) the Grantors and the Guarantor having delivered to the Grantee legal opinion issued by a PRC law firm acceptable to the Grantee, and in form and substance acceptable to the Grantee;
- (d) the passing of the resolution by the Shareholders in a general meeting approving the Option Agreement and the transactions contemplated thereunder (including the exercise of the Purchase Option by the Group (if the Group decides to exercise the Purchase Option), the Acquisition and the issue of the Convertible Bonds upon Completion);
- (e) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares;
- (f) (where required) the Bermuda Monetary Authority granting its permission in respect of the allotment and issue of the Conversion Shares;
- (g) all necessary consents, approval and authorizations having been obtained from all relevant authorities in the PRC, Hong Kong and in any other applicable jurisdiction in connection with the transactions contemplated under the Option Agreement together with the implementation of the transactions and all other matters incidental thereto, including but not limited to the consents from relevant PRC authorities granting concession rights relating to the construction, operation and management of the Pinghong Highway and the Airui Highway for the change in shareholder(s) of the Target Companies; and
- (h) there being no event existing or having occurred and no condition being in existence which would constitute a material breach of any of the representations, warranties, undertakings or indemnities made or given by the Grantors and/or the Guarantor to the Company and the Grantee under the Option Agreement and any other agreement, document or certificate entered into in connection with the transactions contemplated under the Option Agreement.

The Directors consider that except Condition (h) above, they will not waive the Conditions in exercising the Purchase Option. In waiving any matter in relation to Condition (h) above, the Directors will ensure that the waiver will be made in the interests of the Group and the Shareholders as a whole.

As at the Latest Practicable Date, none of the Conditions has been fulfilled.

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## LETTER FROM THE BOARD

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For the avoidance of doubt, if all of the Conditions are fulfilled during the Option Period, the Grantee may or may not exercise the Purchase Option for it is at the absolute discretion of the Grantee as to whether the Purchase Option will be exercised or not. In addition, the Grantee will not exercise the Purchase Option if the Group is not satisfied with the fulfillment of any of the Conditions and the Group does not waive Condition (h) at its absolute discretion on or before date of expiry of the Option Period. If the Group does not exercise the Purchase Option during the Option Period, the Grantors shall forthwith refund the Refundable Deposit without interest to the Group immediately upon expiry of the Option Period. Thereafter, the Option Agreement shall be null and void and of no further effect and no party thereto shall have any further liability to any other parties under or in connection with the Option Agreement without prejudice to the rights of any such parties in respect of any antecedent breaches.

In addition, the Grantors and the Guarantor have undertaken to procure or assist the Group in procuring financing facilities (“Facilities”) in the total amount of not less than RMB700 million for the purpose of financing the Group’s investment in the Target Companies as well as the subsequent development of the Target Highways. The Grantee will not exercise the Purchase Option unless, inter alia, the Facilities are available to the Group. If the Facilities are provided to the Group, the Company will comply with the Listing Rules in publishing relevant announcement and circular and obtaining the Shareholders’ approval, if required.

On execution of the Option Agreement, New Alliance, being shareholder of Equity Realty HK holding 75% of its shares directly, has executed a share charge in favour of the Grantee. Pursuant to the share charge, New Alliance has pledged the said 75% shares in Equity Realty HK to the Grantee to secure the performance by the Grantors of their obligations under the Option Agreement, including the refund of the Refundable Deposit to the Group if the Purchase Option is not exercised by the Group during the Option Period.

Upon exercise of the Purchase Option by the Group during the Option Period, or upon expiry of the Option Period where the Purchase Option is not exercised by the Group (as the case may be), the Company will issue an announcement to inform the public.

### **Completion of the Acquisition following exercise of the Purchase Option by the Group**

Subject to the Group’s decision to exercise the Purchase Option, Completion shall take place on the third business day (or such other date as the Parties may agree in writing) following:

- (a) approval of the transfer of the Option Interests and assignment of the Option Loan (if required) by the relevant PRC government authorities;
- (b) registration of the change of equity holders of each of the Target Companies with the Administration of Industry and Commerce; and

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## LETTER FROM THE BOARD

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- (c) modification of the record on the equity holders and their capital contributions in the articles of association and registers of equity holders of each of the Target Companies.

At Completion, the Company will issue the Convertible Bonds to Universal Summit and/or its nominee(s) as payment of the balance of the Total Consideration.

### THE CONVERTIBLE BONDS

#### Issue of the Convertible Bonds and the principal terms thereof

If the Group exercises the Purchase Option and Completion takes place, part of the Total Consideration in the amount of RMB165 million (equivalent to approximately HK\$183 million) will be settled by way of issue of the Convertible Bonds to Universal Summit and/or its nominee(s) by the Company. Set out below are the principal terms of the Convertible Bonds under the Option Agreement:

|                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Aggregate principal amount                   | US\$23,571,428 (equivalent to RMB165,000,000 at the exchange rate of US\$1 to RMB7) (and no adjustment thereto will be made pursuant to the terms of the Option Agreement).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Maturity Date                                | <p>The date falling three years after the Issue Date, on which all outstanding principal amount, together with accrued interests, shall become due and repayable by the Group to the holder(s) of the Convertible Bonds.</p> <p>Save that the holder(s) of the Convertible Bonds may request the Company to redeem the Convertible Bonds on occurrence of any event of default specified in the terms and conditions of the Convertible Bonds, no part of the outstanding principal amount of the Convertible Bonds may be early redeemed by the Company, and the holder(s) of the Convertible Bonds is/are not entitled to request for early redemption before the Maturity Date.</p> |
| Issue price and redemption price at maturity | <p>Issue price — 100% of the aggregate principal amount of US\$23,571,428.</p> <p>Redemption price at maturity — 110% of the outstanding principal amount of the Convertible Bonds on the Maturity Date.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Face value of the bond certificate           | US\$1,000,000 per bond certificate with the balance of US\$571,428 to be in one bond certificate.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

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## LETTER FROM THE BOARD

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|                   |                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Interest rate     | The Convertible Bonds shall bear an interest at the rate of 2% per annum, payable semi-annually in arrears. In addition, if the Company does not pay any sum payable under the Convertible Bonds when due (“overdue sum”), it shall pay a default interest at the rate of 1% per annum in respect of the outstanding overdue sum during the period beginning on the due date and ending on the date of actual payment of the overdue sum. |
| Conversion Period | The Convertible Bonds, which will amount to US\$23,571,428 in total upon issue, will be convertible during the period from 14 days from the Issue Date to the Maturity Date (being the third anniversary of the Issue Date).                                                                                                                                                                                                              |
| Conversion Price  | The holder(s) of the Convertible Bonds may exercise the conversion rights attaching thereto to subscribe for the Conversion Shares at the Conversion Price in effect during the Conversion Period.                                                                                                                                                                                                                                        |

*Initial Conversion Price:*

HK\$0.90, representing (i) a premium of approximately 38.5% over the closing price of HK\$0.65 per Share on 26 September 2008, being the date of the Option Agreement; (ii) a premium of approximately 34.3% over the average of the closing prices per Share for the five trading days up to and including 26 September 2008, being HK\$0.67 per Share; (iii) a premium of approximately 28.6% over the average of the closing prices per Share for the ten trading days up to and including 26 September 2008, being HK \$0.7 per Share; (iv) a premium of approximately 9.8% over the average of the closing prices per Share for the thirty trading days up to and including 26 September 2008, being HK\$0.82 per Share; and (v) a premium of approximately 73.1% over the closing price per Share on the Latest Practicable Date being HK\$0.52 per Share.

*Others:*

The Conversion Price shall also be subject to certain customary anti-dilution adjustments (including consolidation or subdivision of Shares, capitalization of profits or reserves or capital distribution).

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## LETTER FROM THE BOARD

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|                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Transferability | <p>No assignment or transfer (whether in whole or in part(s)) of the Convertible Bonds may be made unless:</p> <ul style="list-style-type: none"><li>(i) it is made to person(s) independent of and not connected with the Company or any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as such terms are defined in the Listing Rules) (accordingly, the Convertible Bonds may not be transferred to any connected person (has the meaning ascribed thereto under the Listing Rules) of the Company); and</li><li>(ii) the principal amount to be assigned or transferred is at least US\$1,000,000 and in integral multiples of US\$1,000,000, unless the amount of the outstanding Convertible Bonds held by the holder thereof is less than US\$1,000,000 in which case the whole (but not part only) of that amount may be assigned and transferred.</li></ul> |
| Voting          | <p>A holder of the Convertible Bonds will not be entitled to receive notice of, attend or vote at any meeting of the Company by reason only of it being a holder of the Convertible Bonds.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Others          | <ul style="list-style-type: none"><li>(A) The conversion rights of the Convertible Bonds shall not be exercised by a holder thereof if, immediately following the conversion:<ul style="list-style-type: none"><li>(a) the Company will be unable to meet the public float requirement under the Listing Rules; or</li><li>(b) the holder of the Convertible Bonds together with the parties acting in concert with it (has the meaning ascribed thereto under the Hong Kong Code on Takeovers and Mergers) will:<ul style="list-style-type: none"><li>(i) hold or control such amount of the Company's voting power at general meetings as may trigger a mandatory general offer under the Hong Kong Code on Takeovers and Mergers (whether or not a waiver of the mandatory general offer obligation has been granted); or</li></ul></li></ul></li></ul>                                                                                                            |

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## LETTER FROM THE BOARD

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- (ii) hold shareholding interest which is more than the shareholding interest of Ti Yu Investments Limited, the controlling Shareholder of the Company.
- (B) The number of Conversion Shares to be issued on conversion of the Convertible Bonds will be determined by dividing the principal amount of the Convertible Bonds to be converted (translated into Hong Kong dollars at the fixed rate of HK\$7.80=US\$1.00) by the Conversion Price in effect at the date of the conversion.

Upon exercise of the conversion rights attaching to the Convertible Bonds in full at the Initial Conversion Price of HK\$0.90 per Share, a total of approximately 204,285,709 Conversion Shares, representing approximately 82.10% of the existing issued share capital of the Company and approximately 45.08% of the enlarged issued share capital of the Company after issue of the Conversion Shares, will be allotted and issued.

The Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for listing of and permission to deal in the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds.

### **Future announcements in relation to conversion of the Convertible Bonds**

Upon full conversion of the Convertible Bonds, the interests of the existing Shareholders would become materially diluted. Accordingly, the Company will make subsequent disclosure of the relevant details of the conversion relating to the Convertible Bonds in the manner described below to enable the Shareholders and the public to appraise the position of the Company from time to time:

- (i) the Company will make a monthly announcement (the “Monthly Announcement”) on the websites of the Stock Exchange and the Company for so long as any Convertible Bonds are outstanding. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
  - a. whether there is any conversion of the Convertible Bonds during the relevant month. If there is a conversion, details thereof including the conversion date, number of new Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
  - b. the outstanding principle amount of Convertible Bonds after the conversion, if any;

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## LETTER FROM THE BOARD

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- c. the total number of Shares issued pursuant to other transactions during the relevant month, including Shares issued pursuant to exercise of the Call Options for Shares and any options under any share option scheme(s) of the Company; and
  - d. the total issued share capital of the Company as at the commencement and the last day of the relevant month;
- (ii) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares issued pursuant to the conversion of the Convertible Bonds reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be); and
- (iii) if the Company forms the view that any issue of Convertible Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then the Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the Convertible Bonds as mentioned in (i) and (ii) above.

## LETTER FROM THE BOARD

### SHAREHOLDING STRUCTURE

Assuming that the Purchase Option is exercised by the Group and the Convertible Bonds are issued by the Group thereupon, the following table shows the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon full conversion of the Convertible Bonds by Universal Summit and/or its nominee(s) at the Initial Conversion Price of HK\$0.90 per Conversion Share; and (iii) upon full conversion of the Convertible Bonds by the Universal Summit and/or its nominee(s) at the Initial Conversion Price of HK\$0.90 per Share and the exercise of the subscription rights attaching to the Call Options for Shares at the subscription price of HK\$2.80 per Share;

|                                                        | As at the Latest Practicable Date |        | Upon full conversion of the Convertible Bonds by Universal Summit (together with its nominee(s)) (Note 4) |        | Upon full conversion of the Convertible Bonds by Universal Summit (together with its nominee(s)) and the exercise of the subscription rights attaching to the Call Options for Shares (Notes 3 and 4) |        |
|--------------------------------------------------------|-----------------------------------|--------|-----------------------------------------------------------------------------------------------------------|--------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
|                                                        | No. of Shares                     | %      | No. of Shares                                                                                             | %      | No. of Shares                                                                                                                                                                                         | %      |
| Ti Yu Investments Limited (Note 1)                     | 84,004,000                        | 33.76  | 84,004,000                                                                                                | 18.54  | 84,004,000                                                                                                                                                                                            | 17.03  |
| Evolution Master Fund Ltd. SPC, Segregated Portfolio M | 40,324,000                        | 16.20  | 40,324,000                                                                                                | 8.90   | 40,324,000                                                                                                                                                                                            | 8.18   |
| Asian Harvest Enterprises Ltd (Note 2)                 | 30,000,000                        | 12.06  | 30,000,000                                                                                                | 6.62   | 30,000,000                                                                                                                                                                                            | 6.08   |
| Universal Summit (together with its nominee(s))        | —                                 | —      | 204,285,709                                                                                               | 45.08  | 204,285,709                                                                                                                                                                                           | 41.42  |
| <b>Public Shareholders</b>                             |                                   |        |                                                                                                           |        |                                                                                                                                                                                                       |        |
| Holders of Call Options for Shares                     | —                                 | —      | —                                                                                                         | —      | 40,026,000                                                                                                                                                                                            | 8.12   |
| Other public Shareholders                              | 94,512,000                        | 37.98  | 94,512,000                                                                                                | 20.86  | 94,512,000                                                                                                                                                                                            | 19.17  |
| Total                                                  | 248,840,000                       | 100.00 | 453,125,709                                                                                               | 100.00 | 493,151,709                                                                                                                                                                                           | 100.00 |

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## LETTER FROM THE BOARD

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### *Notes:*

1. Ti Yu Investments Limited is solely owned by Mr. Wong Pak Lam, Louis, an executive Director and the Chairman of the Company.
2. Asian Harvest Enterprises Ltd is solely owned by Mr. Gu Zhi Hao and was the subscriber of the new Shares under general mandate. Details of the subscription of the Shares by Asian Harvest Enterprises Ltd were set out in the Company's announcements dated 20 August 2008 and 3 September 2008 respectively.
3. Details of the placing of the Call Options for Shares were set out in the announcement of the Company dated 18 September 2007. The Call Options for Shares were granted in September 2007. Pursuant to the terms of the Call Options for Shares, a total of 40,260,000 Shares will be issued at the initial subscription price of HK\$2.80 per Share upon exercise of the subscription rights attaching to the Call Options for Shares in full during an 18-month period commencing from 25 September 2007, being the date of granting of the Call Option for Shares.
4. According to the terms of the Convertible Bonds, the conversion rights attaching to the Convertible Bonds shall not be exercised by a holder thereof if, among other things, immediately following the conversion, the Company will be unable to meet the public float requirement under the Listing Rules, or if the holder of the Convertible Bonds together with the parties acting in concert with it (has the meaning as ascribed thereto under the Hong Kong Code on Takeovers and Mergers) will (i) hold or control such amount of the Company's voting power at general meetings as may trigger a mandatory general offer under the Hong Kong Code on Takeovers and Mergers (whether or not a waiver of the mandatory general offer obligation has been granted); or (ii) hold shareholding interest which is more than the shareholding interest of Ti Yu Investments Limited, the controlling Shareholder, in the Company (accordingly, the Acquisition will not result in a change in control of the Company). The above table is therefore for illustrative purpose only.

### **INFORMATION ON THE GRANTEE AND THE GRANTORS**

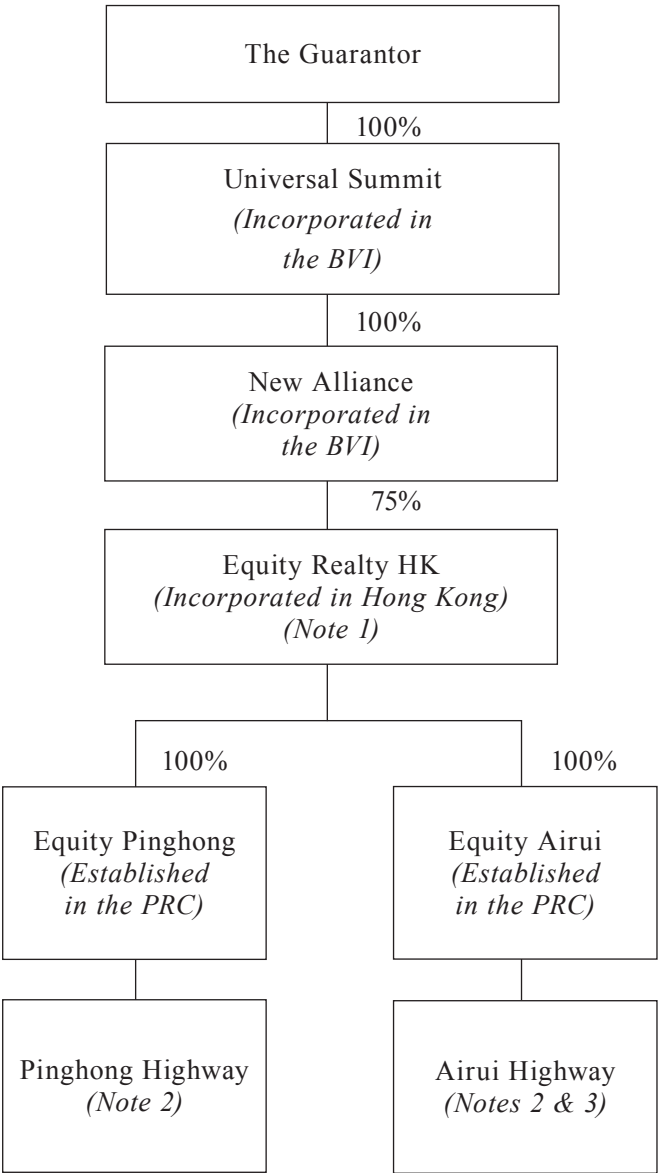
The Grantee was incorporated in the BVI and is a wholly-owned subsidiary of the Company. The Company is an investment holding company. The Group is currently principally engaged in the manufacture, retail and wholesale of fashion apparel and complementary accessories.

Equity Realty HK, one of the Grantors, was incorporated in Hong Kong with limited liability and 75% of its shares are held by New Alliance, a BVI incorporated company which is solely owned by Universal Summit. Universal Summit, the other Grantor, was incorporated in the BVI with limited liability and is beneficially and is wholly owned by the Guarantor. Currently, the principal activities of the Grantors are investment holdings and they are not involved in any operating activities. The Company has been confirmed by Mr. Wong Pak Lam, Louis that the Grantors and the Guarantor have no relationship with him whatsoever.

LETTER FROM THE BOARD

INFORMATION ON THE TARGET COMPANIES

Set out below is the existing shareholding structure of the Target Companies:



Upon Completion of the Acquisition, the Grantee will directly hold 75% shareholding interest of each of the Target Companies while the remaining 25% shareholding interest of each of the Target Companies will be held by Equity Realty HK.

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## LETTER FROM THE BOARD

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### *Notes:*

1. The remaining 25% shareholding interests in Equity Realty HK are held in the following way: 12.5% by an Independent Third Party and 12.5% by another Independent Third Party.
2. Based on the due diligence carried out by the Group so far, the Group has noticed that there are issues, in particular issues regarding the extension/renewal of the concession rights of the Pinghong Highway and the Airui Highway, have yet to be dealt with and/or clarified by Equity Pinghong, Equity Airui and their holding company (for example, according to two concession rights agreements entered into by Equity Realty HK and 江西省交通廳 (Department of Communications of Jiangxi Province) in respect of the concession rights of the Pinghong Highway and the Airui Highway respectively, the construction works of the two highways should have been completed by 30 December 2007, otherwise 江西省交通廳 (Department of Communications of Jiangxi Province) may not agree to extend the concession rights. As at the Latest Practicable Date, the construction works of the Pinghong Highway and the Airui Highway have not been completed, and application relating to the extension of the concession rights have not been made by the Grantors, Equity Pinghong or Equity Airui. Pursuant to the terms of the Option Agreement, all of the Conditions, in particular Condition (g), shall be fulfilled in full or, in respect of Condition (h) only, waived by the Group, otherwise the Group will not exercise the Purchase Option.
3. The Option Loan due by Equity Airui to Universal Summit amounted to approximately RMB19.8 million as at the Latest Practicable Date.

The Target Companies, Equity Pinghong and Equity Airui, are principally engaged in development and operation of the Pinghong Highway and the Airui Highway in the PRC respectively. Set out below is information on the Target Companies:

### **Equity Pinghong**

Equity Pinghong was established in the PRC for the purpose of constructing and operating Pinghong Highway. Equity Realty HK, one of the Grantors, holds 100% equity interest in Equity Pinghong. Equity Realty HK entered into an agreement with Department of Communications of Jiangxi Province (江西省交通廳) on 9 September 2005 pursuant to which a wholly foreign owned enterprise established by Equity Realty HK in Jiangxi Province would be granted the right to construct Pinghong Highway and subsequently to operate the highway during a 310-month period starting from the first day when toll fares are received for the Pinghong Highway. On 30 September 2006, Equity Pinghong has obtained a RMB800,000,000 loan facility with the Guangzhou Baiyun Road Branch of the Industrial and Commercial Bank of China for a period of 20 years. Pursuant to this arrangement, the bank loan is guaranteed by an ultimate shareholder of Equity Pinghong during the construction phase and secured by the operating right of the highway subsequent to the toll road has commenced its operation.

Based on the due diligence carried out by the Group so far, the Group has noticed that there are material issues yet to be dealt with and/or clarified by Equity Pinghong and the Grantors. These issues include (i) the failure of Equity Realty HK to contribute the registered capital within prescribed time; (ii) the performance bonds provided by Equity Realty HK to the relevant government authority may not be in compliance with the prescribed requirements; (iii) the construction progress was not in compliance with the prescribed requirements; (iv)

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## LETTER FROM THE BOARD

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the legality in reclaiming and changing of usage of the adjacent lands; and (v) the failure of Equity Realty HK in obtaining certain construction approvals and land use rights, which issues may adversely affect the subsistence, extension and/or renewal of the concession rights of Equity Pinghong.

The Company will consider exercising the Purchase Option (i) only upon receiving a legal opinion issued by a PRC law firm acceptable to the Grantee, which sets out, inter alia, a clean opinion in respect to the settlement of all outstanding issues to be dealt with and/or clarified by Equity Realty HK or Equity Pinghong, and (ii) as set out in the paragraph headed “Undertaking from the Grantors and the Guarantor in respect of fulfillment of the Conditions within the Option Period” above, all of the Conditions shall be fulfilled in full or, in respect of Condition (h) only, waived by the Group.

The construction work of the Pinghong Highway is still in progress. It is designed to be a Class 1 dual four-lane highway with a total length of 34.4 km starting from Pingxian City (萍鄉市) (near the south of National Road 320) and ending at Hongkoujie (洪口界) of Jiangxi Province, which is at the intersection of Jiangxi Province and Hunan Province. Based on the information provided by the Grantors, it is expected that the operation of the Pinghong Highway will commence in December 2009. It is expected that the Pinghong Highway will improve the traffic network in Pingxian City (萍鄉市) of Jiangxi Province as well as to enhance the traffic flow between the mid-west of Jiangxi Province and Changsha (長沙), Zhuzhou (株洲) as well as Xiangtau (湘潭) of Hunan Province.

### **Equity Airui**

Equity Airui was established in the PRC for the purpose of constructing and operating the Airui Highway. Equity Realty HK holds 100% equity interest in Equity Airui. Equity Realty HK entered into an agreement with Department of Communications of Jiangxi Province (江西省交通廳) on 9 September 2005 pursuant to which a wholly foreign owned enterprise established by Equity Realty HK in Jiangxi Province would be granted the right to construct the Airui Highway and subsequently to operate the highway for a 262-month period starting from the first day when toll fares are received for the Airui Highway.

Based on the due diligence carried out by the Group so far, the Group has noticed that there are material issues yet to be dealt with and/or clarified by Equity Airui and the Grantors. These issues include (i) the failure of Equity Realty HK to contribute the registered capital within prescribed time; (ii) the failure of Equity Realty HK to provide performance bonds in accordance with prescribed requirements; (iii) the construction work has not commenced in accordance with the prescribed requirements, which issues may adversely affect the subsistence, extension and/or renewal of the concession rights of Equity Airui.

The Company will consider exercising the Purchase Option (i) only upon receiving a legal opinion issued by a PRC law firm acceptable to the Grantee, which sets out, inter alia, a clean opinion in respect to the settlement of all outstanding issues to be dealt with and/or clarified by Equity Realty HK or Equity Airui, and (ii) as set out in the paragraph headed

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## LETTER FROM THE BOARD

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“Undertaking from the Grantors and the Guarantor in respect of fulfillment of the Conditions within the Option Period” above, all of the Conditions shall be fulfilled in full or, in respect of Condition (h) only, waived by the Group.

The construction work of the Airui Highway has not been commenced. It is designed to be a Class 1 dual four-lane highway with a total length of 31 km stretching from Ailing (隘岭), which is located at the border of Jiangxi Province and Fujian Province, to Ruijin (瑞金) of Jiangxi Province. The Airui Highway will intersect with the National Highway from Xiamen (廈門) to Chengdu (成都), capital city of Sichuan Province, at Ruijin (瑞金). As Xiamen (廈門) is close to Taiwan, it is expected that Airui Highway will benefit from the expected increase in flow of traffic between the PRC and Taiwan if direct traffic is allowed between the PRC and Taiwan in the future. Based on the information provided by the Grantors, it is expected that the operation of the Airui Highway will commence in the second half of year 2010.

### Financial information

Set out below is the financial information on Equity Pinghong and Equity Airui extracted from the respective accountants’ reports on the Target Companies which are set out in Appendices IIA to IIB to this circular:

### Profits/losses

| Company                         | For the year ended<br>31 December 2006 |               | For the year ended<br>31 December 2007 |               |
|---------------------------------|----------------------------------------|---------------|----------------------------------------|---------------|
|                                 | Profit/(Loss)                          | Profit/(Loss) | Profit/(Loss)                          | Profit/(Loss) |
|                                 | before                                 | after         | before                                 | after         |
|                                 | taxation and                           | taxation and  | taxation and                           | taxation and  |
|                                 | extraordinary                          | extraordinary | extraordinary                          | extraordinary |
|                                 | items                                  | items         | items                                  | items         |
|                                 | (Audited)                              | (Audited)     | (Audited)                              | (Audited)     |
|                                 | (Approximate)                          | (Approximate) | (Approximate)                          | (Approximate) |
| Equity Pinghong (RMB'000)       | (6,562)                                | (6,562)       | (2,956)                                | (2,956)       |
| Equity Airui (RMB'000) (Note 1) | (—)                                    | (—)           | (957)                                  | (957)         |

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## LETTER FROM THE BOARD

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### Net asset/(liability) value

|                                    | Net asset/(liability) value |         |
|------------------------------------|-----------------------------|---------|
|                                    | (Audited)                   |         |
|                                    | (Approximate)               |         |
|                                    | As at                       | As at   |
|                                    | 31 December                 | 30 June |
|                                    | 2007                        | 2008    |
| <b>Company</b>                     |                             |         |
| Equity Pinghong ( <i>RMB'000</i> ) | 223,819                     | 222,036 |
| Equity Airui ( <i>RMB'000</i> )    | (957)                       | 2,237   |

*Note 1:* In respect of the period from 23 October 2007 (date of establishment of Equity Airui) to 31 December 2007.

If the Purchase Option is exercised by the Group and the Completion takes place, Equity Pinghong and Equity Airui will become 75%-owned subsidiaries of the Company and their financial results will be consolidated with those of the Group.

### REASONS FOR ENTERING INTO THE OPTION AGREEMENT AND THE BENEFITS OF THE ACQUISITION

The Group is currently principally engaged in the manufacture, retail and wholesale of fashion apparel and complementary accessories. Based on the information set out in the Company's annual report for the year ended 31 March 2008 which is replicated in Appendix I to this circular, approximately 98.5% and 100% of the Group's audited consolidated turnover for the years ended 31 March 2007 and 2008 respectively were attributable to sales to external customers in Hong Kong. In addition, the Group recorded audited net losses of approximately HK\$2.56 million and HK\$21.64 for the years ended 31 March 2007 and 2008 respectively. The Directors consider that the Group's business is subject to pressure of increase in operating costs, and keen competition in the fashion apparel retail market in Hong Kong. The Directors therefore are of the view that it will be in the interests of the Group and the Shareholders as a whole if the Group is able to diversify its business and markets as well as to broaden its source of income. The Company and Yield Long, a wholly-owned subsidiary of the Company, therefore entered into the Sale and Purchase Agreement for the purposes of diversifying the Group's business and markets as well as broadening its source of income through the acquisition from Universal Summit of interests in certain companies, which hold controlling interests in four highways (including the Pinghong Highway, the Airui Highway and the other two highways) and certain investment properties in the PRC. Pursuant to the terms of the Sale and Purchase Agreement, due diligence in respect of, among other things, the four highways and the investment properties has been carried out by the Group. However, the Group has not been provided with sufficient information for the due diligence

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## LETTER FROM THE BOARD

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in respect of the companies holding the other two highways and the investment properties due to the unavailability of such information as per Universal Summit. In addition, the Group has noticed there are material issues yet to be dealt with and/or clarified by Equity Realty HK, Equity Pinghong or Equity Airui (details of the issues identified by the Company are summarised under the paragraphs headed “Equity Pinhong” and “Equity Airui” above). Only upon receiving a legal opinion issued by a PRC law firm acceptable to the Grantee, which sets out, inter alia, a clean opinion in respect to the settlement of all outstanding issues to be dealt with and /or clarified by Equity Realty HK, Equity Ping Hong or Equity Airui, the Company will consider exercising the Purchase Option.

After further negotiation, the Parties have agreed to simultaneously enter into the Termination Agreement (which was entered into for the purpose of terminating the Sale and Purchase Agreement) and the Option Agreement in order to (i) streamline the acquisition targets of the Group by focusing investment on the development and operation of the Pinghong Highway and the Airui Highway; (ii) grant the Purchase Option, pursuant to which the Group has the rights at its absolute discretion, but is not obliged, to acquire the Option Interests (being 75% equity interests in each of Equity Pinghong and Equity Airui) and the Option Loan, to the Group (and the Group will consider to exercise of the Purchase Option only after fulfillment of the Conditions (or as appropriate, waiver of Condition (h) by the Group) detailed in the above paragraph headed “Undertaking from the Grantors and the Guarantor in respect of fulfillment of the Conditions within the Option Period” of the section headed “The Option Agreement” in full); and (iii) set out the principle terms of the Convertible Bonds which will be issued by the Company to partly settle the Total Consideration upon exercise of the Purchase Option by the Group (if the Group decides to exercise the Purchase Option). The Directors consider that by entering into the Option Agreement, on one hand the Group will retain the opportunity to diversify its business, market and income source through investment on the Pinghong Highway and the Airui Highway; on the other hand the Group has the rights at its absolute discretion, but is not obliged, to acquire the Option Interests and the Option Loan by exercising the Purchase Option only until all the Conditions, in particular Condition (g), are fulfilled in full, or in respect of Condition (h) only, waived by the Group, in which case the risk of the Group would be reduced.

### FINANCIAL IMPACT ON THE GROUP

Upon Completion (which will take place if the Group exercises the Purchase Option), the Target Companies will become 75%-owned subsidiaries of the Company and the Group will consolidate the financial results of the Target Companies into the Group’s financial statements.

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## LETTER FROM THE BOARD

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### Effects on assets and liabilities

As at 31 March 2008, the audited consolidated total asset value and the audited consolidated total liabilities of the Group amounted to approximately HK\$90.57 million and HK\$20.99 million respectively.

According to the unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to this circular, as at 31 March 2008, (i) the unaudited pro forma total assets of the Enlarged Group would be approximately HK\$732.08 million and (ii) the unaudited pro forma total liabilities of the Enlarged Group would be approximately HK\$611.22 million.

### Effects on earnings

For the year ended 31 March 2008, the audited consolidated net loss of the Group amounted to approximately HK\$21.64 million.

According to the unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma consolidated net loss of the Enlarged Group would be approximately HK\$41.84 million for the year ended 31 March 2008.

### FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

With regard to the prospects of the Enlarged Group after Completion (which will take place if the Group exercises the Purchase Option), the Directors believe that it will be able to diversify the business and markets as well as to broaden the source of income of the Enlarged Group upon completion of the construction work of and commencement of the operation of the Pinghong Highway (currently expected to be in December 2009) and the Airui Highway (currently expected to be in the second half of 2010). With regard to the existing apparel retail business, as set out in the annual report of the Group for the year ended 31 March 2008, the Group is seeking strategic partners with solid experience in brand building to develop the Group's "Gay Giano" and "Cour Carré" brands in the PRC. Having considered the limitations of the Hong Kong retail market, the Directors consider that such expansion plan, when successfully implemented, will enhance the income base of the Group which is in the interests of the Group and the Shareholders as a whole.

### PROPOSED CHANGE OF COMPANY NAME

The Board proposes to change the name of the Company from "Gay Giano International Group Limited" to "Time Infrastructure Holdings Limited". Upon the change of name becoming effective, the Company will adopt the new Chinese name "太益控股有限公司" (for identification purpose only). The Company will issue a further announcement in relation to the change of the stock short name.

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## LETTER FROM THE BOARD

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The proposed change of name of the Company is subject to the approval by the Shareholders by way of a special resolution at the SGM and the issue of the relevant certificate of incorporation on change of name by the Registrar of Companies in Bermuda to the Company approving such change.

The proposed name change is to reflect the diversification of the businesses of the Group, and to signify the new identity of the Company following the Completion of the Acquisition, which will take place if the Group decides to exercise the Purchase Option.

The proposed change of name of the Company will not affect any of the rights of the Shareholders. All existing Share certificates in issue bearing the present name of the Company will, after the proposed change of name of the Company becoming effective, continue to be evidence of title to the Shares and will be valid for trading, settlement and registration purposes. Accordingly, there will not be any arrangement for free exchange of existing Share certificates for new Share certificates under the Company's new name. Any issue of Share certificates thereafter will be under the new name of the Company.

### LISTING RULES IMPLICATIONS

The Acquisition following exercise of the Purchase Option by the Group (if the Group decides to exercise the Purchase Option) under the Option Agreement constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is subject to the Shareholders' approval at the SGM. In addition, the issue of the Convertible Bonds by the Company to partly settle the Total Consideration under the Option Agreement is also subject to Shareholders' approval at the SGM pursuant to Rule 13.36(1) of the Listing Rules. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder has an interest in the Option Agreement and the Acquisition, which is materially different from the other Shareholders. Therefore, no Shareholder is required to abstain from voting on the resolution to be proposed at the SGM to approve the Option Agreement and the transactions contemplated thereunder (including the exercise of the Purchase Option and the issue of the Convertible Bonds).

The Company has complied with the requirements under Rule 14.76(2) of the Listing Rules and has disclosed in this circular (i) the actual monetary value of the Total Consideration payable upon exercise of the Purchase Option; (ii) all other relevant information in relation to the Option Agreement including the major terms of the Option Agreement, accountants' reports on the Target Companies, traffic study report on the two Target Highways of the Target Companies and the report on operation costs, maintenance costs and construction costs of the Target Highways. In addition, as a condition for the exercise of the Purchase Option by the Group pursuant to the Option Agreement, the Group will consider exercising the Purchase Option only if, inter alia, the Company and the Grantee are satisfied in their absolute discretion with the results of the due diligence review and investigation conducted by the Grantee and/or its agents on the assets, liabilities, operations, and affairs of the Target

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## LETTER FROM THE BOARD

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Companies as the Grantee may reasonably consider appropriate. The Group will not exercise the Purchase Option if at the time of exercising the Purchase Option, the relevant information disclosed to the Shareholders at the time of approval at the SGM has been changed in order to comply with Rule 14.76(2) of the Listing Rules.

### THE SGM

A notice of the SGM to be held at Function Room (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 28 November 2008 at 3:30 p.m. is set out on pages 215 to 217 of this circular. At the SGM, the Company will seek the Shareholders' approval of the resolutions relating to the Option Agreement and the transactions contemplated thereunder (including the exercise of the Purchase Option and the issue of the Convertible Bonds), and the proposed change of the Company's name.

A proxy form containing the proposed resolutions is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon 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 or any adjournment thereof should you so wish.

### PROCEDURE TO DEMAND A POLL BY SHAREHOLDERS

Pursuant to bye-law 73 of the Company's bye-laws, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by (i) the Chairman of the meeting; or (ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or (iii) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or (iv) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up all the Shares conferring that right; or (v) if required by the Listing Rules, by the Chairman of such meeting and/or Directors who, individually or collectively, hold proxies in respect of Shares respectively five per cent (5%) or more of the total voting rights at such meeting.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Directors consider that (i) the Option Agreement and the transaction contemplated thereunder, including the Acquisition which will take place if the Purchase Option is exercised by the Group as well as the issue of the Convertible Bonds thereupon, are in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Option Agreement are fair and reasonable. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution as set out in the notice of SGM to approve the Option Agreement, together with the transactions contemplated thereunder (including the exercise of the Purchase Option and the issue of the Convertible Bonds).

The Directors are of the view that the proposed change of the name of the Company to “Time Infrastructure Holdings Limited” and the proposed adoption the new Chinese name “太益控股有限公司” (for identification purpose only) would reflect the diversification of the businesses of the Group, and signify the new identity of the Company following the completion of the Acquisition which will take place if the Purchase Option is exercised by the Group. Accordingly, the Board recommends the Shareholders to vote in favour of the special resolution as set out in the notice of SGM to approve the proposed change of Company’s name and the adoption of new Chinese name.

### FURTHER INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular and the notice of the SGM.

By order of the Board  
**GAY GIANO INTERNATIONAL GROUP LIMITED**  
**Wong Pak Lam, Louis**  
*Chairman*

**1. SUMMARY OF FINANCIAL INFORMATION**

The following is a summary of the consolidated financial information on the Group for each of the three years ended 31 March 2006, 2007 and 2008 as extracted from the annual reports of the Company:

**Results**

|                             | <b>For the year ended 31 March</b> |                 |                 |
|-----------------------------|------------------------------------|-----------------|-----------------|
|                             | <b>2008</b>                        | <b>2007</b>     | <b>2006</b>     |
|                             | <i>HK\$'000</i>                    | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue                     | <u>131,081</u>                     | <u>131,447</u>  | <u>132,785</u>  |
| (Loss) profit before tax    | (21,644)                           | (1,986)         | 1,680           |
| Income tax (expense) credit | <u>—</u>                           | <u>(572)</u>    | <u>463</u>      |
| (Loss) profit for the year  | <u>(21,644)</u>                    | <u>(2,558)</u>  | <u>2,143</u>    |

**Assets and liabilities**

|                   | <b>At 31 March</b> |                 |                 |
|-------------------|--------------------|-----------------|-----------------|
|                   | <b>2008</b>        | <b>2007</b>     | <b>2006</b>     |
|                   | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Total assets      | 90,565             | 63,629          | 68,438          |
| Total liabilities | <u>(20,988)</u>    | <u>(13,451)</u> | <u>(16,114)</u> |
|                   | <u>69,577</u>      | <u>50,178</u>   | <u>52,324</u>   |

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2008

The following is extracted from the text of the audited financial statements of the Group with the accompanying notes contained on pages 25 to 56 of the annual report of the Company for the year ended 31 March 2008.

### Consolidated income statement

*For the year ended 31 March 2008*

|                         | <i>Notes</i> | <b>2008</b><br><i>HK\$'000</i>  | <b>2007</b><br><i>HK\$'000</i> |
|-------------------------|--------------|---------------------------------|--------------------------------|
| Revenue                 | 7            | 131,081                         | 131,447                        |
| Cost of sales           |              | <u>(50,752)</u>                 | <u>(45,936)</u>                |
| Gross profit            |              | 80,329                          | 85,511                         |
| Other income            |              | 1,571                           | 931                            |
| Distribution costs      |              | (48,393)                        | (47,641)                       |
| Administrative expenses |              | (54,742)                        | (40,509)                       |
| Finance costs           | 8            | <u>(409)</u>                    | <u>(278)</u>                   |
| Loss before tax         |              | (21,644)                        | (1,986)                        |
| Income tax expense      | 9            | <u>—</u>                        | <u>(572)</u>                   |
| Loss for the year       | 10           | <u><u>(21,644)</u></u>          | <u><u>(2,558)</u></u>          |
| Dividends               | 12           | <u><u>—</u></u>                 | <u><u>—</u></u>                |
| Loss per share          | 13           |                                 |                                |
| — Basic                 |              | <u><u>HK\$(10.28) cents</u></u> | <u><u>HK\$(1.28) cents</u></u> |
| — Diluted               |              | <u><u>N/A</u></u>               | <u><u>N/A</u></u>              |

**Consolidated balance sheet***As at 31 March 2008*

|                                             |              | <b>2008</b>     | <b>2007</b>     |
|---------------------------------------------|--------------|-----------------|-----------------|
|                                             | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <b>Non-current assets</b>                   |              |                 |                 |
| Property, plant and equipment               | 14           | 13,423          | 12,361          |
| Rental deposits                             |              | 4,761           | 4,459           |
|                                             |              | <u>18,184</u>   | <u>16,820</u>   |
| <b>Current assets</b>                       |              |                 |                 |
| Inventories                                 | 15           | 21,794          | 25,603          |
| Trade receivables, deposits and prepayments | 16           | 35,693          | 2,128           |
| Rental deposits                             |              | 4,926           | 4,607           |
| Tax recoverable                             |              | 292             | 181             |
| Pledged bank deposits                       | 17           | 3,500           | 3,500           |
| Bank balances and cash                      | 18           | 6,176           | 10,790          |
|                                             |              | <u>72,381</u>   | <u>46,809</u>   |
| <b>Current liabilities</b>                  |              |                 |                 |
| Trade payables and accruals                 | 19           | 8,440           | 6,298           |
| Amount due to a director                    | 20           | 1,200           | —               |
| Secured bank borrowings                     | 21           | 7,600           | 5,212           |
| Obligation under a finance lease            | 22           | 59              | 279             |
|                                             |              | <u>17,299</u>   | <u>11,789</u>   |
| <b>Net current assets</b>                   |              | <u>55,082</u>   | <u>35,020</u>   |
| <b>Non-current liabilities</b>              |              |                 |                 |
| Obligation under a finance lease            | 22           | —               | 159             |
| Provision for long service payments         | 23           | 3,689           | 1,503           |
|                                             |              | <u>3,689</u>    | <u>1,662</u>    |
|                                             |              | <u>69,577</u>   | <u>50,178</u>   |
| <b>Capital and reserves</b>                 |              |                 |                 |
| Share capital                               | 25           | 21,884          | 20,013          |
| Reserves                                    |              | 47,693          | 30,165          |
|                                             |              | <u>69,577</u>   | <u>50,178</u>   |

**Consolidated statement of changes in equity***For the year ended 31 March 2008*

|                                                                   | Attributable to equity holders of the Company |               |                      |                       |                     |                              |                              | Total    |
|-------------------------------------------------------------------|-----------------------------------------------|---------------|----------------------|-----------------------|---------------------|------------------------------|------------------------------|----------|
|                                                                   | Share capital                                 | Share premium | Call options reserve | Share options reserve | Translation reserve | Property revaluation reserve | Accumulated profits (losses) |          |
|                                                                   | HK\$'000                                      | HK\$'000      | HK\$'000             | HK\$'000              | HK\$'000            | HK\$'000                     | HK\$'000                     | HK\$'000 |
| At 1 April 2006                                                   | 20,013                                        | 26,137        | —                    | —                     | 146                 | 353                          | 5,675                        | 52,324   |
| Surplus on revaluation of leasehold land and buildings            | —                                             | —             | —                    | —                     | —                   | 408                          | —                            | 408      |
| Exchange differences arising on translation of foreign operations | —                                             | —             | —                    | —                     | 4                   | —                            | —                            | 4        |
| Total income recognised directly in equity                        | —                                             | —             | —                    | —                     | 4                   | 408                          | —                            | 412      |
| Loss for the year                                                 | —                                             | —             | —                    | —                     | —                   | —                            | (2,558)                      | (2,558)  |
| At 31 March 2007                                                  | 20,013                                        | 26,137        | —                    | —                     | 150                 | 761                          | 3,117                        | 50,178   |
| Surplus on revaluation of leasehold land and buildings            | —                                             | —             | —                    | —                     | —                   | 714                          | —                            | 714      |
| Exchange differences arising on translation of foreign operations | —                                             | —             | —                    | —                     | 108                 | —                            | —                            | 108      |
| Total income recognised directly in equity                        | —                                             | —             | —                    | —                     | 108                 | 714                          | —                            | 822      |
| Loss for the year                                                 | —                                             | —             | —                    | —                     | —                   | —                            | (21,644)                     | (21,644) |
| Total recognised income and expense for the year                  | —                                             | —             | —                    | —                     | 108                 | 714                          | (21,644)                     | (20,822) |
| Recognition of equity-settled share-based payment expenses        | —                                             | —             | —                    | 3,643                 | —                   | —                            | —                            | 3,643    |
| Shares issued                                                     | 1,000                                         | 22,400        | —                    | —                     | —                   | —                            | —                            | 23,400   |
| Transaction costs attributable to issue of shares                 | —                                             | (361)         | —                    | —                     | —                   | —                            | —                            | (361)    |
| Transaction costs attributable to issue of call options           | —                                             | —             | (270)                | —                     | —                   | —                            | —                            | (270)    |
| Issue of call options (note 26)                                   | —                                             | —             | 11,607               | —                     | —                   | —                            | —                            | 11,607   |
| Issue of shares upon exercise of share options                    | 871                                           | 1,331         | —                    | —                     | —                   | —                            | —                            | 2,202    |
| At 31 March 2008                                                  | 21,884                                        | 49,507        | 11,337               | 3,643                 | 258                 | 1,475                        | (18,527)                     | 69,577   |

**Consolidated cash flow statement***For the year ended 31 March 2008*

|                                                                    | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|--------------------------------------------------------------------|--------------------------------|--------------------------------|
| <b>Operating activities</b>                                        |                                |                                |
| Loss before tax                                                    | (21,644)                       | (1,986)                        |
| Adjustments for:                                                   |                                |                                |
| Depreciation of property, plant and equipment                      | 3,011                          | 2,424                          |
| Loss on disposal of property, plant and equipment                  | 1,051                          | 1,286                          |
| Write down of inventories                                          | 4,769                          | 1,804                          |
| Provision for long service payments                                | 2,186                          | —                              |
| Provision for lease reinstatement costs                            | 564                            | —                              |
| Share-based payment expenses                                       | 3,643                          | —                              |
| Interest income                                                    | (291)                          | (219)                          |
| Finance costs                                                      | 409                            | 278                            |
| Operating (loss) profit before working capital changes             | (6,302)                        | 3,587                          |
| (Increase) decrease in rental deposits                             | (621)                          | 296                            |
| Increase in inventories                                            | (960)                          | (12)                           |
| (Increase) decrease in trade receivables, deposits and prepayments | (665)                          | 66                             |
| Increase (decrease) in trade payables and accruals                 | 1,578                          | (3,164)                        |
| Cash (used in) generated from operations                           | (6,970)                        | 773                            |
| Income taxes refunded                                              | 75                             | —                              |
| Income taxes paid                                                  | (186)                          | (189)                          |
| Interest paid                                                      | (409)                          | (278)                          |
| <b>Net cash (used in) from operating activities</b>                | <b>(7,490)</b>                 | <b>306</b>                     |
| <b>Investing activities</b>                                        |                                |                                |
| Interest received                                                  | 291                            | 219                            |
| Proceeds on disposal of property, plant and equipment              | 214                            | 35                             |
| Purchases of property, plant and equipment                         | (4,516)                        | (2,071)                        |
| Deposits paid for acquisition of investments                       | (32,900)                       | —                              |
| <b>Net cash used in investing activities</b>                       | <b>(36,911)</b>                | <b>(1,817)</b>                 |

|                                                                                            | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|--------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Financing activities</b>                                                                |                  |                  |
| Repayments of secured bank borrowings                                                      | (23,469)         | (18,980)         |
| Secured bank borrowings raised                                                             | 25,857           | 19,325           |
| Repayments of obligation under a finance lease                                             | (379)            | (178)            |
| Repayments of other loan                                                                   | —                | (59)             |
| Advance from a director                                                                    | 1,200            | —                |
| Proceeds from issue of shares                                                              | 23,400           | —                |
| Proceeds from issue of call options                                                        | 11,607           | —                |
| Expenses on issue of shares                                                                | (361)            | —                |
| Expenses on issue of call options                                                          | (270)            | —                |
| Proceeds from issue of shares upon exercise of<br>share options                            | 2,202            | —                |
| <b>Net cash from financing activities</b>                                                  | 39,787           | 108              |
| <b>Net decrease in cash and cash equivalents</b>                                           | (4,614)          | (1,403)          |
| <b>Cash and cash equivalents at beginning of year</b>                                      | 10,790           | 12,193           |
| <b>Cash and cash equivalents at end of year,<br/>represented by bank balances and cash</b> | 6,176            | 10,790           |

Notes to the consolidated financial statements

For the year ended 31 March 2008

1. General

The Company was incorporated in Bermuda on 3 February 2000 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of the annual report.

During the year, the then ultimate holding company, Gay Giano (BVI) Group Limited, a company incorporated in the British Virgin Islands, disposed of its entire shareholding of the Company. Consequently, the directors consider the Company to be the ultimate holding company of the Group as at 31 March 2008.

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 35.

2. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRS(s)”) / Change of accounting estimates

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are effective for the Group’s financial year beginning 1 April 2007.

|                    |                                                 |
|--------------------|-------------------------------------------------|
| HKAS 1 (Amendment) | Capital Disclosures                             |
| HKFRS 7            | Financial Instruments: Disclosures              |
| HK(IFRIC) — Int 8  | Scope of HKFRS 2                                |
| HK(IFRIC) — Int 9  | Reassessment of Embedded Derivatives            |
| HK(IFRIC) — Int 10 | Interim Financial Reporting and Impairment      |
| HK(IFRIC) — Int 11 | HKFRS 2 — Group and Treasury Share Transactions |

The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

|                          |                                                                                                                 |
|--------------------------|-----------------------------------------------------------------------------------------------------------------|
| HKAS 1 (Revised)         | Presentation of Financial Statements <sup>1</sup>                                                               |
| HKAS 23 (Revised)        | Borrowing Costs <sup>1</sup>                                                                                    |
| HKAS 27 (Revised)        | Consolidated and Separate Financial Statements <sup>2</sup>                                                     |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>                              |
| HKFRS 2 (Amendment)      | Vesting Conditions and Cancellations <sup>1</sup>                                                               |
| HKFRS 3 (Revised)        | Business Combinations <sup>2</sup>                                                                              |
| HKFRS 8                  | Operating Segments <sup>1</sup>                                                                                 |
| HK(IFRIC) — Int 12       | Service Concession Arrangements <sup>3</sup>                                                                    |
| HK(IFRIC) — Int 13       | Customer Loyalty Programmes <sup>4</sup>                                                                        |
| HK(IFRIC) — Int 14       | HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>3</sup> |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The Group is in the process of making an assessment of what the impact of these amendments, new and revised standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

### **2a. Change of accounting estimates**

In previous years, leasehold improvements were depreciated at 20% per annum. With effect from 1 April 2007, leasehold improvements are to be depreciated at 33.3% per annum. After reviewing the depreciation policy of comparable companies and the expected duration during which the Group's leasehold improvements can be utilised, the directors of the Company are of the opinion that the estimated useful life of the Group's leasehold improvements should be changed from 5 years to 3 years in order to reflect the real performance of the Group and help providing a clear financial comparison with other comparable companies. This constitutes a change in accounting estimate and is applied prospectively. This change in depreciation rate has increased the depreciation charge for the year by approximately HK\$612,000.

### **3. Significant accounting policies**

The consolidated financial statements have been prepared on the historical cost basis except for certain leasehold land and buildings which are measured at revalued amounts, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the goods sold in the normal course of business, net of discounts.

Royalty fee income is recognised on a straight-line basis over the royalty period.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

***Property, plant and equipment***

Land and buildings held for use in production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sales or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Other property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, whether shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

### ***Impairment losses***

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

### ***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### ***The Group as lessee***

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

*Leasehold land and building*

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

*Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

*Employee benefit**Retirement benefits costs*

Payments to defined contribution retirement benefit plans and Mandatory Provident Fund Scheme are charged as expense when employees have rendered services entitling them to the contributions.

*Long service payments*

The Group's net obligations in respect of long service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that the employees have earned in return for their services in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributed to contributions made by the Group. The discount rate is the yield at balance sheet date based on Exchange Fund Notes which have terms similar to the estimated terms of the related liability.

*Foreign currencies*

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

#### ***Borrowing costs***

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

#### ***Taxation***

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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 can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit 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. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

*Financial instruments*

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated profit or loss.

*Financial assets*

The Group's financial assets are classified as loans and receivables.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, deposits, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on loans and receivables below).

*Impairment of loans and receivables*

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 60 days, observable changes in national or local economic conditions that correlate with default on trade receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### ***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

#### ***Financial liabilities***

Financial liabilities (including trade payables, amount due to a director and secured bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

#### ***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

***Provisions***

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

***Equity-settled share-based payment transactions******Share options granted and vested before 7 November 2002***

The financial impact of share options granted is not recorded in the Company's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

***Share options granted after 7 November 2002 and vested after 1 April 2005***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting period or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

***Share options granted to consultants***

Share options issued in exchange for services are measured at the fair values of the share options granted. The fair values of the services received are recognised as expenses immediately.

**4. Key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Inventory valuation***

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value of inventories is the estimated selling prices in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of change in customer taste and competitor actions in response to severe industry cycle. The Group reassesses these estimates at each balance sheet date.

As at 31 March 2008, the directors of the Company have identified slow-moving inventories during the year. Where the actual cash flows are less than expected, a material write-down of raw materials, work in progress and finished goods to estimated net realisable value may arise. The carrying amount of inventories at the balance sheet date was HK\$21,794,000 (2007: HK\$25,603,000) after a write-down of raw materials, work in progress and finished goods.

***Provision for long service payments and annual leave***

A provision is made for the estimated liability for long service payments and annual leave and the calculation of which involves assumptions and assessment on the employees' final salary, years of service, employee turnover rate, the change of labour market condition and other relevant economic and strategic policies. Adjustment of provision is dependent on the aggregate effect of relevant factors which involve considerable degree of estimation. The management will also consider taking reference to the independent valuers' report in assessing whether adjustment on provision is required. Where the actual cash flows are less than expected, a material provision for long service payments and annual leave may arise. The carrying amount of provision for long service payments and annual leave at the balance sheet date was HK\$3,689,000 (2007: HK\$1,503,000).

**5. Capital risk management**

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

The capital structure of the Group consists of debt, which includes the secured bank borrowings disclosed in note 21 and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and their associated risks thereto. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

## 6. Financial instruments

### 6a. Categories of financial instruments

|                                                             | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|-------------------------------------------------------------|------------------|------------------|
| <b>Financial assets</b>                                     |                  |                  |
| Loans and receivables (including cash and cash equivalents) | 42,813           | 14,598           |
| <b>Financial liabilities</b>                                |                  |                  |
| Amortised cost                                              | 10,573           | 7,818            |

### 6b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits, pledged bank deposits, bank balances, trade payables, amount due to a director, secured bank borrowings and obligation under a finance lease. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market risk

##### (i) Currency risk

The Group has foreign currency purchases, trade payables and secured bank borrowings denominated in foreign currencies, which expose the Group to market risk arising from changes in foreign exchange rates.

The carrying amounts of the Group's significant foreign currencies denominated monetary liabilities at the reporting date are as follows:

|                               | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| United States Dollars ("USD") | 2,980            | 1,565            |
| Euro ("EUR")                  | 4,830            | 4,490            |

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

*Sensitivity analysis*

Given that the exchange rate between USD and HKD is pegged and the exposure is considered insignificant, the following only details the Group's sensitivity to a 5% increase and decrease in HKD against EUR. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in HKD/EUR exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts the translation at the year end for a 5% change in foreign currency rate. A 5% strengthening of HKD against EUR will decrease loss for the year by approximately HK\$199,000 (2007: HK\$185,000), and vice versa.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to obligation under a finance lease carried at fixed interest rate as set out in note 22.

The Group is also exposed to cash flow interest rate risk in relation to pledged bank deposits, variable-rate bank balances and secured bank loans as set out in notes 17, 18 and 21 respectively. It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's foreign currencies denominated borrowing.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the balance sheet date (see notes 17, 18 and 21 for details of pledged bank deposits, bank balances and secured bank borrowings). The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used and represents management's assessment of the reasonably possible change in interest rate.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year would decrease/increase by HK\$2,000 (2007: HK\$38,000). This is mainly attributable to the Group's exposure to interest rates on its pledged bank deposits, bank balances and secured bank borrowings.

*Credit risk*

As at 31 March 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

Credit risk arises from cash and cash equivalents and deposits with banks, as well as trade receivables of royalty fee income. Impairment provisions are made for losses that have been incurred at the balance sheet date. The credit risk on liquid funds is limited because the counterparties are banks with good reputation. The Group mitigates its exposure to risks relating to trade receivables by its established procedures in granting credit only to customers with sound credit track records. Sales to retail customers are settled in cash or using major credit cards. No credit limits were exceeded during the reporting period, and management does not expect any impairment losses.

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

*Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as significant sources of liquidity. Details of which are set out in note 21. As at 31 March 2008, the Group has available unutilised short-term bank loan facilities of approximately HK\$3,900,000 (2007: HK\$11,788,000).

The following table details the Group’s remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

*Liquidity table*

|                                     | Weighted<br>average<br>effective<br>interest rate<br>% | Less than<br>1 month<br>HK\$'000 | 1-3<br>months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000 | 1-5<br>years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31.3.2008<br>HK\$'000 |
|-------------------------------------|--------------------------------------------------------|----------------------------------|---------------------------|-----------------------------------|--------------------------|-------------------------------------------------|------------------------------------------------|
| 2008                                |                                                        |                                  |                           |                                   |                          |                                                 |                                                |
| Financial instruments               |                                                        |                                  |                           |                                   |                          |                                                 |                                                |
| Trade payables                      | —                                                      | 1,773                            | —                         | —                                 | —                        | 1,773                                           | 1,773                                          |
| Amount due to a<br>director         | —                                                      | 1,200                            | —                         | —                                 | —                        | 1,200                                           | 1,200                                          |
| Secured bank<br>borrowings          | 8.81                                                   | —                                | 7,825                     | —                                 | —                        | 7,825                                           | 7,600                                          |
| Obligation under a<br>finance lease | 3.00                                                   | 7                                | 22                        | 37                                | —                        | 66                                              | 59                                             |
|                                     |                                                        | 2,980                            | 7,847                     | 37                                | —                        | 10,864                                          | 10,632                                         |

|                                     | Weighted<br>average<br>effective<br>interest rate<br>% | Less than<br>1 month<br>HK\$'000 | 1-3<br>months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000 | 1-5<br>years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31.3.2007<br>HK\$'000 |
|-------------------------------------|--------------------------------------------------------|----------------------------------|---------------------------|-----------------------------------|--------------------------|-------------------------------------------------|------------------------------------------------|
| 2007                                |                                                        |                                  |                           |                                   |                          |                                                 |                                                |
| Financial<br>instruments            |                                                        |                                  |                           |                                   |                          |                                                 |                                                |
| Trade payables                      | —                                                      | 2,606                            | —                         | —                                 | —                        | 2,606                                           | 2,606                                          |
| Secured bank<br>borrowings          | 9.65                                                   | —                                | 5,382                     | —                                 | —                        | 5,382                                           | 5,212                                          |
| Obligation under a<br>finance lease | 3.00                                                   | 25                               | 75                        | 309                               | 66                       | 475                                             | 438                                            |
|                                     |                                                        | <u>2,631</u>                     | <u>5,457</u>              | <u>309</u>                        | <u>66</u>                | <u>8,463</u>                                    | <u>8,256</u>                                   |

6c.
Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7.
Segment information

Revenue represents the net amounts received and receivable for goods sold to outside customers during the year.

(a)
Business segments

The Group is principally engaged in one business segment, which is the retail of fashion apparel.

(b)
Geographical segments

The Group’s operations and assets are located in Hong Kong and elsewhere in the People’s Republic of China (the “PRC”).

The analysis of segment information of the Group by geographical location of customers is presented as below:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 March 2008*

|                                | Hong Kong<br>HK\$'000 | The PRC<br>HK\$'000 | Consolidated<br>HK\$'000 |
|--------------------------------|-----------------------|---------------------|--------------------------|
| <b>REVENUE</b>                 | 131,081               | —                   | 131,081                  |
| <b>RESULT</b>                  |                       |                     |                          |
| Segment result                 | (11,497)              | —                   | (11,497)                 |
| Unallocated income             |                       |                     | 291                      |
| Unallocated corporate expenses |                       |                     | (10,029)                 |
| Finance costs                  |                       |                     | (409)                    |
| Loss before tax                |                       |                     | (21,644)                 |
| Taxation                       |                       |                     | —                        |
| Loss for the year              |                       |                     | (21,644)                 |

### CONSOLIDATED BALANCE SHEET

*As at 31 March 2008*

|                                   | Hong Kong<br>HK\$'000 | The PRC<br>HK\$'000 | Consolidated<br>HK\$'000 |
|-----------------------------------|-----------------------|---------------------|--------------------------|
| <b>ASSETS</b>                     |                       |                     |                          |
| Segment assets                    | 80,597                | —                   | 80,597                   |
| Unallocated corporate assets      |                       |                     | 9,968                    |
| Consolidated total assets         |                       |                     | 90,565                   |
| <b>LIABILITIES</b>                |                       |                     |                          |
| Segment liabilities               | 12,188                | —                   | 12,188                   |
| Unallocated corporate liabilities |                       |                     | 8,800                    |
| Consolidated total liabilities    |                       |                     | 20,988                   |

**CONSOLIDATED INCOME STATEMENT***For the year ended 31 March 2007*

|                                | <b>Hong Kong</b><br><i>HK\$'000</i> | <b>The PRC</b><br><i>HK\$'000</i> | <b>Consolidated</b><br><i>HK\$'000</i> |
|--------------------------------|-------------------------------------|-----------------------------------|----------------------------------------|
| <b>REVENUE</b>                 | 129,533                             | 1,914                             | 131,447                                |
| <b>RESULT</b>                  |                                     |                                   |                                        |
| Segment result                 | 861                                 | 386                               | 1,247                                  |
| Unallocated income             |                                     |                                   | 219                                    |
| Unallocated corporate expenses |                                     |                                   | (3,174)                                |
| Finance costs                  |                                     |                                   | (278)                                  |
| Loss before tax                |                                     |                                   | (1,986)                                |
| Taxation                       |                                     |                                   | (572)                                  |
| Loss for the year              |                                     |                                   | (2,558)                                |

**CONSOLIDATED BALANCE SHEET***As at 31 March 2007*

|                                   | <b>Hong Kong</b><br><i>HK\$'000</i> | <b>The PRC</b><br><i>HK\$'000</i> | <b>Consolidated</b><br><i>HK\$'000</i> |
|-----------------------------------|-------------------------------------|-----------------------------------|----------------------------------------|
| <b>ASSETS</b>                     |                                     |                                   |                                        |
| Segment assets                    | 48,745                              | 413                               | 49,158                                 |
| Unallocated corporate assets      |                                     |                                   | 14,471                                 |
| Consolidated total assets         |                                     |                                   | 63,629                                 |
| <b>LIABILITIES</b>                |                                     |                                   |                                        |
| Segment liabilities               | 8,228                               | 11                                | 8,239                                  |
| Unallocated corporate liabilities |                                     |                                   | 5,212                                  |
| Consolidated total liabilities    |                                     |                                   | 13,451                                 |

In addition to the analysis by the geographical location of its customers, the following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located in different geographical location of the customers.

|           | <b>Carrying amounts<br/>of segment assets</b> |                 | <b>Additions to property,<br/>plant and equipment</b> |                 |
|-----------|-----------------------------------------------|-----------------|-------------------------------------------------------|-----------------|
|           | <b>2008</b>                                   | <b>2007</b>     | <b>2008</b>                                           | <b>2007</b>     |
|           | <i>HK\$'000</i>                               | <i>HK\$'000</i> | <i>HK\$'000</i>                                       | <i>HK\$'000</i> |
| Hong Kong | 71,418                                        | 43,556          | 2,861                                                 | 2,435           |
| The PRC   | 9,179                                         | 5,602           | 1,655                                                 | 36              |
|           | 80,597                                        | 49,158          | 4,516                                                 | 2,471           |

**8. Finance costs**

|                                                 | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|-------------------------------------------------|--------------------------------|--------------------------------|
| Interest on:                                    |                                |                                |
| — bank borrowings repayable within five years   | 379                            | 261                            |
| — finance lease                                 | 30                             | 16                             |
| — other loan wholly repayable within five years | —                              | 1                              |
|                                                 | <u>409</u>                     | <u>278</u>                     |

**9. Taxation**

|                                                           | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|-----------------------------------------------------------|--------------------------------|--------------------------------|
| Hong Kong Profits Tax — current year                      | —                              | (1)                            |
| Deferred tax charge ( <i>note 24</i> )                    | —                              | (571)                          |
|                                                           | <u>—</u>                       | <u>(572)</u>                   |
| Taxation attributable to the Company and its subsidiaries | <u>—</u>                       | <u>(572)</u>                   |

Hong Kong Profits Tax was calculated at 17.5% (2007: 17.5%) of the estimated assessable profit.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for tax in other jurisdictions for both years has been made in the consolidated financial statements as neither the Company nor any of its subsidiaries had any assessable profit subject to tax in other jurisdictions.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations have changed the tax rate from 15% to 25% for the PRC subsidiary from 1 January 2008.

The taxation for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

|                                                                        | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|------------------------------------------------------------------------|--------------------------------|--------------------------------|
| Loss before tax                                                        | <u>(21,644)</u>                | <u>(1,986)</u>                 |
| Tax credit at the Hong Kong Profits Tax rate of 17.5%<br>(2007: 17.5%) | (3,788)                        | (348)                          |
| Tax effect of expenses not deductible for tax purpose                  | 706                            | 449                            |
| Tax effect of income not taxable for tax purpose                       | (231)                          | (175)                          |
| Tax effect of tax losses not recognised                                | 3,198                          | 628                            |
| Tax effect of deductible temporary differences not recognised          | 118                            | 45                             |
| Tax effect of utilisation of tax losses previously not recognised      | (20)                           | (86)                           |
| Effect of different tax rates of operation in other jurisdiction       | <u>17</u>                      | <u>59</u>                      |
| Tax charge for the year                                                | <u>—</u>                       | <u>572</u>                     |

10. Loss for the year

|                                                              | 2008     | 2007     |
|--------------------------------------------------------------|----------|----------|
|                                                              | HK\$'000 | HK\$'000 |
| Loss for the year has been arrived at after charging:        |          |          |
| Directors' emoluments (note 11)                              | 6,197    | 3,174    |
| Other staff costs                                            | 37,909   | 35,205   |
| Retirement benefit scheme contributions, excluding directors | 913      | 1,858    |
| Provision for long service payments                          | 2,186    | —        |
| Share-based payment expenses, excluding directors            | 1,171    | —        |
|                                                              |          |          |
| Total employee benefit expense                               | 48,376   | 40,237   |
|                                                              |          |          |
| Auditor's remuneration                                       | 1,401    | 310      |
| Depreciation of property, plant and equipment                | 3,011    | 2,424    |
| Minimum lease payments under operating leases on             |          |          |
| land and buildings                                           | 34,448   | 33,449   |
| Write down of inventories                                    | 4,769    | 1,804    |
| Cost of inventories recognised as expenses                   | 50,752   | 45,936   |
| Loss on disposal of property, plant and equipment            | 1,051    | 1,286    |
| Foreign exchange losses, net                                 | 1,042    | 605      |
| Share-based payment expenses to consultants                  | 475      | —        |
|                                                              |          |          |
| and after crediting to other income:                         |          |          |
| Interest income                                              | 291      | 219      |
| Royalty fee income                                           | 475      | 616      |
|                                                              |          |          |

11. Directors’ and employees’ emoluments

(a) Directors’ emoluments

The emoluments paid or payable to each of the ten (2007: eight) directors were as follows:

2008

|                                               | Wong<br>Pak<br>Lam,<br>Louis | Wong<br>Kwong<br>Lung,<br>Terence | Wong<br>Kin<br>Tung** | Cheung<br>Yin<br>Sheung,<br>Subraina* | Tong<br>Kwong<br>Fat* | Yung<br>Wing<br>Sze,<br>Vivian* | To<br>Ming<br>Oi,<br>Wendy* | Chan<br>Ka<br>Ling,<br>Edmond | Ching<br>Kwok<br>Ho,<br>Samuel | Lo<br>Wa<br>Kei,<br>Roy | Total    |
|-----------------------------------------------|------------------------------|-----------------------------------|-----------------------|---------------------------------------|-----------------------|---------------------------------|-----------------------------|-------------------------------|--------------------------------|-------------------------|----------|
|                                               | HK\$'000                     | HK\$'000                          | HK\$'000              | HK\$'000                              | HK\$'000              | HK\$'000                        | HK\$'000                    | HK\$'000                      | HK\$'000                       | HK\$'000                | HK\$'000 |
| Fees                                          | —                            | —                                 | —                     | —                                     | —                     | —                               | 100                         | 113                           | 84                             | 75                      | 372      |
| Other emoluments:                             |                              |                                   |                       |                                       |                       |                                 |                             |                               |                                |                         |          |
| Salaries and other<br>benefits                | 1,295                        | 1,035                             | 501                   | 324                                   | 320                   | 316                             | —                           | —                             | —                              | —                       | 3,791    |
| Retirement benefit<br>scheme<br>contributions | 8                            | 8                                 | 6                     | 5                                     | 5                     | 5                               | —                           | —                             | —                              | —                       | 37       |
| Share-based payment<br>expenses               | 95                           | 951                               | 951                   | —                                     | —                     | —                               | —                           | —                             | —                              | —                       | 1,997    |
| Total emoluments                              | 1,398                        | 1,994                             | 1,458                 | 329                                   | 325                   | 321                             | 100                         | 113                           | 84                             | 75                      | 6,197    |

2007

|                                            | Cheung<br>Yin<br>Sheung,<br>Subraina | Tong<br>Kwong<br>Fat | Yung<br>Wing<br>Sze,<br>Vivian | To<br>Ming Oi,<br>Wendy | Chan<br>Ka Ling,<br>Edmond | Ching<br>Kwok<br>Ho | Lo Wa<br>Kei, Roy | Tsang<br>Wai Kit | Total    |
|--------------------------------------------|--------------------------------------|----------------------|--------------------------------|-------------------------|----------------------------|---------------------|-------------------|------------------|----------|
|                                            | HK\$'000                             | HK\$'000             | HK\$'000                       | HK\$'000                | HK\$'000                   | HK\$'000            | HK\$'000          | HK\$'000         | HK\$'000 |
| Fees                                       | —                                    | —                    | —                              | 240                     | 100                        | 66                  | 60                | 3                | 469      |
| Other emoluments:                          |                                      |                      |                                |                         |                            |                     |                   |                  |          |
| Salaries and other benefits                | 907                                  | 901                  | 861                            | —                       | —                          | —                   | —                 | —                | 2,669    |
| Retirement benefit scheme<br>contributions | 12                                   | 12                   | 12                             | —                       | —                          | —                   | —                 | —                | 36       |
| Total emoluments                           | 919                                  | 913                  | 873                            | 240                     | 100                        | 66                  | 60                | 3                | 3,174    |

\* Cheung Yin Sheung, Subraina, Tong Kwong Fat, Yung Wing Sze, Vivian, and To Ming Oi, Wendy resigned on 24 August 2007.

\*\* Wong Kin Tung resigned on 28 January 2008.

(b) *Emoluments of highest paid individuals*

Of the five individuals with the highest emoluments in the Group, three (2007: three) were directors of the Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining two (2007: two) highest paid individuals were as follows:

|                                         | 2008<br><i>HK\$'000</i>             | 2007<br><i>HK\$'000</i>             |
|-----------------------------------------|-------------------------------------|-------------------------------------|
| Salaries and other benefits             | 2,791                               | 3,301                               |
| Retirement benefit scheme contributions | 24                                  | 24                                  |
|                                         | <u>2,815</u>                        | <u>3,325</u>                        |
|                                         |                                     |                                     |
|                                         | 2008<br><i>No. of<br/>employees</i> | 2007<br><i>No. of<br/>employees</i> |
| HK\$1,000,001 to HK\$1,500,000          | 2                                   | —                                   |
| HK\$1,500,001 to HK\$2,000,000          | —                                   | 2                                   |
|                                         | <u>2</u>                            | <u>2</u>                            |

(c) During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during both years.

12. Dividends

No dividends were paid or proposed during each of the two years ended 31 March 2008, nor has any dividend been proposed since the balance sheet date.

13. Loss per share

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

|                                                                   | 2008<br><i>HK\$'000</i> | 2007<br><i>HK\$'000</i> |
|-------------------------------------------------------------------|-------------------------|-------------------------|
| Loss for the purpose of basic loss per share                      | <u>(21,644)</u>         | <u>(2,558)</u>          |
| Number of shares                                                  |                         |                         |
|                                                                   |                         |                         |
|                                                                   | 2008<br><i>'000</i>     | 2007<br><i>'000</i>     |
| Number of ordinary shares for the purpose of basic loss per share | <u>210,619</u>          | <u>200,130</u>          |

No diluted loss per share has been presented because the exercise price of the Company’s share options was higher than the average market price for shares for 2008 and 2007.

14. Property, plant and equipment

|                          | Leasehold<br>land and<br>buildings<br><i>HK\$'000</i> | Leasehold<br>improvements<br><i>HK\$'000</i> | Plant<br>and<br>machinery<br><i>HK\$'000</i> | Furniture<br>and<br>fixtures<br><i>HK\$'000</i> | Motor<br>vehicles<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--------------------------|-------------------------------------------------------|----------------------------------------------|----------------------------------------------|-------------------------------------------------|--------------------------------------|--------------------------|
| <b>COST OR VALUATION</b> |                                                       |                                              |                                              |                                                 |                                      |                          |
| At 1 April 2006          | 5,400                                                 | 10,714                                       | 3,521                                        | 14,353                                          | 3,453                                | 37,441                   |
| Additions                | —                                                     | 1,187                                        | 12                                           | 862                                             | 410                                  | 2,471                    |
| Disposals                | —                                                     | (3,339)                                      | (183)                                        | (6,665)                                         | (462)                                | (10,649)                 |
| Surplus on revaluation   | 300                                                   | —                                            | —                                            | —                                               | —                                    | 300                      |
| Exchange adjustments     | —                                                     | 106                                          | 104                                          | 16                                              | 8                                    | 234                      |
|                          |                                                       |                                              |                                              |                                                 |                                      |                          |
| At 31 March 2007         | 5,700                                                 | 8,668                                        | 3,454                                        | 8,566                                           | 3,409                                | 29,797                   |
| Additions                | —                                                     | 1,598                                        | 3                                            | 1,023                                           | 1,892                                | 4,516                    |
| Disposals                | —                                                     | (1,695)                                      | (59)                                         | (1,166)                                         | (683)                                | (3,603)                  |
| Surplus on revaluation   | 600                                                   | —                                            | —                                            | —                                               | —                                    | 600                      |
| Exchange adjustments     | —                                                     | 403                                          | 380                                          | 68                                              | 133                                  | 984                      |
|                          |                                                       |                                              |                                              |                                                 |                                      |                          |
| At 31 March 2008         | 6,300                                                 | 8,974                                        | 3,778                                        | 8,491                                           | 4,751                                | 32,294                   |
| Comprising:              |                                                       |                                              |                                              |                                                 |                                      |                          |
| At cost                  | —                                                     | 8,974                                        | 3,778                                        | 8,491                                           | 4,751                                | 25,994                   |
| At valuation — 2008      | 6,300                                                 | —                                            | —                                            | —                                               | —                                    | 6,300                    |
|                          | 6,300                                                 | 8,974                                        | 3,778                                        | 8,491                                           | 4,751                                | 32,294                   |
| <b>DEPRECIATION</b>      |                                                       |                                              |                                              |                                                 |                                      |                          |
| At 1 April 2006          | —                                                     | 7,186                                        | 3,481                                        | 11,441                                          | 2,110                                | 24,218                   |
| Provided for the year    | 108                                                   | 842                                          | 9                                            | 1,028                                           | 437                                  | 2,424                    |
| Disposals                | —                                                     | (2,743)                                      | (183)                                        | (6,082)                                         | (320)                                | (9,328)                  |
| Surplus on revaluation   | (108)                                                 | —                                            | —                                            | —                                               | —                                    | (108)                    |
| Exchange adjustments     | —                                                     | 104                                          | 103                                          | 15                                              | 8                                    | 230                      |
|                          |                                                       |                                              |                                              |                                                 |                                      |                          |
| At 31 March 2007         | —                                                     | 5,389                                        | 3,410                                        | 6,402                                           | 2,235                                | 17,436                   |
| Provided for the year    | 114                                                   | 1,541                                        | 9                                            | 673                                             | 674                                  | 3,011                    |
| Disposals                | —                                                     | (1,013)                                      | (59)                                         | (709)                                           | (557)                                | (2,338)                  |
| Surplus on revaluation   | (114)                                                 | —                                            | —                                            | —                                               | —                                    | (114)                    |
| Exchange adjustments     | —                                                     | 398                                          | 375                                          | 60                                              | 43                                   | 876                      |
|                          |                                                       |                                              |                                              |                                                 |                                      |                          |
| At 31 March 2008         | —                                                     | 6,315                                        | 3,735                                        | 6,426                                           | 2,395                                | 18,871                   |
| <b>CARRYING VALUES</b>   |                                                       |                                              |                                              |                                                 |                                      |                          |
| At 31 March 2008         | 6,300                                                 | 2,659                                        | 43                                           | 2,065                                           | 2,356                                | 13,423                   |
|                          |                                                       |                                              |                                              |                                                 |                                      |                          |
| At 31 March 2007         | 5,700                                                 | 3,279                                        | 44                                           | 2,164                                           | 1,174                                | 12,361                   |

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

|                              |                                |
|------------------------------|--------------------------------|
| Leasehold land and buildings | Over the remaining lease terms |
| Furniture and fixtures       | 20%                            |
| Leasehold improvements       | 33.3%                          |
| Motor vehicles               | 25%                            |
| Plant and machinery          | 20%                            |

The Group's leasehold land and buildings were revalued at 31 March 2008 by Messrs. Savills Valuation and Professional Services Limited ("Savills"), on an open market value basis. Savills, not connected with the Group, is a member of the Institute of Valuers and has appropriate qualification and recent experiences in valuation of similar properties. The valuation was arrived at by reference to sales evidence as available on the market.

The total surplus on revaluation of HK\$714,000 (2007: HK\$408,000) has been credited to the property revaluation reserve in equity.

If the leasehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation at approximately HK\$4,841,000 (2007: HK\$4,944,000).

The leasehold land and buildings are situated in Hong Kong under medium-term leases.

The carrying value of the Group's motor vehicles includes an amount of HK\$111,000 (2007: HK\$516,000) in respect of assets held under finance lease.

#### 15. Inventories

|                  | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|------------------|--------------------------------|--------------------------------|
| Raw materials    | 4,600                          | 3,505                          |
| Work in progress | 1,362                          | 1,198                          |
| Finished goods   | 15,832                         | 20,900                         |
|                  | <u>21,794</u>                  | <u>25,603</u>                  |

#### 16. Trade receivables, deposits and prepayments

Sales to retail customers are settled in cash or using major credit cards while the Group allows an average credit periods of 30 to 60 days for royalty income receivables. The following is an aged analysis of trade receivables at the reporting date:

|                                 | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|---------------------------------|--------------------------------|--------------------------------|
| Trade receivables — not yet due | 237                            | 308                            |
| Deposits and prepayments        | 35,456                         | 1,820                          |
|                                 | <u>35,693</u>                  | <u>2,128</u>                   |

As at 31 March 2008, included in deposits and prepayments is a deposit of HK\$32,900,000 (2007: Nil) paid in respect of acquisition of equity interests in three mining companies in the PRC. This deposit was fully refunded to the Group subsequent to the balance sheet date (see note 33(a)).

#### 17. Pledged bank deposits

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK\$3,500,000 (2007: HK\$3,500,000) have been pledged to secure short-term bank borrowings and are therefore classified as current assets.

The deposits carry fixed interest rate ranging from 1.05% to 2.5% (2007: 2.5% to 2.75%) per annum. The pledged bank deposits will be released upon the termination of relevant banking facilities.

18. Bank balances and cash

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at 0.15% to 2.25% (2007: 2.25% to 3%) per annum and have original maturity of three months or less.

19. Trade payables and accruals

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

|                           | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|---------------------------|------------------|------------------|
| Trade payables            |                  |                  |
| Not yet due               | 1,392            | 2,368            |
| Overdue up to 60 days     | 263              | 158              |
| Overdue more than 60 days | 118              | 80               |
|                           | <hr/>            | <hr/>            |
|                           | 1,773            | 2,606            |
| Accruals                  | 6,667            | 3,692            |
|                           | <hr/>            | <hr/>            |
|                           | 8,440            | 6,298            |
|                           | <hr/> <hr/>      | <hr/> <hr/>      |

The amount of the Group’s trade payables denominated in currency other than functional currencies of the relevant group entities are set out below:

|     | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|-----|------------------|------------------|
| EUR | 386              | 910              |
|     | <hr/> <hr/>      | <hr/> <hr/>      |

20. Amount due to a director

The amount due to a director is unsecured, interest-free and repayable on demand.

21. Secured bank borrowings

|                                                    | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|----------------------------------------------------|------------------|------------------|
| Secured:                                           |                  |                  |
| Trust receipt loans — on demand or within one year | 7,600            | 5,212            |
|                                                    | <hr/> <hr/>      | <hr/> <hr/>      |

The bank loans carry interest at HIBOR over 1.5% to HIBOR over 2% per annum. The ranges of effective interest rates (which also equal to contracted interest rates) are as follows:

|                          | 2008        | 2007         |
|--------------------------|-------------|--------------|
| Effective interest rate: |             |              |
| Variable-rate borrowings | 7% to 9.75% | 9.25% to 10% |

The amounts of the Group’s borrowings that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

|     | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|-----|------------------|------------------|
| USD | 2,980            | 1,565            |
| EUR | 4,444            | 3,580            |

22. Obligation under a finance lease

The Group has leased a motor vehicle under a finance lease. The lease terms are five years. Interest rate underlying the obligation under a finance lease is fixed at contract date for 3%. This lease, denominated in HKD, has no terms of renewal or purchase options and escalation clauses.

|                                                                                  | Minimum lease payments |          | Present value of minimum lease payments |          |
|----------------------------------------------------------------------------------|------------------------|----------|-----------------------------------------|----------|
|                                                                                  | 2008                   | 2007     | 2008                                    | 2007     |
|                                                                                  | HK\$'000               | HK\$'000 | HK\$'000                                | HK\$'000 |
| Amounts payable under a finance lease                                            |                        |          |                                         |          |
| Within one year                                                                  | 66                     | 302      | 59                                      | 279      |
| In more than one year but not more than five years                               | —                      | 173      | —                                       | 159      |
|                                                                                  | 66                     | 475      | 59                                      | 438      |
| Less: future finance charges                                                     | (7)                    | (37)     |                                         |          |
| Present value of lease obligations                                               | 59                     | 438      |                                         |          |
| Less: Amount due for settlement with 12 months (shown under current liabilities) |                        |          | (59)                                    | (279)    |
| Amount due for settlement after 12 months                                        |                        |          | —                                       | 159      |

The Group’s obligation under a finance lease is secured by the lessor’s charge over the leased asset.

**23. Provision for long service payments**

|                                             | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|---------------------------------------------|--------------------------------|--------------------------------|
| Liabilities for employee benefits comprise: |                                |                                |
| Long service payments                       | <u>3,689</u>                   | <u>1,503</u>                   |

**Long service payments**

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations. According to the Hong Kong Employment Ordinance, the directors have applied the statutory maximum retirement benefits each employee will be entitled in the calculation of long service payments.

**(a) Movement for the year**

|                                                         | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|---------------------------------------------------------|--------------------------------|--------------------------------|
| At beginning of the year                                | 1,503                          | 1,503                          |
| Expense recognised in the consolidated income statement | <u>2,186</u>                   | <u>—</u>                       |
| At end of the year                                      | <u><u>3,689</u></u>            | <u><u>1,503</u></u>            |

**(b)** The valuation was calculated by Messrs. BMI Appraisals Limited ("BMI"), an independent third party, and BMI has appropriate qualification and recent experiences in valuation of similar provision for long service payments. The directors' assumptions with reference to the independent valuers' report used for accounting purposes at 31 March are as follows:

|                                              | <b>2008</b>  | <b>2007</b>  |
|----------------------------------------------|--------------|--------------|
| Discount rate applied to pension obligations | 2.68%        | 4.60%        |
| Future salary increases                      | <u>2.00%</u> | <u>1.70%</u> |

**24. Deferred taxation**

The followings are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

|                                                                  | <b>Accelerated<br/>tax<br/>depreciation</b><br><i>HK\$'000</i> | <b>Tax<br/>losses</b><br><i>HK\$'000</i> | <b>Total</b><br><i>HK\$'000</i> |
|------------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------|---------------------------------|
| At 1 April 2006                                                  | 1,387                                                          | (816)                                    | 571                             |
| (Charge) credit to consolidated income statement<br>for the year | <u>(737)</u>                                                   | <u>166</u>                               | <u>(571)</u>                    |
| At 31 March 2007                                                 | 650                                                            | (650)                                    | —                               |
| (Charge) credit to consolidated income statement<br>for the year | <u>(124)</u>                                                   | <u>124</u>                               | <u>—</u>                        |
| At 31 March 2008                                                 | <u><u>526</u></u>                                              | <u><u>(526)</u></u>                      | <u><u>—</u></u>                 |

At 31 March 2008, the Group had unused tax losses of HK\$50,712,000 (2007: HK\$33,260,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such losses of HK\$3,006,000 (2007: HK\$3,714,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$47,706,000 (2007: HK\$29,546,000) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

At 31 March 2008, the Group had deductible temporary differences of approximately HK\$931,000 (2007: HK\$257,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that the taxable profit will be available against which the deductible temporary differences can be utilised.

**25. Share capital of the Company**

|                                                                  | <b>Number of<br/>shares</b><br><i>'000</i> | <b>Amount</b><br><i>HK\$'000</i> |
|------------------------------------------------------------------|--------------------------------------------|----------------------------------|
| Ordinary shares of HK\$0.10 each                                 |                                            |                                  |
| Authorised:                                                      |                                            |                                  |
| At 1 April 2006, 31 March 2007 and 31 March 2008                 | <u>1,000,000</u>                           | <u>100,000</u>                   |
| Issued and fully paid:                                           |                                            |                                  |
| At 1 April 2006 and 31 March 2007                                | 200,130                                    | 20,013                           |
| Issue of shares ( <i>note a</i> )                                | 10,000                                     | 1,000                            |
| Issue of shares upon exercise of share options ( <i>note b</i> ) | <u>8,710</u>                               | <u>871</u>                       |
| At 31 March 2008                                                 | <u><u>218,840</u></u>                      | <u><u>21,884</u></u>             |

- (a) On 15 October 2007, arrangements were made for a private placement of 10,000,000 shares of HK\$0.10 each in the Company held by Ti Yu Investments Limited ("Ti Yu") at a price of HK\$2.34 per share representing a discount of approximately 3.70% to the closing market price HK\$2.43 of the Company's shares on 12 October 2007. Ti Yu is a company incorporated in the British Virgin Islands, the entire issued share capital of which is wholly and beneficially owned by Mr. Wong Pak Lam, Louis, a director of the Company.

Pursuant to a subscription agreement of the same date, Ti Yu subscribed for 10,000,000 new shares of HK\$0.10 each in the Company at a price of HK\$2.34 per share. Transaction expenses of HK\$361,000 were incurred for issue of shares. The net proceeds were used to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the board of directors on 28 September 2007. They rank pari passu with the then existing shares in issue in all respects.

- (b) During the year ended 31 March 2008, 8,710,000 shares options were exercised at HK\$0.2528 per share, resulting in issue of a total of 8,710,000 ordinary shares of HK\$0.10 each in the Company.
- (c) The shares issued during the year ranked pari passu with the then existing shares in all respects.

## **26. Call options**

On 25 September 2007, the Company issued to independent placees 40,026,000 call options at an option issue price of HK\$0.1 for each option. The option period is 18 months commencing from the date of granting of the options. Upon exercise of each option, the placee will be able to subscribe for one share of par value HK\$0.10 each in the Company at an initial subscription price of HK\$2.80. A sum representing 10% of the subscription price has been received by the Company from the placees upon signing of the options agreements as deposit and partial payment of the subscription price for the subscription shares which is non-refundable. The proceeds of issue of call options, including the non-refundable deposits received, of HK\$11,607,000 was credited to the call options reserve. Transaction expenses of HK\$270,000 were incurred for the issue of call options.

During the year ended 31 March 2008, no options were exercised.

## **27. Share options**

The operation of the share option scheme adopted by the Company on 14 March 2000 (the “Old Scheme”) was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On 10 September 2002, at the annual general meeting, the Company adopted a new share option scheme (the “New Scheme”) under which the Board of Directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies which the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. By reason of voluntary resignation or by termination of his employment in accordance with the termination provisions of his contract of employment by his employing company, otherwise than on redundancy, or because his employing company ceases to be a member of the Group, all options to the extent not already exercised shall lapse and expiry of the date shall be determined by the directors’ discretion.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and other schemes of the Group must not in aggregate exceed 10% of the shares in issue upon completion of the share offer and the capitalisation issue of the time dealings in the shares commence on the Stock Exchange unless a fresh approval from the shareholders of the Company has been obtained.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. The total number of shares issued and may be issued upon exercise of the options granted to each eligible person under the New Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in twelve-month period must not exceed 1% of the issued share capital of the Company.

Option granted under the New Scheme must be accepted within 28 days from the date of grant. Upon acceptance, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. The subscription price for the shares under the New Scheme shall be a price determined by the board of directors of the Company and notified to an eligible participant and shall not be lower than the highest of: (i) the nominal value of a share; (ii) the closing price of one share as stated in the daily quotation sheets issued by the Stock Exchange on the offer date, which shall be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date.

Details of the share options granted under the New Scheme to directors of the Company and certain employees and consultants of the Group under the New Scheme during the year and movement in such holding during the year are as follows:

|             | Date<br>of grant | Exercisable<br>period       | Exercise<br>price per<br>share | Outstanding<br>at 1st<br>April<br>2006<br><i>HK\$</i> | Lapsed<br>during<br>the year | Outstanding<br>at 31st<br>March<br>2007 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed<br>during<br>the year | Outstanding<br>at 31st<br>March<br>2008 |
|-------------|------------------|-----------------------------|--------------------------------|-------------------------------------------------------|------------------------------|-----------------------------------------|-------------------------------|---------------------------------|------------------------------|-----------------------------------------|
| Directors   | 21.11.2007       | 21.11.2007 to<br>20.11.2017 | 2.334                          | —                                                     | —                            | —                                       | 4,595,640                     | —                               | —                            | 4,595,640                               |
|             | 5.2.2001         | 5.2.2001 to<br>4.2.2011     | 0.2528                         | 4,770,000                                             | —                            | 4,770,000                               | —                             | (1,500,000)                     | (3,270,000)                  | —                                       |
| Employees   | 21.11.2007       | 21.11.2007 to<br>20.11.2017 | 2.334                          | —                                                     | —                            | —                                       | 2,694,000                     | —                               | —                            | 2,694,000                               |
|             | 5.2.2001         | 5.2.2001 to<br>4.2.2011     | 0.2528                         | 10,390,000                                            | (80,000)                     | 10,310,000                              | —                             | (7,210,000)                     | (3,100,000)                  | —                                       |
| Consultants | 21.11.2007       | 21.11.2007 to<br>20.11.2017 | 2.334                          | —                                                     | —                            | —                                       | 1,094,000                     | —                               | —                            | 1,094,000                               |
|             |                  |                             |                                | 15,160,000                                            | (80,000)                     | 15,080,000                              | 8,383,640                     | (8,710,000)                     | (6,370,000)                  | 8,383,640                               |

On 21 November 2007, 8,383,640 options were granted and their estimated fair values is HK\$3,643,000.

Upon the cessation of the directorships and employment of the relevant grantees, 6,370,000 options were lapsed during the year.

These fair values were calculated using the Trinomial Option Pricing Model (the “Model”). The inputs into the Model were as follows:

|                                          | 2008       |
|------------------------------------------|------------|
| Closing share price at the date of grant | HK\$2.250  |
| Exercise price                           | HK\$2.334  |
| Expected volatility                      | 81.22%     |
| Option life                              | 10 years   |
| Risk-free rate                           | 3.51%      |
| Expected dividend yield                  | 0%         |
| Fair value per share option              | HK\$0.4345 |

Due to the recent unsuccessful takeover bid on the mining companies in October 2007, the extraordinarily volatile period of time was excluded when determining the expected volatility above. Volatility of the underlying company’s share price was estimated by the average annualised standard deviations of the continuously compounded rates of return on the underlying assets’ share price quoted by Bloomberg.

The fair values were calculated by Messrs. Greater China Appraisal Limited, an independent third party. The Model is one of the commonly used models to estimate the fair value of the options. The variables and assumption used in computing the fair value of the share options are based on directors’ best estimate. The value of an option varies with different variables of certain subjective assumptions. Any changes in the variables so adopted may materially affect the estimation of the fair value of an option.

A consideration of HK\$7 was received during the year for taking up the options granted.

The closing price of the shares of the Company on 21 November 2007 immediately before the grant of the share options was HK\$2.250 per share.

The Group recognised the total expense of HK\$3,643,000 for the year ended 31 March 2008 (2007: Nil) in relation to share options granted by the Company.

28. Operating lease commitments

During the year, the Group made rental payments for office premises and retail shops under operating leases as follows:

|                            | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Minimum lease payments     | 33,340           | 32,876           |
| Contingent rental payments | 1,108            | 573              |
|                            | <u>34,448</u>    | <u>33,449</u>    |

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|                                        | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|----------------------------------------|--------------------------------|--------------------------------|
| Within one year                        | 29,688                         | 25,061                         |
| In the second to fifth years inclusive | <u>24,284</u>                  | <u>20,346</u>                  |
|                                        | <u><u>53,972</u></u>           | <u><u>45,407</u></u>           |

Operating lease payments represent rentals payable by the Group for certain of its office premises and retail shops. Leases are negotiated for one to two years with rental fixed throughout the rental period.

## **29. Banking facilities and pledge of assets**

At 31 March 2008, the Group's banking facilities were secured by bank deposits as set out in note 17.

## **30. Retirement benefits plans**

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary.

For members of the MPF Scheme, the Group contributes the lower of HK\$1,000 or 5% of relevant payroll costs to the scheme, this contribution is matched by the employees.

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the retirement benefit scheme contributions amounted to approximately HK\$950,000 (2007: HK\$1,894,000).

**31. Capital commitments**

|                                                                                                                                                             | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | <u>381</u>                     | <u>—</u>                       |

**32. Major non-cash transactions**

For the year ended 31 March 2007, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of HK\$400,000.

**33. Post balance sheet events**

- (a) On 3 April 2008, a proposed acquisition of a 70% equity interests in three mining companies was terminated due to non-fulfillment of certain conditions precedent as stated in the agreement. As such, the Company is not obligated to issue the convertible bonds which were initially proposed for payment of the acquisition. In addition, a deposit for the acquisition of HK\$32.90 million was refunded to the Group on 23 June 2008.
- (b) On 27 May 2008, the Company entered into a sale and purchase agreement for the acquisition of 100% shareholding interest of a group of companies which is principally engaged in development and operation of highways and property investment in the PRC. The total consideration for the acquisition is RMB460 million, to be satisfied by RMB50 million in cash and RMB410 million in issuing of convertible bonds, subject to certain conditions including approval by the Company's shareholders in a general meeting. Further details of the transaction are set out in an announcement issued by the Company on 11 June 2008.

**34. Related party disclosures****(i) Related party transaction**

During the year, the Group had the following significant transaction with a related party:

| <b>Nature of transaction</b> | <b>2008</b><br><i>HK\$'000</i> | <b>2007</b><br><i>HK\$'000</i> |
|------------------------------|--------------------------------|--------------------------------|
| Rental expenses paid         | <u>1,050</u>                   | <u>2,640</u>                   |

*Note:* The rental expenses for certain office premises were paid to Boldsmore International Limited, a company in which Ms. Cheung Yin Sheung, Subraina, a former director of the Company, has beneficial interest.

(ii) Compensation of key management personnel

The remuneration of the key management personnel during the year was as follows:

|                                         | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|-----------------------------------------|------------------|------------------|
| Short term benefits                     | 4,163            | 3,138            |
| Retirement benefit scheme contributions | 37               | 36               |
| Share-based payment expenses            | 1,997            | —                |
|                                         | <u>6,197</u>     | <u>3,174</u>     |

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

(iii) Related party balances

Details of a balance with Mr. Wong Pak Lam, Louis, a director of the Company, as at 31 March 2008 are set out in note 20.

(iv) Private placement of shares

Details of issue of 10,000,000 shares of HK\$0.10 each in the Company held by Ti Yu, of which Mr. Wong Pak Lam, Louis, is the beneficial owner of Ti Yu and a director of the Company, are set out in note 25(a).

35. Principal subsidiaries

Particulars of the principal subsidiaries of the Company at 31 March 2008 and 2007 are as follows:

| Name of subsidiary         | Place of incorporation/<br>operations | Issued and<br>fully paid<br>share capital | Proportion of<br>nominal value of<br>issued share capital<br>held by Company |      | Principal activities                                    |
|----------------------------|---------------------------------------|-------------------------------------------|------------------------------------------------------------------------------|------|---------------------------------------------------------|
|                            |                                       |                                           | %                                                                            |      |                                                         |
|                            |                                       |                                           | 2008                                                                         | 2007 |                                                         |
| Directly held:             |                                       |                                           |                                                                              |      |                                                         |
| Gay Giano Holdings Limited | British Virgin Islands                | US\$1,000                                 | 100                                                                          | 100  | Investment holding                                      |
| Sky Cypress Limited        | British Virgin Islands                | US\$1                                     | 100                                                                          | —    | Investment holding                                      |
| Indirectly held:           |                                       |                                           |                                                                              |      |                                                         |
| Belarus Limited            | Hong Kong                             | HK\$3,000                                 | 100                                                                          | 100  | Sourcing of materials and investment holding            |
| Cour Carré (Asia) Limited  | British Virgin Islands                | US\$1                                     | 100                                                                          | 100  | Investment holding                                      |
| Cour Carré Company Limited | Hong Kong                             | HK\$1,000                                 | 100                                                                          | 100  | Retail of fashion apparel and complementary accessories |

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

| Name of subsidiary                       | Place of incorporation/<br>operations | Issued and<br>fully paid<br>share capital | Proportion of<br>nominal value of<br>issued share capital<br>held by Company |      | Principal activities                                        |
|------------------------------------------|---------------------------------------|-------------------------------------------|------------------------------------------------------------------------------|------|-------------------------------------------------------------|
|                                          |                                       |                                           | %                                                                            |      |                                                             |
|                                          |                                       |                                           | 2008                                                                         | 2007 |                                                             |
| Cour Carré World Limited                 | British Virgin Islands                | US\$1                                     | 100                                                                          | 100  | Wholesale of fashion apparel and complementary accessories  |
| Diamante Globe Limited                   | British Virgin Islands                | US\$1                                     | 100                                                                          | —    | Investment holding                                          |
| Due G Company Limited                    | Hong Kong                             | HK\$10,000                                | 100                                                                          | 100  | Retail of fashion apparel and complementary accessories     |
| Gay Giano Company Limited                | Hong Kong                             | HK\$1,000,000                             | 100                                                                          | 100  | Retail of fashion apparel and complementary accessories     |
| Gay Giano International Limited          | Hong Kong                             | HK\$1,000                                 | 100                                                                          | 100  | Investment holding and provision of administrative services |
| Gay Giano Technology Limited             | British Virgin Islands/<br>Hong Kong  | US\$1                                     | 100                                                                          | 100  | Provision of information technology services                |
| Maxrola Limited                          | Hong Kong                             | HK\$2                                     | 100                                                                          | 100  | Property investment                                         |
| Shenzhen Longwei Fashion Mfg. Co., Ltd.* | PRC                                   | HK\$12,000,000                            | 100                                                                          | 100  | Manufacture and distribution of fashion apparel             |
| Tai Yi Holdings Limited                  | Hong Kong                             | HK\$10,000                                | 100                                                                          | —    | Investment holding                                          |

\* A wholly owned foreign enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

### 3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

#### For the year ended 31 March 2008

##### *Business review*

During the financial year, the Group continued to focus on the fashion apparel retail markets in Hong Kong. Backed by distribution channels similar to last year, the Group maintained turnover at a steady level of approximately HK\$131.1 million (2007: HK\$131.4 million). During the year, the Group continued to relocate existing outlets and renovated certain retail outlets in order to enhance brand image and provide a more comfortable shopping environments to customers. It had a total of 15 retail outlets as at 31 March 2008 (2007: 16) with total retail area of 23,550 sq. ft. (2007: 24,408 sq. ft.).

##### *Financial summary*

During the financial year, the Group was faced inflationary pressure of imported materials and keen price competition, which results in an impaired financial result. Backed by distribution channels similar to last year, the Group maintained turnover at a steady level of approximately HK\$131.1 million (2007: HK\$131.4 million).

The gross profit of the Group for the year ended 31 March 2008 stayed at a relatively high level at approximately 61% (2007: 65%), representing a slight 4% decrease compared with last year. The lower of gross profit margin of the Group was due to the higher prices of imported fabrics and fashion accessories from European countries and keen competition in retail fashion market.

The net loss for the year ended 31 March 2008 was approximately HK\$21.6 million (2007: net loss HK\$2.6 million). The reason of deteriorated result during the year was mainly the worsened operating environment in the retail market. The ratio of distribution costs to turnover and administrative expenses to turnover for the year were maintained at the level of approximately 37% (2007: 36%) and 42% (2007: 31%) respectively. Despite the tight fiscal discipline on operating expenses, the ratio of distribution and administrative expenses increased slightly due to inflated cost of human resources, rental and increase in legal and professional fees.

*Capital structure, liquidity, financial resources and gearing ratio*

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of 31 March 2008, the total outstanding short-term borrowings stood at approximately HK\$7.6 million (2007: HK\$5.2 million). Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans were determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the year. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

As at 31 March 2008, net current assets and current ratio of the Group were approximately HK\$55.1 million (2007: HK\$35.0 million) and 4.2 (2007: 4.0), respectively. The current assets mainly comprised inventories of approximately HK\$21.8 million (2007: HK\$25.6 million), deposits and prepayments of approximately HK\$35.5 million (2007: HK\$1.8 million), accounts receivable of approximately HK\$0.2 million (2007: HK\$ 0.3 million) and cash and bank balances of approximately HK\$6.2 million (2007: HK\$10.8 million). Included in deposits and prepayments is a deposit of HK\$32.9 million (2007: Nil) paid in respect of acquisition of equity interest in three mining companies in the PRC. The Group had total assets of approximately HK\$90.6 million (2007: HK\$63.6 million), current liabilities of approximately HK\$17.3 million (2007: HK\$11.8 million), non-current liabilities of approximately HK\$3.7 million (2007: HK\$1.7 million) and shareholders' equity of approximately HK\$69.6 million (2007: HK\$50.2 million).

The overall gearing ratio for the financial year was maintained at 11.1% (2007: 11.3%) with total borrowings of approximately HK\$7.7 million (2007: HK\$5.7 million) and net worth of approximately HK\$69.6 million (2007: HK\$50.2 million) as at 31 March 2008. Overall gearing ratio is defined as the total borrowing over the net worth.

The Group recorded a net cash outflow from operating activities of approximately HK\$7.5 million (2007: net cash inflow HK\$0.3 million) for the year. The Group repaid aggregated secured bank and other loans of HK\$23.8 million (2007: HK\$19.2 million) and the aggregate proceeds received from secured bank loans are HK\$25.9 million (2007: HK\$19.3 million).

***Capital expenditure and commitments***

Capital expenditures amounted to approximately HK\$4.5 million (2007: HK\$2.5 million) for the year ended 31 March 2008. These expenditure were mainly used in retail network improvement. The amount of capital commitment of the Group as at 31 March 2008 was HK\$0.4 million (2007: Nil).

***Pledge of assets and contingent liabilities***

As at 31 March 2008, the Group pledged the leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK\$6.3 million (2007: HK\$5.7 million). As at 31 March 2008, the Group had no significant contingent liabilities (2007: Nil).

***Employee information***

As at 31 March 2008, the Group had employed 170 (2007: 171) full-time employees in Hong Kong and 254 (2007: 288) full-time employees in the PRC. The total number of full-time employees of the Group was 424 (2007: 459). The Group has a share option scheme for the benefit of its Directors and eligible employees of the Group.

***Foreign exchange exposure***

Most of the transactions of the Group are conducted in Hong Kong dollars and Euro. Although Euro had kept appreciated during the year, the Group did not resort to any currency hedging facility for the year ended 31 March 2008. Up to the date of this report, the Board had been of the view that the cost of any hedging facility would be higher than the potential risk of the costs incurred from currency fluctuation. However, the management will monitor the Group's foreign exchange exposure and consider hedging significant foreign currency exposure should the need arises.

***Dividend***

The Directors did not recommend the payment of any dividend for the year ended 31 March 2008 (2007: Nil).

***Investment in properties***

The Group's leasehold land and buildings were valued at approximately HK\$6.3 million (2007: HK\$5.7 million) at 31 March 2008 by Savills Valuation and Professional Services Limited on an open market, existing use basis. This valuation gave rise to a revaluation surplus of approximately HK\$0.7 million (2007: HK\$0.4 million) which has been credited to reserves.

Properties leased in Hong Kong: the Group leases 15 (2007: 16) retail outlets from Independent Third Parties with a total floor area of 23,550 sq. ft. (2007: 24,408 sq. ft.). The Group also leases certain units at Siu Lek Yuen, Shatin, New Territories as warehouse and office space.

Property leased in the PRC: the production facilities and dormitories of the Group are located in Shediji, Shenzhen, PRC.

***Material acquisitions and disposals of subsidiaries and associated companies***

On 30 October 2007, the Group entered into a conditional agreement with an independent third party to acquire 70% equity interests in several mining companies in the PRC which involve zinc and lead mines at a consideration of HK\$361 million. The agreement was terminated due to the non-fulfillment of certain conditions precedent in the agreement as disclosed in the Company's announcement dated 3 April 2008. The Board considers that the termination of the agreement will not have any material impact on the business of the Group. Save for this, there were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 March 2008.

***Future plan and prospects***

Year 2008 marked an important year of the transition for the Group. During the year, the Group had a new major shareholder and brought in strategic institutional investors. Although the Group still focuses on its core business of fashion apparel, the new management team has identified to expand its future business in infrastructure including toll roads, ports, water plants and sewage plants etc. which is believed to be the best investment geared to the PRC's growth. The new major shareholder and the new management team of the Group have extensive experience in infrastructure and operation of toll roads in the PRC and they consider infrastructure and toll roads business as secure and high quality investments that can deliver sustainable earnings growth for the shareholders. In the future, toll roads will provide stable cashflows, lower cyclicalities and potential for asset appreciation. The strong expertise in toll roads and infrastructure business from the new management shall add benefits to the Shareholders.

For the apparel retail business, the Group is seeking strategic partners with solid experience in brand building to develop the “Gay Giano” and “Cour Carré” brands in the PRC. The two brands mainly target middle class white-collar employees who wish to project a professional and upbeat image. The banking, insurance, finance, securities, properties and other commercial segments in the PRC will translate into thriving demand for stylish, business-project apparel products like the Group’s. Regarding the Hong Kong market, sales performance is expected to improve as the Hong Kong economy continues to pick up steadily and the financial and commerce sectors raise salaries in 2008.

### **For the year ended 31 March 2007**

#### ***Business review***

During the financial year, the Group continued to focus on the fashion apparel retail markets in Hong Kong. The Group tried to develop the distributed channel and the total number of retail outlets as at 31 March 2007 is 16 (2006: 15) with total controlled retail area of 24,408 sq. ft. (2006: 24,911 sq. ft.). The Group wants to achieve the strategic goal of retail outlets area optimization and had continued the progress of relocation of the existing retail outlets and opened a new retail outlet in Tsung Kwan O. As a result, the total number of retail outlets increased with a similar level of total controlled retail area this year and the ratio of turnover per square is slightly improved accordingly. This retail area optimization strategy effectively controlled the overall rental expenditure of the Group in the existing rental inflationary trend in retail markets. On the other hand, certain retail outlets were renovated so as to enhance the brand image and to provide a more comfortable shopping environment to customers.

#### ***Financial summary***

During the financial year, the Group was faced with inflationary pressure in imported material, local rental and human resources costs, which results in an impaired financial result. With a similar structure of the distributed channel to last year, the turnover of the Group for the year was maintained at a steady level of approximately HK\$131.4 million (2006: HK\$132.8 million). The keen price competition in fashion market impair turnover for the year by approximately 1%.

The gross profit margin of the Group for the year ended 31 March 2007 was maintained at a relatively high level at approximately 65% (2006: 67%), representing a 2% decrease when compared to last year. The management of the Group had imposed different efforts in production cost control to maintain the gross profit margin. However, the imported inflation of fabrics and fashion accessories from European countries and the keen price competition had lowered down the gross profit ratio of the Group.

The net loss for the year ended 31 March 2007 is approximately HK\$2.6 million (2006: net profit HK\$2.1 million). The reason of deteriorated result during the year is mainly due to the worsened operating environment in retail market. The ratio of distribution costs to turnover and administrative expenses to turnover for the year are maintained at the level of approximately 36% (2006: 35%) and 31% (2006: 31%) respectively. Despite the tight fiscal discipline on operating expenses, the ratio of distribution and administrative expenses increased slightly due to the burden of inflating human resources and retail rental cost.

***Capital structure, liquidity, financial resources and gearing ratio***

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of 31 March 2007, the total outstanding short-term borrowings stood at approximately HK\$5.2 million (2006: HK\$5.0 million). Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans are determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the year. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

As at 31 March 2007, net current assets and current ratio of the Group were approximately HK\$35.0 million (2006: HK\$33.9 million) and 4.0 (2006: 3.3), respectively. The current assets mainly comprised inventories of approximately HK\$25.6 million (2006: HK\$27.4 million), accounts receivable of approximately HK\$0.3 million (2006: HK\$1.1 million) and cash and bank balances of approximately HK\$10.8 million (2006: HK\$12.2 million). The Group had total assets of approximately HK\$63.6 million (2006: HK\$68.4 million), current liabilities of approximately HK\$11.8 million (2006: HK\$14.5 million), non-current liabilities of approximately HK\$1.7 million (2006: HK\$1.6 million) and shareholders' equity of approximately HK\$50.2 million (2006: HK\$52.3 million)

The overall gearing ratio for the financial year was maintained at 11.30% (2006: 9.8%) with total borrowings of approximately HK\$5.7 million (2006: HK\$5.1 million) and net worth of approximately HK\$50.2 million (2006: HK\$52.3 million) as at 31 March 2007. Overall gearing ratio is defined as the total borrowing over the net worth.

The Group recorded a net cash inflow from operating activities of approximately HK\$0.5 million (2006: HK\$0.5 million) for the year. The Group repaid aggregated secured bank and other loans of HK\$4.9 million (2006: HK\$4.2 million) and the aggregate proceeds received from secured bank loans is HK\$5.2 million (2006: HK\$4.9 million).

***Capital expenditure and commitments***

Capital expenditures amounted to approximately HK\$2.5 million (2006: HK\$3.0 million) for the year ended 31 March 2007. These expenditure were mainly used in retail network improvement. There were no material capital commitments at 31 March 2007 (2006: Nil).

***Pledge of assets and contingent liabilities***

As at 31 March 2007, the Group pledged the leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK\$5.7 million (2006: HK\$5.4 million). As at 31 March 2007, the Group had no significant contingent liabilities (2006: Nil).

***Employee information***

As at 31 March 2007, the Group had employed approximately 171 (2006: 187) full-time employees in Hong Kong and approximately 288 (2006: 375) full-time employees in the PRC. The total number of full-time employees of the Group is 459 (2006: 562). The Group has a share option scheme for the benefit of its Directors and eligible employees of the Group.

***Foreign exchange exposure***

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and Renminbi. Exchange rates between these currencies were relatively stable during the financial year 2007. However, the recent fluctuation of the exchange rate of EURO may render the Group suffering a greater exchange risk as in the forthcoming year, certain amount of the Group's raw materials are sourced from European countries. The Group had no foreign exchange rate hedging arrangement during the year. However, the management will monitor foreign exchange exposure and considers hedging significant foreign currency exposure should the need arises.

***Dividend***

The Directors did not recommend the payment of any dividend for the year ended 31 March 2007 (2006: Nil).

***Investment in properties***

The Group's leasehold land and buildings were valued at approximately HK\$5.7 million (2006: HK\$5.4 million) at 31 March 2007 by Savills Valuation and Professional Services Limited on an open market, existing use basis. This valuation gave rise to a revaluation surplus of approximately HK\$0.3 million which has been credited to reserves.

Properties leased in Hong Kong: the Group leases 16 (2006: 15) retail outlets from Independent Third Parties with a total floor area of 24,408 sq. ft. (2006: 24,911 sq. ft.). The Group also leases certain units at Siu Lek Yuen, Shatin, New Territories as warehouse and office space.

Property leased in the PRC: the production facilities and dormitories of the Group are located in Shediji, Shenzhen, PRC.

***Material acquisitions and disposals of subsidiaries and associated companies***

There were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 March 2007.

***Future plan and prospects***

Facing the inflationary pressure of the operating environment, the Group will continue to deploy prudent cost control and distributional strategies on the future retail outlets development. The Directors believe that the firm commitment of the management to build brand loyalty, effective operational and financial strategies, along with sophisticated yet contemporary apparel products and effective distribution channel, will support the Group's healthy growth and enable the Group to gain access to additional business opportunities that may be presented to the Group in the future.

**For the year ended 31 March 2006*****Business review***

During the financial year, the Group continued to apply different strategies to improve the overall performance. However, facing the inflationary pressure in imported material, local rental and human resources costs and the weakened economic recovery, the result of the struggle contributed by the management was impaired accordingly.

During the financial year, the Group tried to develop the distributional channel and the total number of retail outlet as at 31 March 2006 is 15 (2005: 13) with total controlled retail area of 24,911 sq. ft. (2005: 24,901 sq. ft.). In order to achieve the strategic goal of retail outlet area optimization, the Group continued the progress of relocation of the existing retail outlets and opened certain new shops in different area. As a result, the total number of retail outlets increased with a similar level of total controlled retail area in this year and the ratio of turnover per square foot is improved accordingly. This retail area optimization strategy effectively controlled the overall rental expenditure of the Group in the existing rental inflationary trend in retail market. On the other hand, certain retail outlets were renovated so as to enhance the brand image and to provide a more comfortable shopping environment to our customers.

### *Financial summary*

The Group continued to focus on the fashion apparel retail market in Hong Kong. The turnover of the Group for the financial year was approximately HK\$132.8 million (2005: HK\$126.4 million), representing an approximately 5% increase than last year. This achievement is contributed by our wider distribution channel and effective marketing strategies. However, the keen price competition in fashion market and the weakened consumption sentiment limited the degree of improvement of the turnover for the year.

The gross profit margin of the Group for the year ended 31 March 2006 was maintained at a relatively high level at approximately 67% (2005: 70%), representing a 3% decrease when compared with last year. The management of the Group has imposed different efforts in production cost control to maintain the gross profit margin. However, the imported inflation of fabrics and fashion accessories from European countries and the keen price competition has lowered down the gross profit ratio of the Group. Certain production cost minimizing plan will be applied in next financial period in order to maintain the high gross profit margin level of the Group in the long run.

The net profit for the year ended 31 March 2006 is approximately HK\$2.1 million (2005: HK\$13.9 million), decreased by approximately 85% from last year. The considerable decrease in net profit during the year is mainly due to the worsened operating environment in retail market and an one-off property disposal profit of approximately HK\$4.9 million was recorded in last year. The ratio of distribution costs to turnover and administrative expenses to turnover for the year are maintained at the level of approximately 35% (2005: 34%) and 31% (2005: 29%) respectively. Despite the tight fiscal discipline on operating expenses, the ratio of distribution and administrative expenses increased slightly due to the burden of inflating human resources and retail rental cost.

*Capital structure, liquidity, financial resources and gearing ratio*

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of 31 March 2006, the total outstanding short-term borrowings stood at approximately HK\$5.0 million (2005: HK\$4.3 million). Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans are determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the year. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

As at 31 March 2006, net current assets and current ratio of the Group were approximately HK\$33.9 million (2005: HK\$30.5 million) and 3.3 (2005: 3.5), respectively. The current assets mainly comprised inventories of approximately HK\$27.4 million (2005: HK\$19.3 million), accounts receivable of approximately HK\$1.1 million (2005: HK\$2.0 million) and cash and bank balances of approximately HK\$12.2 million (2005: HK\$14.1 million). The group had total assets of approximately HK\$68.4 million (2005: HK\$ 63.3 million), current liabilities of approximately HK\$14.5 million (2005: HK\$12.3 million), non-current liabilities of approximately HK\$1.6 million (2005: HK\$1.2 million) and shareholders' equity of approximately HK\$52.3 million (2005: HK\$49.8 million).

The overall gearing ratio for the year was maintained at 9.8% (2005: 9.2%) with total borrowings of approximately HK\$5.1 million (2005: HK\$4.6 million) and net worth of approximately HK\$52.3 million (2005: HK\$49.8 million) as at 31 March 2006. Overall gearing ratio is defined as the total borrowings over the net worth.

The Group recorded a net cash inflow from operating activities of approximately HK\$0.5 million (2005: HK\$7.4 million) for the year and repaid aggregated bank and other loans of HK\$4.2 million (2005: HK\$4.3 million).

*Capital expenditure and commitments*

Capital expenditures amounted to approximately HK\$3.0 million (2005: HK\$3.1 million) for the year ended 31 March 2006. These expenditures were mainly used in retail network improvement. There were no material capital commitments at 31 March 2006 (2005: Nil).

***Pledge of assets and contingent liabilities***

As at 31 March 2006, the Group pledged the leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK\$5.4 million (2005: HK\$5.2 million). As at 31 March 2006, the Group had no significant contingent liabilities (2005: Nil).

***Employee information***

As at 31 March 2006, the Group had employed approximately 187 (2005: 161) full-time employees in Hong Kong and approximately 375 (2005: 367) full-time employees in the PRC. The total number of full-time employees of the Group is 562 (2005: 528). The Group has a share option scheme for the benefit of its Directors and eligible employees of the Group.

***Foreign exchange exposure***

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and Renminbi. Exchange rates between these currencies were relatively stable during the year under review. However, the recent fluctuation of the exchange rate of EURO may render the Group suffering a greater exchange risk as in the forthcoming year, certain amount of the Group's raw materials are sourced from European countries. The Group had no foreign exchange rate hedging arrangement during the year. However, the management will monitor foreign exchange exposure and considers hedging significant foreign currency exposure should the need arises.

***Dividend***

The Directors did not recommend the payment of any dividend for the year ended 31 March 2006 (2005: Nil).

***Investment in properties***

The Group's leasehold land and buildings were valued at approximately HK\$5.4 million (2005: HK\$5.2 million) at 31 March 2006 by Savills Valuation and Professional Services Limited on an open market, existing use basis. This valuation gave rise to a revaluation surplus of approximately HK\$0.3 million, which has been credited to reserves. Such leasehold land and buildings were reclassified from investment properties to leasehold land and buildings at 31 March 2005. Upon reclassification at 31 March 2005, the properties were revaluated and the revaluation surplus arising thereon amounted to HK\$1.3 million was credited to income statement.

Properties leased in Hong Kong: the Group leases 15 (2005: 13) retail outlets from independent third parties with a total floor area of 24,911 sq. ft. (2005: 24,091 sq. ft). The Group also leases certain units at Siu Lek Yuen, Shatin, New Territories as warehouse and office space.

Property leased in the PRC: the production facilities and dormitories of the Group are located in Shediju, Shenzhen, PRC.

*Material acquisitions and disposals of subsidiaries and associated companies*

There were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 March 2006.

*Future plan and prospects*

The Group will focus on the retail fashion market in Hong Kong. Facing the uncertain momentum of local economic growth and the inflationary pressure of the operating environment, the Group will continue to deploy prudent cost control and distributional strategies on its future retail outlets development. Looking ahead, the Group believes that the firm commitment of the management to build brand loyalty, effective operational and financial strategies, along with the sophisticated yet contemporary apparel products and effective distribution channel, will support the Group’s healthy growth and enable the Group to gain access to additional business opportunities that may be presented to the Group in the future.

4. RECONCILIATION ON PROPERTIES VALUATION

The reconciliation between the property valuation of the property interests held by the Group in Hong Kong (the “Property”) as at 31 August 2008 as set out in the Appendix IV to this circular with the net book value of the Property as at 31 March 2008 as reflected in the annual report for the year ended 31 March 2008 of the Group (as replicated and set out in the Appendix I to this circular) is as follows:

|                                                                         |           |
|-------------------------------------------------------------------------|-----------|
|                                                                         | HK\$      |
| Net book value of the Property as at 31 March 2008                      | 6,300,000 |
| Less: Depreciation charge for the period from 1 April to 31 August 2008 | 52,500    |
| Net book value of the Property as at 31 August 2008                     | 6,247,500 |
| Add: Revaluation surplus                                                | 192,500   |
| Valuation of the Property as at 31 August 2008                          | 6,440,000 |

## 5. INDEBTEDNESS OF THE ENLARGED GROUP

### **Borrowings**

As at the close of business on 31 August 2008, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK\$349.5 million comprising an unsecured bank loan of approximately HK\$342 million, secured trust receipt loans of approximately HK\$7.2 million and secured finance lease payable of approximately HK\$0.3 million.

### **Pledge of assets**

As at 31 August 2008, the borrowing facilities of the Enlarged Group were supported by the followings:

- (i) the unsecured bank loan was guaranteed by an ultimate shareholder of Equity Pinghong;
- (ii) the pledged of bank deposits of approximately HK\$3.5 million;
- (iii) the pledged of properties with a total net carrying value of approximately HK\$6.3 million;
- (iv) the pledged of motor vehicles of a total net carrying value of approximately HK\$0.53 million.

### **Commitments and contingent liabilities**

As the close of business on 31 August 2008, the Enlarged Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately HK\$34 million.

As at 31 August 2008, the Enlarged Group had capital commitment in respect of the construction costs of the highways contracted for but not provided in the financial statements in the amounts of HK\$1,006 million.

### **Disclaimer**

Save as the aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 August 2008, the Enlarged Group did not have any other outstanding bank borrowings, mortgage, charge or any other borrowings, liabilities under acceptances or acceptance credits or hire purchase commitments.

The Directors have confirmed that there have been no other material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 August 2008. For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange ruling at the close of business on 31 August 2008.

**6. SUFFICIENCY OF WORKING CAPITAL OF THE ENLARGED GROUP**

The Directors, after due and careful consideration, is of the opinion that, (i) subject to the availability of financing facilities in total of not less than RMB700 million as undertaken by the Grantors and the Guarantor to procure or to assist the Group in procuring for the purpose of subsequent development of Target Highways and an independent third party providing finance to the Grantors and the Guarantor for such purpose has confirmed in writing that the facilities from him to the Grantors and the Guarantor exist, and that the Grantee will not exercise the Purchase Option unless, inter alia, such financing facilities are available to the Group, and (ii) after taking into account the Enlarged Group's internal resources, operating cash flows, bank and other facilities currently in existence and the facilities mentioned in (i) above, the Enlarged Group has sufficient working capital for its present requirements and for at least the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

**A. ACCOUNTANTS' REPORT**

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Shu Lun Pan Horwath Hong Kong CPA Limited.



**Shu Lun Pan Horwath Hong Kong CPA Limited**  
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31 October 2008

The Board of Directors  
Gay Giano International Group Limited  
Unit 701-702, Grandtech Centre  
8 On Ping Street  
Siu Lek Yuen  
Shatin, N.T.  
Hong Kong

Dear Sirs

We set out below our report on the financial information (the “Financial Information”) on 大益萍洪高速公路發展(江西)有限公司 (Equity Pinghong Highway Development (Jiangxi) Co. Limited\*) (“Equity Pinghong”) for the years ended 31 December 2005, 2006 and 2007 and the six months ended 30 June 2008 (the “Relevant Period”), prepared for inclusion in the circular of Gay Giano International Group Limited (the “Company”, together with its subsidiaries referred to as the “Group”) dated 31 October 2008 (the “Circular”) in connection with the option to acquire 75% equity interests in Equity Pinghong and Equity Airui (the “Acquisition”) by the Group.

Equity Pinghong was incorporated on 18 December 2005 in the PRC with limited liability and its principal place of business is in mainland China. Equity Pinghong is principally engaged in the development and operation of expressway business.

No audited financial statements has been prepared for Equity Pinghong for the period from 18 December 2005 (date of incorporation) to 31 December 2005.

The financial statements of Equity Pinghong for the years ended 31 December 2006 and 2007 were prepared in accordance with the relevant accounting standards and rules of the

\* The English name is for identification purpose only

PRC and were audited by 江西誠聚源聯合會計師事務所 (Jiangxi Chengjuynan United Certified Public Accountants\*) and 江西泰豪會計師事務所有限公司 (Jiangxi Tai Hao Certified Public Accountants Co.\*), respectively.

For the purpose of this report, the directors of Equity Pinghong have prepared the financial statements of Equity Pinghong for the Relevant Period in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the Relevant Period (the “Underlying Financial Statements”). We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

### **Directors' responsibility**

The directors of Equity Pinghong are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Reporting accountant's responsibility**

For the financial information for the years ended 31 December 2005, 2006 and 2007 and the six months ended 30 June 2008, our responsibility is to express an opinion on the financial information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

For the financial information for the six months ended 30 June 2007, it is our responsibility to form an independent conclusion, based on our review, on the financial information and to report our conclusion to you. We conducted our review on the financial information in accordance with Hong Kong Standard on Review Engagements 2400 “Engagements to Review Financial Statements” issued by the HKICPA. Our review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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 conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the financial information for the six months ended 30 June 2007.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of Equity Pinghong as at 31 December 2005, 2006 and 2007 and 30 June 2008 and of its results and cash flows of Equity Pinghong for the years and period then ended.

On the basis of our review which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the financial information for the six months ended 30 June 2007.

B. FINANCIAL INFORMATION

Income statements

|                          |       | Period from<br>18 December<br>2005 (date of<br>incorporation)<br>to |                        |           | Six months ended |          |
|--------------------------|-------|---------------------------------------------------------------------|------------------------|-----------|------------------|----------|
|                          |       | 31 December<br>2005                                                 | Year ended 31 December |           | 30 June          | 2008     |
|                          | Notes | RMB '000                                                            | RMB '000               | RMB '000  | RMB '000         | RMB '000 |
|                          |       |                                                                     |                        |           | (unaudited)      |          |
| Turnover                 | 5     | —                                                                   | 287,032                | 260,753   | 210,877          | 23,145   |
| Cost of sales            |       | —                                                                   | (282,832)              | (256,953) | (207,777)        | (22,845) |
| Gross profit             |       | —                                                                   | 4,200                  | 3,800     | 3,100            | 300      |
| Other revenue            | 6     | —                                                                   | 754                    | 464       | 461              | 29       |
| Administrative expenses  |       | —                                                                   | (6,257)                | (7,166)   | (3,618)          | (2,111)  |
| Other operating expenses |       | —                                                                   | (5,254)                | —         | —                | —        |
| Loss from operations     |       | —                                                                   | (6,557)                | (2,902)   | (57)             | (1,782)  |
| Finance costs            | 7     | —                                                                   | (5)                    | (54)      | (43)             | (1)      |
| Loss before taxation     | 9     | —                                                                   | (6,562)                | (2,956)   | (100)            | (1,783)  |
| Taxation                 | 10    | —                                                                   | —                      | —         | —                | —        |
| Loss for the year/period |       | —                                                                   | (6,562)                | (2,956)   | (100)            | (1,783)  |

Balance sheets

|                                             |       | As at 31 December |         |          | As at    |
|---------------------------------------------|-------|-------------------|---------|----------|----------|
|                                             |       | 2005              | 2006    | 2007     | 30 June  |
|                                             | Notes | RMB'000           | RMB'000 | RMB'000  | 2008     |
|                                             |       |                   |         |          | RMB'000  |
| ASSETS                                      |       |                   |         |          |          |
| Non-current assets                          |       |                   |         |          |          |
| Property, plant and equipment               | 11    | —                 | 2,931   | 3,466    | 3,056    |
| Intangible assets                           | 12    | —                 | 287,032 | 547,785  | 570,929  |
|                                             |       | —                 | 289,963 | 551,251  | 573,985  |
| Current assets                              |       |                   |         |          |          |
| Prepayments, deposits and other receivables | 13    | —                 | 8,900   | 23,312   | 18,899   |
| Amount due from a fellow subsidiary         | 14    | —                 | —       | 1,420    | 1,384    |
| Amount due from the ultimate shareholder    | 15    | —                 | 5,000   | 2,000    | —        |
| Cash at banks and in hand                   |       | 120,793           | 230,603 | 20,743   | 2,472    |
|                                             |       | 120,793           | 244,503 | 47,475   | 22,755   |
| Current liabilities                         |       |                   |         |          |          |
| Accruals and other payables                 | 16    | —                 | 16,389  | 74,907   | 74,704   |
| Net current assets/(liabilities)            |       | —                 | 228,114 | (27,432) | (51,949) |
| Total assets less current liabilities       |       | 120,793           | 518,077 | 523,819  | 522,036  |
| Non-current liabilities                     |       |                   |         |          |          |
| Bank loan                                   | 17    | —                 | 300,000 | 300,000  | 300,000  |
| NET ASSETS                                  |       | 120,793           | 218,077 | 223,819  | 222,036  |
| EQUITY                                      |       |                   |         |          |          |
| Capital                                     | 18    | 120,793           | 221,942 | 230,640  | 230,640  |
| Reserves                                    |       | —                 | (3,865) | (6,821)  | (8,604)  |
| TOTAL EQUITY                                |       | 120,793           | 218,077 | 223,819  | 222,036  |

## Statements of changes in equity

|                                                              | Paid-in<br>capital<br><i>RMB'000</i><br><i>Note 18</i> | Capital<br>reserve<br><i>RMB'000</i> | Accumulated<br>losses<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|--------------------------------------------------------------|--------------------------------------------------------|--------------------------------------|-----------------------------------------|-------------------------|
| Capital injection                                            | 120,793                                                | —                                    | —                                       | 120,793                 |
| <b>At 31 December 2005</b>                                   | 120,793                                                | —                                    | —                                       | 120,793                 |
| Capital injection                                            | 101,149                                                | 2,697                                | —                                       | 103,846                 |
| Loss for the year                                            | —                                                      | —                                    | (6,562)                                 | (6,562)                 |
| <b>At 31 December 2006</b>                                   | 221,942                                                | 2,697                                | (6,562)                                 | 218,077                 |
| Capital injection                                            | 8,698                                                  | —                                    | —                                       | 8,698                   |
| Loss for the year                                            | —                                                      | —                                    | (2,956)                                 | (2,956)                 |
| <b>At 31 December 2007</b>                                   | 230,640                                                | 2,697                                | (9,518)                                 | 223,819                 |
| Loss for the period                                          | —                                                      | —                                    | (1,783)                                 | (1,783)                 |
| <b>At 30 June 2008</b>                                       | <u>230,640</u>                                         | <u>2,697</u>                         | <u>(11,301)</u>                         | <u>222,036</u>          |
| <b>For the six months ended<br/>30 June 2007 (Unaudited)</b> |                                                        |                                      |                                         |                         |
| At 1 January 2007                                            | 221,942                                                | 2,697                                | (6,562)                                 | 218,077                 |
| Loss for the period                                          | —                                                      | —                                    | (100)                                   | (100)                   |
| <b>At 30 June 2007</b>                                       | <u>221,942</u>                                         | <u>2,697</u>                         | <u>(6,662)</u>                          | <u>217,977</u>          |

**Cash flow statements**

|                                                                          | Period from<br>18 December<br>2005 (date of<br>incorporation)<br>to 31 December | Year ended 31 December |           |             | Six months ended<br>30 June |
|--------------------------------------------------------------------------|---------------------------------------------------------------------------------|------------------------|-----------|-------------|-----------------------------|
|                                                                          | 2005                                                                            | 2006                   | 2007      | 2007        | 2008                        |
|                                                                          | RMB '000                                                                        | RMB '000               | RMB '000  | RMB '000    | RMB '000                    |
|                                                                          |                                                                                 |                        |           | (unaudited) |                             |
| <b>Operating activities</b>                                              |                                                                                 |                        |           |             |                             |
| Loss before taxation                                                     | —                                                                               | (6,562)                | (2,956)   | (100)       | (1,783)                     |
| Adjustments for:                                                         |                                                                                 |                        |           |             |                             |
| Depreciation                                                             | —                                                                               | 307                    | 767       | 356         | 410                         |
| Interest income                                                          | —                                                                               | (754)                  | (464)     | (461)       | (29)                        |
| Operation cash flows before<br>working capital changes                   | —                                                                               | (7,009)                | (2,653)   | (205)       | (1,402)                     |
| (Increase)/decrease in<br>prepayments, deposits and<br>other receivables | —                                                                               | (8,900)                | (14,412)  | (10,624)    | 4,413                       |
| (Increase)/decrease in<br>amount due from a fellow<br>subsidiary         | —                                                                               | —                      | (1,420)   | —           | 36                          |
| (Increase)/Decrease in<br>amount due from ultimate<br>shareholder        | —                                                                               | (5,000)                | 3,000     | —           | 2,000                       |
| Increase/(decrease) in accruals<br>and other payables                    | —                                                                               | 16,389                 | 58,518    | 29,414      | (203)                       |
| <b>Net cash generated from/(used<br/>in) operating activities</b>        | —                                                                               | (4,520)                | 43,033    | 18,585      | 4,844                       |
| <b>Investing activities</b>                                              |                                                                                 |                        |           |             |                             |
| Payments to acquire property,<br>plant and equipment                     | —                                                                               | (3,238)                | (1,302)   | (1,297)     | —                           |
| Payments to concession<br>intangible assets                              | —                                                                               | (287,032)              | (260,753) | (210,877)   | (23,144)                    |
| Interest received                                                        | —                                                                               | 754                    | 464       | 461         | 29                          |
| <b>Net cash used in investing<br/>activities</b>                         | —                                                                               | (289,516)              | (261,591) | (211,713)   | (23,115)                    |

|                                                       | Period from<br>18 December<br>2005 (date of<br>incorporation)<br>to 31 December<br>2005<br><i>RMB'000</i> | Year ended 31 December |                        | Six months ended<br>30 June<br>2007<br><i>RMB'000</i><br>(unaudited) |                        |
|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|------------------------|------------------------|----------------------------------------------------------------------|------------------------|
|                                                       |                                                                                                           | 2006<br><i>RMB'000</i> | 2007<br><i>RMB'000</i> | 2007<br><i>RMB'000</i>                                               | 2008<br><i>RMB'000</i> |
| Financing activities                                  |                                                                                                           |                        |                        |                                                                      |                        |
| Capital injection                                     | 120,793                                                                                                   | 103,846                | 8,698                  | —                                                                    | —                      |
| Proceeds from new bank borrowings                     | —                                                                                                         | 300,000                | —                      | —                                                                    | —                      |
| Net cash generated from financing activities          | —                                                                                                         | 403,846                | 8,698                  | —                                                                    | —                      |
| Net increase/(decrease) in cash and cash equivalents  | 120,793                                                                                                   | 109,810                | (209,860)              | (193,128)                                                            | (18,271)               |
| Cash and cash equivalents at beginning of year/period | —                                                                                                         | 120,793                | 230,603                | 230,603                                                              | 20,743                 |
| Cash and cash equivalents at end of year/period       | 120,793                                                                                                   | 230,603                | 20,743                 | 37,475                                                               | 2,472                  |
| Analysis of the balances of cash and cash equivalents |                                                                                                           |                        |                        |                                                                      |                        |
| Cash at banks and in hand                             | 120,793                                                                                                   | 230,603                | 20,743                 | 37,475                                                               | 2,472                  |

C. NOTES TO THE FINANCIAL INFORMATION

1. General information

Equity Pinghong was established in the PRC on 18 December 2005. The address of the registered office is 中國南昌市洪城路8號長青國貿大廈1806室 (Room 1806, Evergreen International Trading Building, No. 8 Hong Cheng Lu, Nanchang, PRC\*). The principal activity is construction and operation of highway.

*\* The English translation is for identification purpose only*

2. Adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

The following new standards, amendments to standards and interpretations that have been issued but are not effective. The directors of Equity Pinghong anticipate that the application of these HKFRSs will have no material impact on the Financial Information of Equity Pinghong:

|                                                          | Effective for accounting period<br>beginning on or after |
|----------------------------------------------------------|----------------------------------------------------------|
| HKAS 1 (Revised), Presentation of Financial Statements   | 1 January 2009                                           |
| HKAS 23 (Revised), Borrowing costs                       | 1 January 2009                                           |
| HKAS 32 (amendment), Financial Instruments: Presentation | 1 January 2009                                           |
| HKFRS 2 (amendment), Share-based payment                 | 1 January 2009                                           |
| HKFRS 3 (amendment), Business Combination                | 1 July 2009                                              |
| HKFRS 8, Operating segments                              | 1 January 2009                                           |
| HK (IFRIC) — Int 13, Customer loyalty programmes         | 1 July 2008                                              |

3. Summary of significant accounting policies

The Financial Information have been prepared in accordance with HKFRSs (which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information is presented in Renminbi and all values are rounded to the nearest thousand and except otherwise indicated.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the Financial Information.

A summary of the significant accounting policies followed by Equity Pinghong in the preparation of the Financial Information is set out below:

(a) Basis of preparation

The Financial Information has been prepared on the historical cost basis and in accordance with HKFRSs.

The shareholders have undertaken that they will provide such financial assistance as is necessary to maintain Equity Pinghong as a going concern. On the strength of this assurance the financial statements have been prepared on the going concern basis.

(b) *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

|                                   |     |
|-----------------------------------|-----|
| Furniture, fixtures and equipment | 20% |
| Motor vehicles                    | 20% |

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(c) *Concession arrangement*

Equity Pinghong has entered into contractual service arrangements with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures. Under the arrangements, Equity Pinghong carries out the construction or upgrade work of toll roads for the granting authorities and receives in exchange of a right to operate the toll roads concerned and the entitlement to the toll fees collected from the users of the toll road services. The assets under the service concession arrangement are classified as intangible assets in accordance with HK(IFRIC) – Int 12 “Service Concession Arrangement” (the “IFRIC 12”). The assets are classified as intangible assets if the Equity Pinghong receives a right to charge users of the respective toll roads.

(d) *Construction contract*

Equity Pinghong recognises income and expenses associated with construction services and upgrade services provided under the service concession in accordance with HKAS11, “Construction Contracts”.

Revenue generated by construction and upgrade services rendered by Equity Pinghong is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably. The consideration may be rights to attain an intangible asset.

Equity Pinghong uses the percentage of completion method to determine the appropriate amount of income and expenses to be recognised in a given period. The stage of completion is measured by reference to the construction costs of the related infrastructures incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

(e) *Impairment of assets*

At each balance sheet date, Equity Pinghong reviews the carrying amounts of its assets 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 the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, Equity Pinghong estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, 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 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.

(f) *Financial assets*

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. These financial assets are subsequently accounted for as follows:

(i) *Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

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

(iii) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

(iv) *Derecognition of financial assets*

Equity Pinghong derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Equity Pinghong neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Equity Pinghong recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If Equity Pinghong retains substantially all the risks and rewards of ownership of a transferred financial asset, Equity Pinghong continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(g) ***Financial liabilities and equity instrument issued by Equity Pinghong***

(i) *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Equity Pinghong are recorded at the proceeds received, net of direct issue costs.

(iii) *Financial liabilities*

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(iv) *Financial liabilities at fair value through profit or loss*

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

(v) *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(vi) *Derecognition of financial liabilities*

Equity Pinghong derecognises financial liabilities when, and only when, Equity Pinghong's obligations are discharged, cancelled or they expire.

(h) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of Equity Pinghong's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(i) *Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(j) *Provisions and contingent liabilities*

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

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

(k) *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Equity Pinghong's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(ii) *Deferred tax*

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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary

differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Equity Pinghong expects, at the balance sheet date, 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 Equity Pinghong intends to settle its current tax assets and liabilities on a net basis.

**(l) Foreign currencies**

In preparing the Financial Information of Equity Pinghong, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

**(m) Employees' benefits**

**(i) Short term benefits**

Salaries, annual bonuses, paid annual leaves and the cost of non-monetary benefits are accrued in the year/period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

**(ii) Pension obligations**

Pursuant to laws and regulations in the PRC, contributions to the basic old age insurance for Equity Pinghong's PRC employees are made monthly to a government agency based on 28% of the standard salary set by the provincial government, of which 20% is borne by Equity Pinghong and the remainder is borne by the employees. Except for the monthly contribution of 20% on standard salary to the government agency, Equity Pinghong has no further obligation in connection with PRC employees' retirement benefits. The government agency is responsible for the pension liabilities relating to such employees on their retirement. Equity Pinghong accounts for these contributions on an accrual basis.

Contributions to the above retirement schemes are charged to the income statement as incurred.

**(n) 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 added to 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.

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

**(o) Related parties**

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of Equity Pinghong where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of Equity Pinghong or of any entity that is a related party of Equity Pinghong.

**(p) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to Equity Pinghong and when the revenue is measured reliably. Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

**4. Critical accounting estimates and judgements**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Equity Pinghong makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(a) Impairment on long-lived assets**

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be impaired and an impairment loss may be recognised in accordance with accounting policy for impairment on long-lived asset as described in Note 3 (e). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of

revenue and amount of operating costs. Equity Pinghong uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

**(b) *Revenue recognition relating to service concession***

As described in Note 3 (d), income and expenses associated with construction services and upgrade services provided under the service concessions are recognised in accordance with HKAS 11 using the percentage of completion method. Revenue generated by construction services rendered by Equity Pinghong is measured at the fair value of the consideration received or receivable.

Due to the fact that there was no real cash flow realised or realisable during the construction phase of the infrastructure during the service concession, in order to determine the construction revenue to be recognised during the reporting period, the directors of Equity Pinghong made estimates of the respective amounts by making reference to services rendered by other relevant competitors on similar industry for construction of toll roads for respective PRC local governments without the corresponding grants of the toll road operating rights and entitlement to future toll revenues in return for management service fees. The directors of Equity Pinghong have drawn an analogy of the construction of toll roads under the services concession as if Equity Pinghong was providing construction and management services. Accordingly, construction revenue under the respective services concession is recognised at the total expected construction costs of the related toll roads plus management fees, computed at a percentage of the costs.

In ascertaining the total construction costs, the directors of Equity Pinghong made estimates based on information available such as budgeted projected costs, actual project costs incurred/settled to date, and relevant third party evidence such as signed construction contracts and their supplements, the related variation orders placed and the underlying construction and design plans, etc. In ascertaining the amount of management fee, the directors of Equity Pinghong have made reference to the practice for determining management fees for management construction contracts transacted by relevant competitors, whereby the fee is determined based on approximately 1.5% on the total budgeted costs of each project.

The construction revenue and related profit for the years/periods recognised by Equity Pinghong under the percentage of completion method for the service concession amounted to approximately nil, RMB287,032,000 and RMB260,753,000 for the years ended 31 December 2005, 2006 and 2007 and RMB23,145,000 (six months ended 30 June 2007 (unaudited): RMB210,877,000) for the six months ended 30 June 2008, respectively. The directors of Equity Pinghong consider that these are their current best estimates on the magnitude of construction revenue and related profits. Were the magnitudes of the final construction costs and the management fee applied as a percentage of the construction costs were to be differed from director's current estimates, Equity Pinghong would accounted for the change prospectively.

**(c) *Impairment for bad and doubtful debts***

The policy for impairment of bad and doubtful debts of Equity Pinghong is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtor of Equity Pinghong were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. Turnover

Revenue, which is also Equity Pinghong’s turnover, represents construction revenue on toll road under service concession.

6. Other revenue

|                      | Period from<br>18 December<br>2005 (date of<br>incorporation)<br>to 31 December<br>2005<br>RMB'000 | Year ended 31 December |                 | Six months ended<br>30 June<br>2007<br>2008<br>RMB'000 |    |
|----------------------|----------------------------------------------------------------------------------------------------|------------------------|-----------------|--------------------------------------------------------|----|
|                      |                                                                                                    | 2006<br>RMB'000        | 2007<br>RMB'000 |                                                        |    |
| Bank interest income | —                                                                                                  | 754                    | 464             | 461                                                    | 29 |

7. Finance costs

Finance costs represent bank charge for the Relevant Period.

8. Directors’ emoluments

During the Relevant Period, there are no directors’ emoluments paid or payable.

9. Loss before taxation

Loss before taxation is arrived at after charging:

|                             | Period from<br>18 December<br>2005 (date of<br>incorporation)<br>to 31 December<br>2005<br>RMB'000 | Year ended 31 December |                 | Six months ended<br>30 June<br>2007<br>2008<br>RMB'000<br>(unaudited) |     |
|-----------------------------|----------------------------------------------------------------------------------------------------|------------------------|-----------------|-----------------------------------------------------------------------|-----|
|                             |                                                                                                    | 2006<br>RMB'000        | 2007<br>RMB'000 |                                                                       |     |
| Auditor’s remuneration      | —                                                                                                  | 18                     | 25              | —                                                                     | —   |
| Directors’ remuneration     | —                                                                                                  | —                      | —               | —                                                                     | —   |
| Depreciation                | —                                                                                                  | 307                    | 767             | 356                                                                   | 410 |
| Exchange loss <sup>#</sup>  | —                                                                                                  | 5,254                  | —               | —                                                                     | —   |
| Staff costs                 |                                                                                                    |                        |                 |                                                                       |     |
| — salaries and allowances   | —                                                                                                  | 714                    | 950             | 511                                                                   | 296 |
| — pension fund contribution | —                                                                                                  | 337                    | 428             | 179                                                                   | 100 |

<sup>#</sup> The balance comprise other operating loss in the income statement

10. Taxation

No provision of taxation for PRC has been made, since no assessable profits occurred during the Relevant Period.

Taxation for the year/period can be reconciled to the accounting loss as follows:

|                                                                                      | Period from<br>18 December<br>2005 (date of<br>incorporation)<br>to 31 December<br>2005<br><i>RMB'000</i> | Year ended 31 December |                        | Six months ended<br>30 June<br>2007<br><i>RMB'000</i><br>(unaudited) |                        |
|--------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|------------------------|------------------------|----------------------------------------------------------------------|------------------------|
|                                                                                      |                                                                                                           | 2006<br><i>RMB'000</i> | 2007<br><i>RMB'000</i> | 2007<br><i>RMB'000</i>                                               | 2008<br><i>RMB'000</i> |
| Loss before taxation                                                                 | —                                                                                                         | (6,562)                | (2,956)                | (100)                                                                | (1,783)                |
| Taxation charge calculated at<br>income tax rate of<br>25%-33%                       | —                                                                                                         | (2,165)                | (975)                  | (33)                                                                 | (446)                  |
| Tax effect on unused tax losses<br>net of deferred tax liabilities<br>not recognised | —                                                                                                         | 2,165                  | 975                    | 33                                                                   | 446                    |
|                                                                                      | —                                                                                                         | —                      | —                      | —                                                                    | —                      |

No deferred tax assets have been recognised in respect of tax losses due to the unpredictability of future profit streams.

## 11. Property, plant and equipment

|                           | <b>Furniture,<br/>fixtures and<br/>equipment</b><br><i>RMB'000</i> | <b>Motor<br/>vehicles</b><br><i>RMB'000</i> | <b>Total</b><br><i>RMB'000</i> |
|---------------------------|--------------------------------------------------------------------|---------------------------------------------|--------------------------------|
| Cost:                     |                                                                    |                                             |                                |
| At 31 December 2005       | —                                                                  | —                                           | —                              |
| Additions                 | 193                                                                | 3,045                                       | 3,238                          |
| At 31 December 2006       | 193                                                                | 3,045                                       | 3,238                          |
| Additions                 | 55                                                                 | 1,247                                       | 1,302                          |
| At 31 December 2007       | 248                                                                | 4,292                                       | 4,540                          |
| Additions                 | —                                                                  | —                                           | —                              |
| At 30 June 2008           | <u>248</u>                                                         | <u>4,292</u>                                | <u>4,540</u>                   |
| Accumulated depreciation: |                                                                    |                                             |                                |
| At 31 December 2005       | —                                                                  | —                                           | —                              |
| Charge for the year       | 24                                                                 | 283                                         | 307                            |
| At 31 December 2006       | 24                                                                 | 283                                         | 307                            |
| Charge for the year       | 44                                                                 | 723                                         | 767                            |
| At 31 December 2007       | 68                                                                 | 1,006                                       | 1,074                          |
| Charge for the period     | 24                                                                 | 386                                         | 410                            |
| At 30 June 2008           | <u>92</u>                                                          | <u>1,392</u>                                | <u>1,484</u>                   |
| Net book value:           |                                                                    |                                             |                                |
| At 30 June 2008           | <u>156</u>                                                         | <u>2,900</u>                                | <u>3,056</u>                   |
| At 31 December 2007       | <u>180</u>                                                         | <u>3,286</u>                                | <u>3,466</u>                   |
| At 31 December 2006       | <u>169</u>                                                         | <u>2,762</u>                                | <u>2,931</u>                   |
| At 31 December 2005       | <u>—</u>                                                           | <u>—</u>                                    | <u>—</u>                       |

## 12. Intangible assets

|                             | <b>As at 31 December</b> |                |                | <b>As at 30 June</b> |
|-----------------------------|--------------------------|----------------|----------------|----------------------|
|                             | <b>2005</b>              | <b>2006</b>    | <b>2007</b>    | <b>2008</b>          |
|                             | <i>RMB'000</i>           | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>       |
| At beginning of year/period | —                        | —              | 287,032        | 547,785              |
| Additions                   | —                        | 287,032        | 260,753        | 23,144               |
| At end of year/period       | <u>—</u>                 | <u>287,032</u> | <u>547,785</u> | <u>570,929</u>       |

Intangible assets represent carrying amount of toll road under construction phase.

13.     **Prepayments, deposits and other receivables**

The carrying amounts of prepayments, deposits and other receivables at each of the balance sheet dates approximate their fair values.

14.     **Amount due from a fellow subsidiary**

The amount due from a fellow subsidiary is unsecured, interest free and have no fixed repayment terms.

The carrying amount of the amount due from a fellow subsidiary at each of the balance sheet dates approximates its fair value.

15.     **Amount due from the ultimate shareholder**

The amount due from the ultimate shareholder is unsecured, interest free and has no fixed repayment terms.

The carrying amount of the amount due from a ultimate shareholder at each of the balance sheet dates approximates its fair value.

16.     **Accruals, and other payables**

The carrying amounts of accruals and other payables at each of the balance sheet dates approximate their fair values.

17.     **Bank loan — secured**

|                                   | As at 31 December |          |          | As at    |
|-----------------------------------|-------------------|----------|----------|----------|
|                                   | 2005              | 2006     | 2007     | 30 June  |
|                                   | RMB '000          | RMB '000 | RMB '000 | 2008     |
|                                   |                   |          |          | RMB '000 |
| Bank loan repayable after 5 years | —                 | 300,000  | 300,000  | 300,000  |

Bank loan is denominated in Renminbi and its weighted average effective interest rates at each of the balance sheet dates were as follows:

|           | As at 31 December |       |       | As at   |
|-----------|-------------------|-------|-------|---------|
|           | 2005              | 2006  | 2007  | 30 June |
|           |                   |       |       | 2008    |
| Bank loan | —                 | 6.15% | 6.37% | 7.56%   |

The bank loan is guaranteed by an ultimate shareholder of Equity Pinghong during the construction phase and secured by the operating right of the highway subsequent to the toll road has commenced its operation. The loan was advanced on 30 September 2006 and was due for repayment in full on 25 September 2026.

18. Capital

|                    | As at 31 December |          |          | As at    |
|--------------------|-------------------|----------|----------|----------|
|                    | 2005              | 2006     | 2007     | 30 June  |
|                    | RMB '000          | RMB '000 | RMB '000 | 2008     |
|                    |                   |          |          | RMB '000 |
| Registered capital | 516,000           | 516,000  | 516,000  | 516,000  |
| Paid up capital    | 120,793           | 221,942  | 230,640  | 230,640  |

19. Commitments

Capital commitments outstanding at each of the balance sheet dates not provided for in the Financial Information were as follows:

|                                                                               | As at 31 December |           |          | As at    |
|-------------------------------------------------------------------------------|-------------------|-----------|----------|----------|
|                                                                               | 2005              | 2006      | 2007     | 30 June  |
|                                                                               | RMB '000          | RMB '000  | RMB '000 | 2008     |
|                                                                               |                   |           |          | RMB '000 |
| Capital commitments in respect of construction cost of highway contracted for | —                 | 1,093,152 | 859,545  | 848,295  |

20. Operating lease arrangement

|                                                                                             | Period from 18 December 2005 (date of incorporation) to 31 December 2005 |          | Year ended 31 December |          | Six months ended 30 June |          |
|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|----------|------------------------|----------|--------------------------|----------|
|                                                                                             | 2005                                                                     | 2006     | 2006                   | 2007     | 2007                     | 2008     |
|                                                                                             | RMB '000                                                                 | RMB '000 | RMB '000               | RMB '000 | RMB '000                 | RMB '000 |
|                                                                                             |                                                                          |          |                        |          | (unaudited)              |          |
| Minimum lease payments under operating leases recognised as expenses during the year/period | —                                                                        | 193      | 253                    | 77       | 144                      |          |

At each of the balance sheet dates, Equity Pinghong had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

|                                      | As at 31 December |          |          | As at    |
|--------------------------------------|-------------------|----------|----------|----------|
|                                      | 2005              | 2006     | 2007     | 30 June  |
|                                      | RMB '000          | RMB '000 | RMB '000 | 2008     |
|                                      |                   |          |          | RMB '000 |
| Within one year                      | —                 | 70       | 128      | 128      |
| After one year but within five years | —                 | 70       | 128      | 64       |
|                                      | —                 | 140      | 256      | 192      |

21. Related party transactions

Members of key management comprised of the directors only who did not received any remuneration during the Relevant Period.

As further detailed in Note 17, the bank loan of Equity Pinghong is guaranteed by an ultimate shareholder of Equity Pinghong.

22. Capital risk management

Equity Pinghong manages its capital to ensure that entitles in Equity Pinghong will be able continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Equity Pinghong consists of bank loan, cash and cash equivalents and equity attributable to equity holders of Equity Pinghong, comprising issued share capital and reserves.

The directors of Equity Pinghong review the capital structure on a regular basis. As part of this review, the directors of Equity Pinghong consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of Equity Pinghong, Equity Pinghong will balance its overall capital structure through the payments of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debts.

23. Financial risk management

The main risks arising from Equity Pinghong’s financial instruments in the normal course of Equity Pinghong business are credit risk, liquidity risk, interest rate and currency risk. These risks are limited by Equity Pinghong financial management policies and practices described below.

(a) Currency risk

Equity Pinghong mainly operated in the PRC with most of the transactions settled in RMB and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(b) Credit risk

Equity Pinghong has no significant concentrations of credit risk. It has policies in place to ensure that transactions are made to borrowers with an appropriate credit history. The exposure to these credit risks are monitored on an ongoing basis.

(c) Liquidity risk

Equity Pinghong manages liquidity risk through continuous monitoring and matching of the funding requirement and position. Equity Pinghong regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

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

|                        | Carrying<br>amount<br>RMB '000 | Total<br>contractual<br>undiscounted<br>cash flow<br>RMB '000 | Within 1<br>year or on<br>demand<br>RMB '000 | More than<br>1 year but<br>Less than 2<br>years<br>RMB '000 | More than<br>2 year but<br>less than 5<br>years<br>RMB '000 | More than<br>5 years<br>RMB '000 |
|------------------------|--------------------------------|---------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|----------------------------------|
| As at 31 December 2005 |                                |                                                               |                                              |                                                             |                                                             |                                  |
| Bank loan              | —                              | —                                                             | —                                            | —                                                           | —                                                           | —                                |
| As at 31 December 2006 |                                |                                                               |                                              |                                                             |                                                             |                                  |
| Bank loan              | 300,000                        | 304,617                                                       | —                                            | —                                                           | —                                                           | 300,000                          |
| As at 31 December 2007 |                                |                                                               |                                              |                                                             |                                                             |                                  |
| Bank loan              | 300,000                        | 319,120                                                       | —                                            | —                                                           | —                                                           | 300,000                          |
| As at 30 June 2008     |                                |                                                               |                                              |                                                             |                                                             |                                  |
| Bank loan              | <u>300,000</u>                 | <u>311,335</u>                                                | <u>—</u>                                     | <u>—</u>                                                    | <u>—</u>                                                    | <u>300,000</u>                   |

(d) *Cash flow and fair value interest-rate risk*

Long term borrowings at variable interest rate expose Equity Pinghong to cash flow interest rate risk. Equity Pinghong monitors the interest rate risk exposure on a continuous basis and adjusts the portfolio of borrowings where necessary.

The following table details the interest rate profile of Equity Pinghong’s borrowings at the balance sheet dates.

|                         | As at 31 December |                |                | As at          |
|-------------------------|-------------------|----------------|----------------|----------------|
|                         | 2005              | 2006           | 2007           | 30 June        |
|                         | RMB '000          | RMB '000       | RMB '000       | 2008           |
| Variable rate borrowing |                   |                |                |                |
| Bank loan               | <u>—</u>          | <u>300,000</u> | <u>300,000</u> | <u>300,000</u> |
| Effective interest rate | <u>—</u>          | <u>6.15%</u>   | <u>6.37%</u>   | <u>7.56%</u>   |

At 30 June 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase Equity Pinghong’s profit/loss after taxation and retained profits by approximately HKD750,000.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management’s assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(e) *Fair value estimation*

The carrying values of prepayments, deposits and other receivables, cash and cash equivalents, amount due from a fellow subsidiary and ultimate shareholder, bank loan and accruals and other payables as at each of the balance sheet dates approximate their fair values due to the short-term nature.

24. Summary of financial assets and financial liabilities by category

The carrying amounts of Equity Pinghong’s financial assets and financial liabilities as recognised at each of the balance sheet dates may be categorised as follows:

|                                                         | As at 31 December |          |          | As at    |
|---------------------------------------------------------|-------------------|----------|----------|----------|
|                                                         | 2005              | 2006     | 2007     | 30 June  |
|                                                         | RMB '000          | RMB '000 | RMB '000 | 2008     |
|                                                         |                   |          |          | RMB '000 |
| Financial assets                                        |                   |          |          |          |
| Loan and receivables (including bank and cash balances) | 120,793           | 244,503  | 47,475   | 22,755   |
| Financial liabilities                                   |                   |          |          |          |
| Financial liabilities measured at amortised cost        | —                 | 315,701  | 374,801  | 374,701  |

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Pinghong in respect of any period subsequent to 30 June 2008.

Yours faithfully,  
For and on behalf of  
**Shu Lun Pan Horwath Hong Kong CPA Limited**  
*Certified Public Accountants*  
Hong Kong

**Choi Man On**  
*Director*  
Practising Certificate number P02410

**A. ACCOUNTANTS' REPORT**

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Shu Lun Pan Horwath Hong Kong CPA Limited.



**Shu Lun Pan Horwath Hong Kong CPA Limited**  
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31 October 2008

The Board of Directors  
Gay Giano International Group Limited  
Unit 701-702, Grandtech Centre  
8 On Ping Street  
Siu Lek Yuen  
Shatin, N.T.  
Hong Kong

Dear Sirs

We set out below our report on the financial information (the “Financial Information”) on 大益隘瑞高速公路發展 (江西) 有限公司 (Equity Airui Highway Development (Jiangxi) Co. Limited\*) (“Equity Airui”) for the period from 23 October 2007 (date of incorporation) to 31 December 2007 and the six months ended 30 June 2008 (the “Relevant Period”), prepared for inclusion in the circular of Gay Giano International Group Limited (the “Company”, together with its subsidiaries referred to as the “Group”) dated 31 October 2008 (the “Circular”) in connection with option to acquire 75% equity interests in Equity Pinghong and Equity Airui (the “Acquisition”) by the Group.

Equity Airui was incorporated on 23 October 2007 in the PRC with limited liability and its principal place of business is in mainland China. Equity Airui is principally engaged in the development and operation of expressway business. Equity Airui is currently an indirect subsidiary of New Alliance.

No audited financial statements have been prepared for Equity Airui since its incorporation because Equity Airui was newly incorporated.

\* The English name is for identification purpose only

For the purpose of this report, the directors of Equity Airui have prepared the financial statements of Equity Airui for the Relevant Period in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the Relevant Period (the “Underlying Financial Statements”). We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

**Directors’ responsibility**

The directors of Equity Airui are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Reporting accountant’s responsibility**

For the financial information for the period from 23 October 2007 (date of incorporation) to 31 December 2007 and the six months ended 30 June 2008, our responsibility is to express an opinion on the financial information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

**Opinion**

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of Equity Airui as at 31 December 2007 and 30 June 2008 and of its losses and cash flows of Equity Airui for the periods then ended.

B. FINANCIAL INFORMATION

Income statements

|                         |       | Period from<br>23 October<br>2007 (date of<br>incorporation)<br>to 31 December<br>2007 | Six months<br>ended<br>30 June<br>2008 |
|-------------------------|-------|----------------------------------------------------------------------------------------|----------------------------------------|
|                         | Notes | RMB'000                                                                                | RMB'000                                |
| Turnover                | 5     | —                                                                                      | —                                      |
| Administrative expenses |       | (957)                                                                                  | (1,111)                                |
| Loss before taxation    | 6     | (957)                                                                                  | (1,111)                                |
| Taxation                | 8     | —                                                                                      | —                                      |
| Loss for the period     |       | (957)                                                                                  | (1,111)                                |

Balance sheets

|                                        |       | 31 December<br>2007 | 30 June<br>2008 |
|----------------------------------------|-------|---------------------|-----------------|
|                                        | Notes | RMB'000             | RMB'000         |
| ASSETS                                 |       |                     |                 |
| Non-current assets                     |       |                     |                 |
| Property, plant and equipment          | 9     | 31                  | 108             |
| Intangible assets                      | 10    | 661                 | 1,828           |
| Prepayments                            | 11    | 19,700              | 19,700          |
|                                        |       | 20,392              | 21,636          |
| Current assets                         |       |                     |                 |
| Deposits                               |       | 10                  | 89              |
| Cash at banks and in hand              |       | —                   | 2,000           |
|                                        |       | 10                  | 2,089           |
| Current liabilities                    |       |                     |                 |
| Accruals and other payables            | 12    | 134                 | 299             |
| Amount due to the ultimate shareholder | 13    | 19,805              | 19,805          |
| Amount due to a fellow subsidiary      | 14    | 1,420               | 1,384           |
|                                        |       | 21,359              | 21,488          |
| Net current liabilities                |       | (21,349)            | (19,399)        |
| NET LIABILITIES                        |       | (957)               | 2,237           |
| EQUITY                                 |       |                     |                 |
| Capital                                | 15    | —                   | 4,305           |
| Accumulated losses                     |       | (957)               | (2,068)         |
| TOTAL EQUITY/(DEFICIT)                 |       | (957)               | 2,237           |

Statements of changes in equity

|                     | Share<br>capital<br><i>RMB'000</i><br><i>Note 15</i> | Accumulated<br>losses<br><i>RMB'000</i> | Total<br>equity<br><i>RMB'000</i> |
|---------------------|------------------------------------------------------|-----------------------------------------|-----------------------------------|
| At 23 October 2007  | —                                                    | —                                       | —                                 |
| Loss for the period | —                                                    | (957)                                   | (957)                             |
| At 31 December 2007 | —                                                    | (957)                                   | (957)                             |
| Capital injection   | 4,305                                                | —                                       | 4,305                             |
| Loss for the period | —                                                    | (1,111)                                 | (1,111)                           |
| At 30 June 2008     | 4,305                                                | (2,068)                                 | 2,237                             |

**Cash flow statements**

|                                                               | <b>Period from<br/>23 October<br/>2007 (date of<br/>incorporation)<br/>to 31 December<br/>2007<br/>RMB'000</b> | <b>Six months<br/>ended<br/>30 June<br/>2008<br/>RMB'000</b> |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| <b>Operating activities</b>                                   |                                                                                                                |                                                              |
| Loss before taxation                                          | (957)                                                                                                          | (1,111)                                                      |
| Adjustments for depreciation                                  | —                                                                                                              | 13                                                           |
| Interest income                                               | —                                                                                                              | (4)                                                          |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| Operation cash flows before working capital changes           | (957)                                                                                                          | (1,102)                                                      |
| Increase in prepayments, deposits and other receivables       | (19,710)                                                                                                       | (79)                                                         |
| Increase/(decrease) in amount due to a fellow subsidiary      | 1,420                                                                                                          | (36)                                                         |
| Increase in amount due to the ultimate shareholder            | 19,805                                                                                                         | —                                                            |
| Increase in accruals and other payables                       | 134                                                                                                            | 165                                                          |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| <b>Net cash generated from/(used in) operating activities</b> | <b>692</b>                                                                                                     | <b>(1,052)</b>                                               |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| <b>Investing activities</b>                                   |                                                                                                                |                                                              |
| Payments to acquire property, plant and equipment             | (31)                                                                                                           | (90)                                                         |
| Payments on concession intangible assets                      | (661)                                                                                                          | (1,167)                                                      |
| Interest received                                             | —                                                                                                              | 4                                                            |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| <b>Net cash used in investing activities</b>                  | <b>(692)</b>                                                                                                   | <b>(1,253)</b>                                               |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| <b>Financing activities Capital injection</b>                 | <b>—</b>                                                                                                       | <b>4,305</b>                                                 |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| <b>Net cash generated from financing activities</b>           | <b>—</b>                                                                                                       | <b>4,305</b>                                                 |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| <b>Net increase in cash and cash equivalents</b>              | <b>—</b>                                                                                                       | <b>2,000</b>                                                 |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| <b>Cash and cash equivalents at beginning of period</b>       | <b>—</b>                                                                                                       | <b>—</b>                                                     |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| <b>Cash and cash equivalents at end of period</b>             | <b>—</b>                                                                                                       | <b>2,000</b>                                                 |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |
| <b>Analysis of the balances of cash and cash equivalents</b>  |                                                                                                                |                                                              |
| Cash at banks and in hand                                     | —                                                                                                              | 2,000                                                        |
|                                                               | <hr/>                                                                                                          | <hr/>                                                        |

C. NOTES TO THE FINANCIAL INFORMATION

1. General information

Equity Airui was established in the PRC on 23 October 2007. The address of the registered office is 中國南昌市洪城路8號長青國貿大廈1806室. The principal activity is construction and operation of highway.

2. Adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

The following new standards, amendments to standards and interpretations that have been issued but are not effective. The directors of Equity Airui anticipate that the application of these HKFRSs will have no material impact on the Financial Information of Equity Airui:

|                                                          | Effective for<br>accounting periods<br>beginning on or<br>after |
|----------------------------------------------------------|-----------------------------------------------------------------|
| HKAS 1 (Revised), Presentation of Financial Statements   | 1 January 2009                                                  |
| HKAS 23 (Revised), Borrowing costs                       | 1 January 2009                                                  |
| HKAS 32 (amendment), Financial Instruments: Presentation | 1 January 2009                                                  |
| HKFRS 2 (amendment), Share-based payment                 | 1 January 2009                                                  |
| HKFRS 3 (amendment), Business Combination                | 1 July 2009                                                     |
| HKFRS 8, Operating segments                              | 1 January 2009                                                  |
| HK (IFRIC) – Int 13, Customer loyalty programmes         | 1 July 2008                                                     |

3. Summary of significant accounting policies

The Financial Information has been prepared in accordance with HKFRSs (which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information is presented in Renminbi and all values are rounded to the nearest thousand and except otherwise indicated.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the Financial Information.

A summary of the significant accounting policies followed by Equity Airui in the preparation of the Financial Information is set out below:

**(a) Basis of preparation**

The Financial Information has been prepared on the historical cost basis and in accordance with HKFRSs.

The shareholders have undertaken that they will provide such financial assistance as is necessary to maintain Equity Airui as a going concern. On the strength of this assurance the financial statements have been prepared on the going concern basis.

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

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rate on furniture, fixtures and equipment is 20%.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

**(c) Concession arrangement**

Equity Airui has entered into contractual service arrangements with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures. Under the arrangements, Equity Airui carries out the construction or upgrade work of toll roads for the granting authorities and receives in exchange of a right to operate the toll roads concerned and the entitlement to the toll fees collected from the users of the toll road services. The assets under the service concession arrangement are classified as intangible assets in accordance with HK(IFRIC) – Int 12 “Service Concession Arrangement” (the “IFRIC 12”). The assets are classified as intangible assets if the Equity Airui receives a right to charge users of the respective toll roads.

(d) *Construction contract*

Equity Airui recognises income and expenses associated with construction services and upgrade services provided under the service concession in accordance with HKAS11, "Construction Contracts".

Revenue generated by construction and upgrade services rendered by Equity Airui is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably. The consideration may be rights to attain an intangible asset.

Equity Airui uses the percentage of completion method to determine the appropriate amount of income and expenses to be recognised in a given period. The stage of completion is measured by reference to the construction costs of the related infrastructures incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

(e) *Impairment of assets*

At each balance sheet date, Equity Airui reviews the carrying amounts of its assets 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 the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, Equity Airui estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, 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 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.

(f) *Financial assets*

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. These financial assets are subsequently accounted for as follows:

(i) *Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

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

(iii) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

(iv) *Derecognition of financial assets*

Equity Airui derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Equity Airui neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Equity Airui recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If Equity Airui retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(g) *Financial liabilities and equity instrument issued by Equity Airui*

(i) *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Equity Airui are recorded at the proceeds received, net of direct issue costs.

(iii) *Financial liabilities*

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(iv) *Financial liabilities at fair value through profit or loss*

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

(v) *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(vi) *Derecognition of financial liabilities*

Equity Airui derecognises financial liabilities when, and only when, the its obligations are discharged, cancelled or they expire.

(h) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of Equity Airui's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(i) *Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(j) *Provisions and contingent liabilities*

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

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

(k) *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Equity Airui's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(ii) *Deferred tax*

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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Equity Airui expects, at the balance sheet date, 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 Equity Airui intends to settle its current tax assets and liabilities on a net basis.

**(l) Foreign currencies**

In preparing the Financial Information of Equity Airui, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

**(m) Employees' benefits**

**(i) Short term benefits**

Salaries, annual bonuses, paid annual leaves and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

**(ii) Pension obligations**

Pursuant to laws and regulations in the PRC, contributions to the basic old age insurance for Equity Airui's PRC employees are made monthly to a government agency based on 28% of the standard salary set by the provincial government, of which 20% is borne by Equity Airui and the remainder is borne by the employees. Except for the monthly contribution of 20% on standard salary to the government agency, Equity Airui has no further obligation in connection with its PRC employees' retirement benefits. The government agency is responsible for the pension liabilities relating to such employees on their retirement. Equity Airui accounts for these contributions on an accrual basis.

Contributions to the above retirement schemes are charged to the income statement as incurred.

**(n) 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 added to 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.

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

(o) *Related parties*

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of Equity Airui where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of Equity Airui or of any entity that is a related party of Equity Airui.

4. **Critical accounting estimates and judgements**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Equity Airui makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Impairment on long-lived assets*

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be impaired and an impairment loss may be recognised in accordance with accounting policy for impairment on long-lived asset as described in Note 3 (e). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. Equity Airui uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(b) *Impairment for bad and doubtful debts*

The policy for impairment of bad and doubtful debts of Equity Airui is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtor of Equity Airui were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. Turnover

Equity Airui had no operation during the Relevant Period.

6. Loss before taxation

Loss before taxation is arrived at after charging/(crediting):

|                         | Period from<br>23 October 2007<br>(date of<br>incorporation) to<br>31 December 2007<br>RMB'000 | Six months<br>ended<br>30 June 2008<br>RMB'000 |
|-------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------|
| Auditor's remuneration  | —                                                                                              | —                                              |
| Directors' remuneration | —                                                                                              | —                                              |
| Depreciation            | —                                                                                              | 13                                             |
| Exchange loss           | —                                                                                              | 23                                             |
| Bank interest income    | —                                                                                              | (4)                                            |
|                         |                                                                                                |                                                |

7. Directors' emoluments

During the Relevant Period, there are no directors' emoluments paid or payable.

8. Taxation

No provision of taxation for PRC has been made, since no assessable profits occurred during the Relevant Period.

Taxation for the period can be reconciled to the accounting loss as follows:

|                                                                                | Period from<br>23 October 2007<br>(date of<br>incorporation) to<br>31 December 2007<br>RMB'000 | Six months<br>ended<br>30 June 2008<br>RMB'000 |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------|
| Loss before taxation                                                           | (957)                                                                                          | (1,111)                                        |
| Taxation charge calculated at income tax rate of 25%-33%                       | (316)                                                                                          | (278)                                          |
| Tax effect on unused tax losses net of deferred tax liabilities not recognised | 316                                                                                            | 278                                            |
|                                                                                | —                                                                                              | —                                              |

No deferred tax assets have been recognised in respect of tax losses due to the unpredictability of future profit streams.

9. Property, plant and equipment

|                                    | Furniture,<br>fixtures and<br>equipment<br><i>RMB'000</i> |
|------------------------------------|-----------------------------------------------------------|
| Cost:                              |                                                           |
| At 23 October 2007                 | —                                                         |
| Additions                          | 31                                                        |
|                                    | <hr/>                                                     |
| At 31 December 2007                | 31                                                        |
| Additions                          | 90                                                        |
|                                    | <hr/>                                                     |
| At 30 June 2008                    | 121                                                       |
|                                    | <hr/> <hr/>                                               |
| Accumulated depreciation:          |                                                           |
| At 23 October and 31 December 2007 | —                                                         |
| Charge for the period              | 13                                                        |
|                                    | <hr/>                                                     |
| At 30 June 2008                    | 13                                                        |
|                                    | <hr/> <hr/>                                               |
| Net book value:                    |                                                           |
| At 30 June 2008                    | 108                                                       |
|                                    | <hr/> <hr/>                                               |
| At 31 December 2007                | 31                                                        |
|                                    | <hr/> <hr/>                                               |

10. Intangible assets

|                            | 31 December 2007<br><i>RMB'000</i> | 30 June 2008<br><i>RMB'000</i> |
|----------------------------|------------------------------------|--------------------------------|
| At beginning of the period | —                                  | 661                            |
| Additions                  | 661                                | 1,167                          |
|                            | <hr/>                              | <hr/>                          |
| At end of the period       | 661                                | 1,828                          |
|                            | <hr/> <hr/>                        | <hr/> <hr/>                    |

Intangible assets represent carrying amounts of toll road under construction phase.

11. Prepayments

The carrying amounts of Equity Airui’s prepayments at each of the balance sheet dates approximate their fair values. The balance represents prepayments relate to costs on toll road under construction phase and shall not be repayable within one year.

12. Accruals and other payables

The carrying amounts of Equity Airui’s accruals and other payables at each of the balance sheet dates approximate their fair values.

13. Amount due to the ultimate shareholder

The amount due to the ultimate shareholder is unsecured, interest free and has no fixed repayment terms.

The carrying amount of the amount due to the ultimate shareholder at each of the balance sheet dates approximates its fair value.

14. Amount due to a fellow subsidiary

The amount due to a fellow subsidiary is unsecured, interest free and has no fixed repayment terms.

The carrying amount of the amount due to a fellow subsidiary at each of the balance sheet dates approximates its fair value.

15. Capital

|                    | 31 December 2007<br>RMB'000 | 30 June 2008<br>RMB'000 |
|--------------------|-----------------------------|-------------------------|
| Registered capital | 380,000                     | 380,000                 |
| Paid up capital    | —                           | 4,305                   |

On 22 April 2008, the immediate holding company injected RMB4,304,544 (equivalent to HKD4,800,000) paid up capital of Equity Airui.

16. Commitments

Capital commitments outstanding at the balance sheet date not provided for in the Financial Information were as follows:

|                             | 31 December 2007<br>RMB'000 | 30 June 2008<br>RMB'000 |
|-----------------------------|-----------------------------|-------------------------|
| Construction contracted for | 34,258                      | 34,258                  |

17. Operating lease arrangement

|                                                                                           | Period from<br>23 October 2007<br>(date of<br>incorporation) to<br>31 December 2007<br>RMB'000 | Six months<br>ended<br>30 June 2008<br>RMB'000 |
|-------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------|
| Minimum lease payments under operating leases<br>recognised as expenses during the period | 18                                                                                             | 38                                             |

At the balance sheet date, Equity Airui had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

|                                      | 31 December 2007<br><i>RMB'000</i> | 30 June 2008<br><i>RMB'000</i> |
|--------------------------------------|------------------------------------|--------------------------------|
| Within one year                      | 142                                | 142                            |
| After one year but within five years | 193                                | 122                            |
|                                      | <u>335</u>                         | <u>264</u>                     |

18. Related party transactions

Members of key management comprised of the directors only who did not received any remuneration during the Relevant Period.

19. Capital risk management

Equity Airui manages its capital to ensure that entitles in Equity Airui will be able continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Equity Airui consists of borrowings, which includes amounts due to the ultimate shareholder and a fellow subsidiary, cash and cash equivalents and equity attributable to equity holders of Equity Airui, comprising issued share capital and reserves.

The directors of Equity Airui review the capital structure on a regular basis. As part of this review, the directors of Equity Airui consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of Equity Airui, Equity Airui will balance its overall capital structure through the payments of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debts.

20. Financial risk management

The main risks arising from Equity Airui’s financial instruments in the normal course of Equity Airui business are credit risk, liquidity risk, interest rate and currency risk. These risks are limited by Equity Airui financial management policies and practices described below.

(a) Currency risk

Equity Airui mainly operated in the PRC with most of the transactions settled in RMB and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(b) Credit risk

Equity Airui has no significant concentrations of credit risk. It has policies in place to ensure that transactions are made to borrowers with an appropriate credit history. The exposure to these credit risks are monitored on an ongoing basis.

(c) *Liquidity risk*

Equity Airui manages liquidity risk through continuous monitoring and matching of the funding requirement and position. Equity Airui regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

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

|                                        | Carrying<br>amount<br><i>RMB'000</i> | Total<br>contractual<br>undiscounted<br>cash flow<br><i>RMB'000</i> | Within 1<br>year or on<br>demand<br><i>RMB'000</i> | More than<br>1 year but<br>Less than 2<br>years<br><i>RMB'000</i> | More than<br>2 year but<br>less than 5<br>years<br><i>RMB'000</i> | More than<br>5 years<br><i>RMB'000</i> |
|----------------------------------------|--------------------------------------|---------------------------------------------------------------------|----------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------|
| <b>As at 31 December 2007</b>          |                                      |                                                                     |                                                    |                                                                   |                                                                   |                                        |
| Amount due to the ultimate shareholder | 19,805                               | 19,805                                                              | 19,805                                             | —                                                                 | —                                                                 | —                                      |
| Amount due to a fellow subsidiary      | 1,420                                | 1,420                                                               | 1,420                                              | —                                                                 | —                                                                 | —                                      |
|                                        | <u>21,225</u>                        | <u>21,225</u>                                                       | <u>21,225</u>                                      | <u>—</u>                                                          | <u>—</u>                                                          | <u>—</u>                               |
| <b>As at 30 June 2008</b>              |                                      |                                                                     |                                                    |                                                                   |                                                                   |                                        |
| Amount due to the ultimate shareholder | 19,805                               | 19,805                                                              | 19,805                                             | —                                                                 | —                                                                 | —                                      |
| Amount due to a fellow subsidiary      | 1,384                                | 1,384                                                               | 1,384                                              | —                                                                 | —                                                                 | —                                      |
|                                        | <u>21,189</u>                        | <u>21,189</u>                                                       | <u>21,189</u>                                      | <u>—</u>                                                          | <u>—</u>                                                          | <u>—</u>                               |

(d) *Cash flow and fair value interest-rate risk*

As Equity Airui has no significant interest-bearing assets and liabilities, Equity Airui’s income and operating cash flows are substantially independent of changes in market interest rate.

(e) *Fair value estimation*

The carrying values of deposits, cash and cash equivalents, amount due to the ultimate shareholder and a fellow subsidiary, accruals and other payables as at each of the balance sheet dates approximate their fair values due to their short-term nature.

21. Summary of financial assets and financial liabilities by category

The carrying amounts of Equity Airui’s financial assets and financial liabilities as recognised at each of the balance sheet dates may be categorised as follows:

|                                                            | As at<br>31 December 2007<br><i>RMB'000</i> | As at<br>30 June 2008<br><i>RMB'000</i> |
|------------------------------------------------------------|---------------------------------------------|-----------------------------------------|
| <b>Financial assets</b>                                    |                                             |                                         |
| Loan and receivables<br>(including bank and cash balances) | 10                                          | 2,089                                   |
| <b>Financial liabilities</b>                               |                                             |                                         |
| Financial liabilities measured at amortised cost           | 21,359                                      | 21,488                                  |

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Equity Airui in respect of any period subsequent to 30 June 2008.

Yours faithfully,  
For and on behalf of  
**Shu Lun Pan Horwath Hong Kong CPA Limited**  
*Certified Public Accountants*  
*Hong Kong*

**Choi Man On**  
*Director*  
*Practising Certificate number P02410*

## FOR THE SIX MONTHS ENDED 30 JUNE 2008

**Business review*****Equity Pinghong***

Equity Realty HK entered into an agreement with Department of Communications of Jiangxi Province (江西省交通廳) on 9 September 2005 pursuant to which a wholly foreign owned enterprise established by Equity Realty HK in Jiangxi Province would be granted the right to construct the Pinghong Highway and subsequently to operate the highway during a 310-month period starting from the first day when toll fares are received for the Pinghong Highway. Equity Pinghong was established by Equity Realty HK in the PRC for the purpose of constructing and operating the Pinghong Highway.

The construction work of the Pinghong Highway is still in progress. It is designed to be a Class 1 dual four-lane highway with a total length of 34.4 km starting from Pingxian City (萍鄉市) (near the south of National Road 320) and ending at Hongkoujie (洪口界) of Jiangxi Province, which is at the intersection of Jiangxi Province and Hunan Province. Based on the information provided by Equity Realty HK, it is expected that the operation of Pinghong Highway will commence in December 2009. It is expected that the Pinghong Highway will improve the traffic network in Pingxian City (萍鄉市) of Jiangxi Province as well as to enhance the traffic flow between the mid-west of Jiangxi Province and Changsha (長沙), Zhuzhou (株洲) as well as Xingtau (湘潭) of Hunan Province.

***Equity Airui***

Equity Realty HK holds 100% equity interest in Equity Airui. Equity Realty HK entered into an agreement with Department of Communications of Jiangxi Province (江西省交通廳) on 9 September 2005 pursuant to which a wholly foreign owned enterprise established by Equity Realty HK in Jiangxi Province would be granted the right to construct the Airui Highway and subsequently to operate the highway for a 262-month period starting from the first day when toll fares are received for the Airui Highway. Equity Airui was established by Equity Realty HK in the PRC for the purpose of constructing and operating the Airui Highway.

The construction work of the Airui Highway has not been commenced. It is designed to be a Class 1 dual four-lane highway with a total length of 31 km stretching from Ailing (隘岭), which is located at the border of Jiangxi Province and Fujian Province, to Ruijin (瑞金) of Jiangxi Province. The Airui Highway will intersect with the National Highway from Xiamen (廈門) to Chengdu (成都), capital city of Sichuan Province, at Ruijin (瑞金). As Xiamen (廈門) is close to Taiwan, it is expected that Airui Highway will benefit from the expected increase in flow of traffic between the PRC and Taiwan if direct traffic is allowed between the PRC and Taiwan in the future. Based on the information provided by Equity Realty HK, it is expected that the operation of Airui Highway will commence in the second half of 2010.

### Financial review

#### *Equity Pinghong*

For the period ended 30 June 2008, Equity Pinghong has entered into contractual service arrangements with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures. Income and expenses associated with construction services and upgrade services provided under the service concessions are recognised in accordance with Hong Kong Accounting Standards 11 using the percentage of completion method. Revenue generated by construction services rendered by Equity Pinghong is measured at the fair value of the consideration received or receivable. Revenue under the service concession is recognized at the total expected construction costs of the related highway plus management fees, computed at a percentage of the costs, and such amount will then be amortized during the operation period of the highway after the commencement of its operation. Hence, there was no real cashflow for revenue realized or realizable during the construction phase of the highway during the service concession. Based on the reasonable estimation of profitability of the construction services, Equity Pinghong recognised turnover of RMB23.15 million (six months ended 30 June 2007: RMB210.88 million) from construction service for the six months ended 30 June 2008, representing a decrease of RMB187.73 million as compared with the corresponding period of last year. The turnover decreased in line with the decrease in the construction cost under cost of sales incurred in the six-month period ended 30 June 2008 as compared with the six-month period ended 30 June 2007.

For the six-month period ended 30 June 2008, Equity Pinghong recorded a loss of RMB1.78 million (six months ended 30 June 2007: RMB0.1 million). The increase in loss of RMB1.68 million for the financial period under reviewed was mainly due to the decrease in turnover.

As at 30 June 2008, the shareholders' equity of Equity Pinghong was RMB222.04 million as compared to RMB223.82 million as at 31 December 2007, representing a decrease of RMB1.78 million.

***Equity Airui***

For the six-month period ended 30 June 2008, Equity Airui recorded no turnover (period ended 30 June 2007: Nil) and a loss of RMB1.11 million (period ended 30 June 2007: RMB0.96 million). The increase of RMB0.15 million in loss was mainly due to the increase in administrative expenses.

As at 30 June 2008, the shareholders' equity of Equity Airui was RMB2.24 million as compared to a deficit of RMB0.96 million as at 31 December 2007, representing an increase of RMB3.2 million.

No turnover and shareholders' equity recorded as at 30 June 2007 since Equity Airui was incorporated on 23 October 2007.

**Capital resources*****Equity Pinghong***

As at 30 June 2008, the Equity Pinghong's total cash and cash equivalents recorded an aggregate amount of RMB3 million as compared to RMB20.74 million as at 31 December 2007, representing a decrease of RMB17.74 million. During the financial period under review, Equity Pinghong's financial resources mainly comprised bank borrowings.

Equity Pinghong's bank borrowings were denominated in Renminbi and were principally made on a floating rate basis.

***Equity Airui***

As at 30 June 2008, the Equity Airui's total cash and cash equivalents recorded an aggregate amount of RMB2 million (31 December 2007: Nil). During the financial period under review, Equity Airui's financial resources mainly sourced from intercompany and directors' loan.

**Gearing ratio*****Equity Pinghong***

The gearing ratio of bank borrowings against the total equity as at 30 June 2008 was 1.35 (31 December 2007: 1.34).

***Equity Airui***

No bank borrowings recorded as at 30 June 2008 (31 December 2007: Nil).

**Currency exposure*****Equity Pinghong***

As at 30 June 2008, Equity Pinghong operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

***Equity Airui***

As at 30 June 2008, Equity Airui operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

**Pledge of assets and contingent liabilities*****Equity Pinghong***

As at 30 June 2008, bank loan amounted to RMB300 million is guaranteed by an ultimate shareholder of Equity Pinghong during the construction phase and secured by the operation right of the highway subsequent to the toll road commence its operation. The loan was advanced on 30 September 2006 and was due for repayment in full on 25 September 2026.

***Equity Airui***

As at 30 June 2008, Equity Airui had no pledge of assets and contingent liabilities.

**Capital commitment*****Equity Pinghong***

As at 30 June 2008, Equity Pinghong had capital commitment amounted to RMB848.3 million (31 December 2007: RMB859.55 million) in respect of construction cost of highway contract.

***Equity Airui***

As at 30 June 2008, Equity Airui had capital commitment amounted to RMB34.26 million (31 December 2007: RMB34.26 million) in respect of construction cost of highway contract.

**Material acquisitions and disposals of subsidiaries and associated companies*****Equity Pinghong***

There were no material acquisitions or disposals of subsidiaries and associated companies during the period ended 30 June 2008.

***Equity Airui***

There were no material acquisitions or disposals of subsidiaries and associated companies during the period ended 30 June 2008.

**Employees and remuneration*****Equity Pinghong***

As at 30 June 2008, Equity Pinghong had 32 employees (31 December 2007: 32 employees). Equity Pinghong remunerates its employees including the directors, based on their work performance, experience and the prevailing market rate. Other employee benefits included insurance and medical cover as well as subsidized training programme.

***Equity Airui***

As at 30 June 2008, Equity Airui had 6 employees (31 December 2007: 6 employees). Equity Airui remunerates its employees including the directors, based on their work performance, experience and the prevailing market rate. Other employee benefits included insurance and medical cover as well as subsidized training programme.

## FOR THE YEAR ENDED 31 DECEMBER 2007

**Business review*****Equity Pinghong***

Equity Realty HK entered into an agreement with Department of Communications of Jiangxi Province (江西省交通廳) on 9 September 2005 pursuant to which a wholly foreign owned enterprise established by Equity Realty HK in Jiangxi Province would be granted the right to construct the Pinghong Highway and subsequently to operate the highway during a 310-month period starting from the first day when toll fares are received for the Pinghong Highway. Equity Pinghong was established by Equity Realty HK in the PRC for the purpose of constructing and operating the Pinghong Highway.

The construction work of the Pinghong Highway is still in progress. It is designed to be a Class 1 dual four-lane highway with a total length of 34.4 km starting from Pingxian City (萍鄉市) (near the south of National Road 320) and ending at Hongkoujie (洪口界) of Jiangxi Province, which is at the intersection of Jiangxi Province and Hunan Province. Based on the information provided by Equity Realty HK, it is expected that the operation of Pinghong Highway will commence in the December 2009. It is expected that the Pinghong Highway will improve the traffic network in Pingxian City (萍鄉市) of Jiangxi Province as well as to enhance the traffic flow between the mid-west of Jiangxi Province and Changsha (長沙), Zhuzhou (株洲) as well as Xingtau (湘潭) of Hunan Province.

***Equity Airui***

Equity Realty HK holds 100% equity interest in Equity Airui. Equity Realty HK entered into an agreement with Department of Communications of Jiangxi Province (江西省交通廳) on 9 September 2005 pursuant to which a wholly foreign owned enterprise established by Equity Realty HK in Jiangxi Province would be granted the right to construct the Airui Highway and subsequently to operate the highway for a 262-month period starting from the first day when toll fares are received for the Airui Highway. Equity Airui was established by Equity Realty HK in the PRC for the purpose of constructing and operating the Airui Highway.

The construction work of Airui Highway has not been commenced. It is designed to be a Class 1 dual four-lane highway with a total length of 31 km stretching from Ailing (隘岭), which is located at the border of Jiangxi Province and Fujian Province, to Ruijin (瑞金) of Jiangxi Province. Airui Highway will intersect with the National Highway from Xiamen (廈門) to Chengdu (城都), capital city of Sichuan Province, at Ruijin (瑞金). As Xiamen (廈門) is close to Taiwan, it is expected that Airui Highway will benefit from the expected increase in flow of traffic between the PRC and Taiwan if direct traffic is allowed between the PRC and Taiwan in the future. Based on the information provide by Equity Realty HK, it is expected that the operation of Airui Highway will commence in the second half of 2010.

### Financial review

#### *Equity Pinghong*

During the year ended 31 December 2007, Equity Pinghong has entered into contractual service arrangements with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures. Income and expenses associated with construction services and upgrade services provided under the service concessions are recognised in accordance with Hong Kong Accounting Standard 11 using the percentage of completion method. Revenue generated by construction services rendered by Equity Pinghong is measured at the fair value of the consideration received or receivable. Revenue under the service concession is recognized at the total expected construction costs of the related highway plus management fees, computed at a percentage of the costs, and such amount will then be amortized during the operation period of the highway after the commencement of its operation. Hence, there was no real cashflow for revenue realized or realizable during the construction phase of the highway during the service concession. Based on the reasonable estimation of profitability of the construction services, Equity Pinghong recognised turnover of RMB260.75 million for the year ended 31 December 2007 (2006: RMB287.03 million) from construction services, representing a decrease of RMB26.28 million as compared with previous year. The turnover decreased in line with the decrease in the construction cost under cost of sales incurred in the financial year 2007 as compared with financial year 2006.

For the year ended 31 December 2007, Equity Pinghong recorded a loss of RMB2.96 million (2006: RMB6.56 million). The decrease of RMB3.60 million in loss for the financial year 2007 was mainly due to the decrease in other operating expenses including entertainment fees and bank handling charges on loan borrowing.

As at 31 December 2007, the shareholders' equity of Equity Pinghong was RMB223.82 million as compared to RMB218.08 million as at 31 December 2006, representing an increase of RMB5.74 million.

*Equity Airui*

Equity Airui was incorporated in October 2007. For the year ended 31 December 2007, Equity Airui recorded no turnover (2006: N/A) and a loss of RMB0.96 million (2006: N/A). The loss for this financial year was mainly result from the administrative expenses.

As at 31 December 2007, no paid up capital was recorded (2006: N/A). Shareholders’ deficit represents solely the accumulated losses of RMB0.96 million (2006: N/A).

No turnover and shareholders’ equity recorded as at 31 December 2006 since Equity Airui was incorporated on 23 October 2007.

**Capital resources**

*Equity Pinghong*

As at 31 December 2007, the Equity Pinghong’s total cash and cash equivalents recorded an aggregate amount of RMB20.74 million as compared to RMB230.6 million as at 31 December 2006. The decrease of RMB209.86 million was mainly due to the increase in prepayment in construction work. During that financial year, Equity Pinghong’s financial resources mainly comprised bank borrowings.

Equity Pinghong’s bank borrowings were denominated in Renminbi and were principally made on a floating rate basis.

*Equity Airui*

No cash and cash equivalents recorded as at 31 December 2007 (2006: N/A). During that financial year, Equity Airui’s financial resources mainly sourced from intercompany and loan from ultimate shareholders.

**Gearing ratio**

*Equity Pinghong*

The gearing ratio of bank borrowings against the total equity as at 31 December 2007 was 1.34 as compared to 1.38 as at 31 December 2006.

*Equity Airui*

No bank borrowings recorded as at 31 December 2007 (2006: N/A).

**Currency exposure*****Equity Pinghong***

As at 31 December 2007, Equity Pinghong mainly operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

***Equity Airui***

As at 31 December 2007, Equity Airui mainly operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

**Pledge of assets and contingent liabilities*****Equity Pinghong***

As at 31 December 2007, a bank loan amounted to RMB300 million is guaranteed by an ultimate shareholder of Equity Pinghong during the construction phase and secured by the operation right of the highway subsequent to the toll road commence its operation. The loan was advanced on 30 September 2006 and was due for repayment in full on 25 September 2026.

***Equity Airui***

As at 31 December 2007, Equity Airui had no pledge of assets and contingent liabilities.

**Capital commitment*****Equity Pinghong***

As at 31 December 2007, Equity Pinghong had capital commitment amounted to RMB859.55 million (2006: RMB1,093.15 million) in respect of construction cost of highway contract.

***Equity Airui***

As at 31 December 2007, Equity Airui had capital commitment amounted to RMB34.26 million (2006: N/A) in respect of construction cost of highway contract.

**Material acquisitions and disposals of subsidiaries and associated companies*****Equity Pinghong***

There were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2007.

***Equity Airui***

There were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2007.

**Employees and remuneration*****Equity Pinghong***

As at 31 December 2007, Equity Pinghong had 32 employees (2006: 37 employees). Equity Pinghong remunerates its employees including the directors, based on their work performance, experience and the prevailing market rate. Other employee benefits included insurance and medical cover as well as subsidized training programme.

***Equity Airui***

As at 31 December 2007, Equity Airui had 6 employees (2006: Nil). Equity Airui remunerates its employees including the directors, based on their work performance, experience and the prevailing market rate. Other employee benefits included insurance and medical cover as well as subsidized training programme.

**FOR THE YEAR ENDED 31 DECEMBER 2006****Business review*****Equity Pinghong***

Equity Pinghong was established by Equity Realty HK in the PRC for the purpose of constructing and operating Pinghong Highway.

The construction work of Pinghong Highway is still in progress. Based on the information provide by Equity Realty HK, it is expected that the operation of Pinghong Highway will commence in December 2009.

***Equity Airui***

Equity Airui was not yet incorporated until 23 October 2007.

**Financial review*****Equity Pinghong***

During the year ended 31 December 2006, Equity Pinghong has entered into contractual service arrangements with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructure. Income and expenses associated with construction services and upgrade services provided under the service concessions are recognised in accordance with Hong Kong Accounting Standard 11 using the percentage of completion method. Revenue generated by construction services rendered by Equity Pinghong is measured at the fair value of the consideration received or receivable. Revenue under the service concession is recognized at the total expected construction costs of the related highways plus management fees, computed at a percentage of the costs, and such amount will then be amortized during the operation period of the highway after the commencement of its operation. Hence, there was no real cashflow for revenue realized or realizable during the construction phase of the highway during the service concession. Based on the reasonable estimation of profitability of the construction services, Equity Pinghong recognised turnover of RMB287.03 million for the year ended 31 December 2006 (2005: Nil) from construction services.

For the year ended 31 December 2006, Equity Pinghong recorded a loss of RMB6.56 million (2005: Nil). The loss for the financial year 2006 was mainly due to the entertainment fees, bank handling charges on loan borrowing costs and other administrative expenses.

As at 31 December 2006, the shareholders' equity of Equity Pinghong was RMB218.08 million as compared to RMB120.79 million as at 31 December 2005, representing an increase of RMB97.29 million.

**Capital resources*****Equity Pinghong***

As at 31 December 2006, the Equity Pinghong's total cash and cash equivalents recorded an aggregate amount of RMB230.6 million as compared to RMB120.79 million as at 31 December 2005. The increase of RMB109.81 million was mainly due to the increase in long-term bank loan. During this financial year, Equity Pinghong's financial resources mainly comprised bank borrowings.

Equity Pinghong's bank borrowings were denominated in Renminbi and were principally made on a floating rate basis.

**Gearing ratio*****Equity Pinghong***

The gearing ratio of bank borrowings against the total equity as at 31 December 2006 was 1.38 (2005: N/A).

**Currency exposure*****Equity Pinghong***

As at 31 December 2006, Equity Pinghong mainly operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

**Pledge of assets and contingent liabilities*****Equity Pinghong***

As at 31 December 2006, a bank loan amounted to RMB300 million is guaranteed by an ultimate shareholder of Equity Pinghong during the construction phase and secured by the operation right of the highway subsequent to the toll road commence its operation. The loan was advanced on 30 September 2006 and was due for repayment in full on 25 September 2026.

**Capital commitment*****Equity Pinghong***

As at 31 December 2006, Equity Pinghong has capital commitment amounted to RMB1,093.15 million (2005: Nil) in respect of construction cost of highway contract.

**Material acquisitions and disposals of subsidiaries and associated companies*****Equity Pinghong***

There were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2006.

Employees and remuneration

*Equity Pinghong*

As at 31 December 2006, Equity Pinghong had 37 employees (2005: Nil). Equity Pinghong remunerates its employees including the directors, based on their work performance, experience and the prevailing market rate. Other employee benefits included insurance and medical cover as well as subsidized training programme.

**A. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP**

The accompanying unaudited pro forma financial information of the Enlarged Group (“Unaudited Pro Forma Financial Information”), including the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement, have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of 75% equity interests in Equity Pinghong and Equity Airui by exercising Purchase Option by the Group (the “Acquisition”) as if the Acquisition had been taken place on 31 March 2008 for the pro forma consolidated balance sheet and on 1 April 2007 for the pro forma consolidated income statement and consolidated cash flow statement.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying Pro Forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position or results of the Enlarged Group’s operations that would have been attained had the transaction actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group’s future financial position or results of operations.

For the purpose of Unaudited Pro Forma Financial Information, the balances stated in Hong Kong dollars have been translated into Renminbi at an exchange rate of RMB0.9354 to HK\$1.00.

**(I) Unaudited pro forma consolidated balance sheet of the enlarged group**

The unaudited pro forma consolidated balance sheet is based on the audited consolidated balance sheet of the Group as at 31 March 2008 which has been extracted from the annual report of the Group as set out in Appendix I and balance sheets of Equity Pinghong and Equity Airui as at 31 December 2007 as set out in Appendices II(A) and II(B) to this circular, respectively, and adjusted to reflect the effect of the Acquisition.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED GROUP

As the unaudited pro forma consolidated balance sheet of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

|                                                                      | Audited<br>balance<br>sheet of<br>the Group<br>as at<br>31 March<br>2008<br>HK\$'000 | Audited<br>balance<br>sheet of<br>Equity<br>Pinghong<br>as at<br>31 December<br>2007<br>RMB'000 | Audited<br>balance<br>sheet of<br>Equity Airui<br>as at<br>31 December<br>2007<br>RMB'000 | Combined<br>total<br>of audited<br>balance<br>sheets<br>of Equity<br>Pinghong<br>and<br>Equity Airui<br>as at<br>31 December<br>2007<br>RMB'000 | Translated<br>combined<br>total<br>of audited<br>balance<br>sheets<br>of Equity<br>Pinghong<br>and<br>Equity Airui<br>as at<br>31 December<br>2007<br>HK\$'000 | Pro forma<br>adjustments<br>HK\$'000 | Notes | Unaudited<br>pro forma<br>consolidated<br>balance<br>sheet of the<br>Enlarged<br>Group<br>as at<br>31 March<br>2008<br>HK\$'000 |
|----------------------------------------------------------------------|--------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Non-current assets</b>                                            |                                                                                      |                                                                                                 |                                                                                           |                                                                                                                                                 |                                                                                                                                                                |                                      |       |                                                                                                                                 |
| Property, plant and equipment                                        | 13,423                                                                               | 3,466                                                                                           | 31                                                                                        | 3,497                                                                                                                                           | 3,739                                                                                                                                                          |                                      |       | 17,162                                                                                                                          |
| Intangible assets                                                    | —                                                                                    | 547,785                                                                                         | 661                                                                                       | 548,446                                                                                                                                         | 586,322                                                                                                                                                        |                                      |       | 586,322                                                                                                                         |
| Goodwill                                                             | —                                                                                    | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              | 9,006                                | 1c, 3 | 9,006                                                                                                                           |
| Prepayment                                                           | —                                                                                    | —                                                                                               | 19,700                                                                                    | 19,700                                                                                                                                          | 21,060                                                                                                                                                         |                                      |       | 21,060                                                                                                                          |
| Rental deposits                                                      | 4,761                                                                                | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              |                                      |       | 4,761                                                                                                                           |
|                                                                      | 18,184                                                                               | 551,251                                                                                         | 20,392                                                                                    | 571,643                                                                                                                                         | 611,121                                                                                                                                                        |                                      |       | 638,311                                                                                                                         |
| <b>Current assets</b>                                                |                                                                                      |                                                                                                 |                                                                                           |                                                                                                                                                 |                                                                                                                                                                |                                      |       |                                                                                                                                 |
| Trade receivable, deposits,<br>prepayments and other<br>receivables  | 35,693                                                                               | 23,312                                                                                          | 10                                                                                        | 23,322                                                                                                                                          | 24,933                                                                                                                                                         |                                      |       | 60,626                                                                                                                          |
| Rental deposits                                                      | 4,926                                                                                | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              |                                      |       | 4,926                                                                                                                           |
| Amount due from a fellow<br>subsidiary                               | —                                                                                    | 1,420                                                                                           | —                                                                                         | 1,420                                                                                                                                           | 1,518                                                                                                                                                          | (1,518)                              | 4     | —                                                                                                                               |
| Amount due from the ultimate<br>shareholder                          | —                                                                                    | 2,000                                                                                           | —                                                                                         | 2,000                                                                                                                                           | 2,138                                                                                                                                                          |                                      |       | 2,138                                                                                                                           |
| Inventories                                                          | 21,794                                                                               | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              |                                      |       | 21,794                                                                                                                          |
| Tax recoverable                                                      | 292                                                                                  | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              |                                      |       | 292                                                                                                                             |
| Pledged bank deposit                                                 | 3,500                                                                                | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              |                                      |       | 3,500                                                                                                                           |
| Cash and bank balances                                               | 6,176                                                                                | 20,743                                                                                          | —                                                                                         | 20,743                                                                                                                                          | 22,176                                                                                                                                                         | (27,857)                             | 1a(i) | 495                                                                                                                             |
|                                                                      | 72,381                                                                               | 47,475                                                                                          | 10                                                                                        | 47,485                                                                                                                                          | 50,765                                                                                                                                                         |                                      |       | 93,771                                                                                                                          |
| <b>Current liabilities</b>                                           |                                                                                      |                                                                                                 |                                                                                           |                                                                                                                                                 |                                                                                                                                                                |                                      |       |                                                                                                                                 |
| Trade payables, accruals,<br>deposits received and other<br>payables | 8,440                                                                                | 74,907                                                                                          | 134                                                                                       | 75,041                                                                                                                                          | 80,223                                                                                                                                                         | 5,432                                | 3     | 94,095                                                                                                                          |
| Derivative component of<br>convertible note                          | —                                                                                    | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              | 37,009                               | 1b    | 37,009                                                                                                                          |
| Amount due to a fellow<br>subsidiary                                 | —                                                                                    | —                                                                                               | 1,420                                                                                     | 1,420                                                                                                                                           | 1,518                                                                                                                                                          | (1,518)                              | 4     | —                                                                                                                               |
| Amount due to directors                                              | 1,200                                                                                | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              |                                      |       | 1,200                                                                                                                           |
| Amount due to shareholders                                           | —                                                                                    | —                                                                                               | 19,805                                                                                    | 19,805                                                                                                                                          | 21,173                                                                                                                                                         | (21,173)                             | 1c    | —                                                                                                                               |
| Secured bank borrowings                                              | 7,600                                                                                | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              |                                      |       | 7,600                                                                                                                           |
| Obligation under finance lease                                       | 59                                                                                   | —                                                                                               | —                                                                                         | —                                                                                                                                               | —                                                                                                                                                              |                                      |       | 59                                                                                                                              |
|                                                                      | 17,299                                                                               | 74,907                                                                                          | 21,359                                                                                    | 96,266                                                                                                                                          | 102,914                                                                                                                                                        |                                      |       | 139,963                                                                                                                         |
| <b>Net current assets/(liabilities)</b>                              | 55,082                                                                               | (27,432)                                                                                        | (21,349)                                                                                  | (48,781)                                                                                                                                        | (52,149)                                                                                                                                                       |                                      |       | (46,192)                                                                                                                        |

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

ON THE ENLARGED GROUP

|                                       | Audited<br>balance<br>sheet of<br>the Group<br>as at<br>31 March<br>2008<br><i>HK\$'000</i> | Audited<br>balance<br>sheet of<br>Equity<br>Pinghong<br>as at<br>31 December<br>2007<br><i>RMB'000</i> | Audited<br>balance<br>sheet of<br>Equity Airui<br>as at<br>31 December<br>2007<br><i>RMB'000</i> | Combined<br>total<br>of audited<br>balance<br>sheets<br>of Equity<br>Pinghong<br>and<br>Equity Airui<br>as at<br>31 December<br>2007<br><i>RMB'000</i> | Translated<br>combined<br>total<br>of audited<br>balance<br>sheets<br>of Equity<br>Pinghong<br>and<br>Equity Airui<br>as at<br>31 December<br>2007<br><i>HK\$'000</i> | Pro forma<br>adjustments<br><i>HK\$'000</i> | Notes | Unaudited<br>pro forma<br>consolidated<br>balance<br>sheet of the<br>Enlarged<br>Group<br>as at<br>31 March<br>2008<br><i>HK\$'000</i> |
|---------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-------|----------------------------------------------------------------------------------------------------------------------------------------|
| Total assets less current liabilities | 73,266                                                                                      | 523,819                                                                                                | (957)                                                                                            | 522,862                                                                                                                                                | 558,972                                                                                                                                                               |                                             |       | 592,119                                                                                                                                |
| Non-current liabilities               |                                                                                             |                                                                                                        |                                                                                                  |                                                                                                                                                        |                                                                                                                                                                       |                                             |       |                                                                                                                                        |
| Convertible bonds                     | —                                                                                           | —                                                                                                      | —                                                                                                | —                                                                                                                                                      | —                                                                                                                                                                     | 146,848                                     | 1b    | 146,848                                                                                                                                |
| Bank borrowings                       | —                                                                                           | 300,000                                                                                                | —                                                                                                | 300,000                                                                                                                                                | 320,718                                                                                                                                                               |                                             |       | 320,718                                                                                                                                |
| Provision for long service payments   | 3,689                                                                                       | —                                                                                                      | —                                                                                                | —                                                                                                                                                      | —                                                                                                                                                                     |                                             |       | 3,689                                                                                                                                  |
|                                       | 3,689                                                                                       | 300,000                                                                                                | —                                                                                                | 300,000                                                                                                                                                | 320,718                                                                                                                                                               |                                             |       | 471,255                                                                                                                                |
| Net assets                            | 69,577                                                                                      | 223,819                                                                                                | (957)                                                                                            | 222,862                                                                                                                                                | 238,254                                                                                                                                                               |                                             |       | 120,864                                                                                                                                |
| Capital and reserves                  |                                                                                             |                                                                                                        |                                                                                                  |                                                                                                                                                        |                                                                                                                                                                       |                                             |       |                                                                                                                                        |
| Share capital                         | 21,884                                                                                      | 230,640                                                                                                | —                                                                                                | 230,640                                                                                                                                                | 246,568                                                                                                                                                               | (246,568)                                   | 5     | 21,884                                                                                                                                 |
| Reserves                              | 47,693                                                                                      | (6,821)                                                                                                | (957)                                                                                            | (7,778)                                                                                                                                                | (8,314)                                                                                                                                                               | 21,041                                      | 5     | 60,420                                                                                                                                 |
|                                       | 69,577                                                                                      | 223,819                                                                                                | (957)                                                                                            | 222,862                                                                                                                                                | 238,254                                                                                                                                                               |                                             |       | 82,304                                                                                                                                 |
| Minority interests                    | —                                                                                           | —                                                                                                      | —                                                                                                | —                                                                                                                                                      | —                                                                                                                                                                     | 38,560                                      | 5     | 38,560                                                                                                                                 |
| Total equity                          | 69,577                                                                                      | 223,819                                                                                                | (957)                                                                                            | 222,862                                                                                                                                                | 238,254                                                                                                                                                               |                                             |       | 120,864                                                                                                                                |

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

ON THE ENLARGED GROUP

(II) Unaudited pro forma consolidated income statement of the enlarged group

The unaudited pro forma consolidated income statement is based on the audited consolidated income statement of the Group for the year ended 31 March 2008 which has been extracted from the annual report of the Group as set out in Appendix I and the income statements of Equity Pinghong for the year ended 31 December 2007 and Equity Airui for the period from 23 October 2007 (date of incorporation) to 31 December 2007 as set out in Appendices II(A) and II(B) to this circular, respectively, and adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated income statement of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of operation of the Enlarged Group for the year ended to which it is made up to or for any future periods.

|                         | Audited<br>income<br>statement of<br>the Group<br>for the<br>year ended<br>31 March<br>2008<br>HK\$'000 | Audited<br>income<br>statement of<br>Equity<br>Pinghong<br>for the<br>year ended<br>31 December<br>2007<br>RMB'000 | Audited<br>income<br>statement<br>of Equity<br>Airui<br>for the<br>period ended<br>31 December<br>2007<br>RMB'000 | Combined<br>audited<br>income<br>statements<br>of Equity<br>Pinghong<br>and Equity<br>Airui<br>for the<br>year/period<br>ended<br>31 December<br>2007<br>RMB'000 | Translated<br>combined<br>audited<br>income<br>statements<br>of Equity<br>Pinghong<br>and Equity<br>Airui<br>for the<br>year/period<br>ended<br>31 December<br>2007<br>HK\$'000 | Pro forma<br>adjustments<br>HK\$'000 | Notes | Unaudited<br>pro forma<br>consolidated<br>income<br>statement<br>of Enlarged<br>Group for<br>the year<br>ended<br>31 March<br>2008<br>HK\$'000 |
|-------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Revenue                 | 131,081                                                                                                 | 260,753                                                                                                            | —                                                                                                                 | 260,753                                                                                                                                                          | 278,761                                                                                                                                                                         |                                      |       | 409,842                                                                                                                                        |
| Cost of sales           | (50,752)                                                                                                | (256,953)                                                                                                          | —                                                                                                                 | (256,953)                                                                                                                                                        | (274,698)                                                                                                                                                                       |                                      |       | (325,450)                                                                                                                                      |
| Gross profit            | 80,329                                                                                                  | 3,800                                                                                                              | —                                                                                                                 | 3,800                                                                                                                                                            | 4,063                                                                                                                                                                           |                                      |       | 84,392                                                                                                                                         |
| Other revenue           | 1,571                                                                                                   | 464                                                                                                                | —                                                                                                                 | 464                                                                                                                                                              | 496                                                                                                                                                                             |                                      |       | 2,067                                                                                                                                          |
| Distribution costs      | (48,393)                                                                                                | —                                                                                                                  | —                                                                                                                 | —                                                                                                                                                                | —                                                                                                                                                                               |                                      |       | (48,393)                                                                                                                                       |
| Administrative expenses | (54,742)                                                                                                | (7,166)                                                                                                            | (957)                                                                                                             | (8,123)                                                                                                                                                          | (8,683)                                                                                                                                                                         |                                      |       | (63,425)                                                                                                                                       |
| Finance costs           | (409)                                                                                                   | (54)                                                                                                               | —                                                                                                                 | (54)                                                                                                                                                             | (58)                                                                                                                                                                            | (16,013)                             | 2     | (16,480)                                                                                                                                       |
| Loss before taxation    | (21,644)                                                                                                | (2,956)                                                                                                            | (957)                                                                                                             | (3,913)                                                                                                                                                          | (4,182)                                                                                                                                                                         |                                      |       | (41,839)                                                                                                                                       |
| Taxation                | —                                                                                                       | —                                                                                                                  | —                                                                                                                 | —                                                                                                                                                                | —                                                                                                                                                                               |                                      |       | —                                                                                                                                              |
| Loss after taxation     | (21,644)                                                                                                | (2,956)                                                                                                            | (957)                                                                                                             | (3,913)                                                                                                                                                          | (4,182)                                                                                                                                                                         |                                      |       | (41,839)                                                                                                                                       |

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

ON THE ENLARGED GROUP

(III) Unaudited pro forma consolidated cash flow statement of the enlarged group

The unaudited pro forma consolidated cash flow statement is based on the audited consolidated cash flow statement of the Group for the year ended 31 March 2008 which has been extracted from the annual report of the Group as set out in Appendix I and the audited cash flow statements of Equity Pinghong for the year ended 31 December 2007 and Equity Airui for the period from 23 October 2007 (date of incorporation) to 31 December 2007 as set out in Appendices II(A) and II(B) to this circular, respectively, and adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated cash flow statement of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended to which it is made up to or for any future periods.

|                                                                                                            |                                                                                                                       |                                                                                                                   |       | Combined<br>audited<br>cash flow<br>statements of<br>Equity<br>Pinghong<br>and<br>Equity Airui<br>for the<br>year/period<br>ended<br>31 December<br>2007<br>RMB'000 | Translated<br>combined<br>audited<br>cash flow<br>statements of<br>Equity<br>Pinghong<br>and<br>Equity Airui<br>for the<br>year/period<br>ended<br>31 December<br>2007<br>HK\$'000 | Pro forma<br>adjustments<br>HK\$'000 | Notes | Unaudited<br>pro forma<br>cash flow<br>statement<br>of Enlarged<br>Group<br>for the<br>year ended<br>31 March<br>2008<br>HK\$'000 |
|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------|-----------------------------------------------------------------------------------------------------------------------------------|
| Audited<br>cash flow<br>statement of<br>the Group<br>for the<br>year ended<br>31 March<br>2008<br>HK\$'000 | Audited<br>cash flow<br>statement of<br>Equity<br>Pinghong<br>for the<br>year ended<br>31 December<br>2007<br>RMB'000 | Audited<br>cash flow<br>statement of<br>Equity Airui<br>for the<br>period ended<br>31 December<br>2007<br>RMB'000 |       |                                                                                                                                                                     |                                                                                                                                                                                    |                                      |       |                                                                                                                                   |
| OPERATING ACTIVITIES                                                                                       |                                                                                                                       |                                                                                                                   |       |                                                                                                                                                                     |                                                                                                                                                                                    |                                      |       |                                                                                                                                   |
| Loss for the year                                                                                          | (21,644)                                                                                                              | (2,956)                                                                                                           | (957) | (3,913)                                                                                                                                                             | (4,182)                                                                                                                                                                            | (16,013)                             | 2     | (41,839)                                                                                                                          |
| Adjustments for:                                                                                           |                                                                                                                       |                                                                                                                   |       |                                                                                                                                                                     |                                                                                                                                                                                    |                                      |       |                                                                                                                                   |
| Depreciation                                                                                               | 3,011                                                                                                                 | 767                                                                                                               | —     | 767                                                                                                                                                                 | 820                                                                                                                                                                                |                                      |       | 3,831                                                                                                                             |
| Loss on disposal of property,<br>plant and equipment                                                       | 1,051                                                                                                                 | —                                                                                                                 | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 1,051                                                                                                                             |
| Write down of inventories                                                                                  | 4,769                                                                                                                 | —                                                                                                                 | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 4,769                                                                                                                             |
| Provision for long service<br>payments                                                                     | 2,186                                                                                                                 | —                                                                                                                 | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 2,186                                                                                                                             |
| Provision for lease<br>reinstatement costs                                                                 | 564                                                                                                                   | —                                                                                                                 | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 564                                                                                                                               |
| Share-based payment expenses                                                                               | 3,643                                                                                                                 | —                                                                                                                 | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 3,643                                                                                                                             |
| Interest income                                                                                            | (291)                                                                                                                 | (464)                                                                                                             | —     | (464)                                                                                                                                                               | (496)                                                                                                                                                                              |                                      |       | (787)                                                                                                                             |
| Finance costs                                                                                              | 409                                                                                                                   | —                                                                                                                 | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  | 16,013                               | 2     | 16,422                                                                                                                            |

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED GROUP

|                                                                                                            |                                                                                                                       |                                                                                                                   |            | Combined<br>audited<br>cash flow<br>statements of<br>Equity<br>Pinghong<br>and<br>Equity Airui<br>for the<br>year/period<br>ended<br>31 December<br>2007<br>RMB'000 | Translated<br>combined<br>audited<br>cash flow<br>statements of<br>Equity<br>Pinghong<br>and<br>Equity Airui<br>for the<br>year/period<br>ended<br>31 December<br>2007<br>HK\$'000 | Pro forma<br>adjustments<br>HK\$'000 | Notes | Unaudited<br>pro forma<br>cash flow<br>statement<br>of Enlarged<br>Group<br>for the<br>year ended<br>31 March<br>2008<br>HK\$'000 |
|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------|-----------------------------------------------------------------------------------------------------------------------------------|
| Audited<br>cash flow<br>statement of<br>the Group<br>for the<br>year ended<br>31 March<br>2008<br>HK\$'000 | Audited<br>cash flow<br>statement of<br>Equity<br>Pinghong<br>for the<br>year ended<br>31 December<br>2007<br>RMB'000 | Audited<br>cash flow<br>statement of<br>Equity Airui<br>for the<br>period ended<br>31 December<br>2007<br>RMB'000 |            |                                                                                                                                                                     |                                                                                                                                                                                    |                                      |       |                                                                                                                                   |
| Operating cash flows before<br>movements in working capital                                                | (6,302)                                                                                                               | (2,653)                                                                                                           | (957)      | (3,610)                                                                                                                                                             | (3,858)                                                                                                                                                                            |                                      |       | (10,160)                                                                                                                          |
| Increase in prepayment                                                                                     | —                                                                                                                     | —                                                                                                                 | (19,700)   | (19,700)                                                                                                                                                            | (21,060)                                                                                                                                                                           |                                      |       | (21,060)                                                                                                                          |
| Increase in rental deposits                                                                                | (621)                                                                                                                 | —                                                                                                                 | —          | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | (621)                                                                                                                             |
| Increase in amount due from a<br>fellow subsidiary                                                         | —                                                                                                                     | (1,420)                                                                                                           | —          | (1,420)                                                                                                                                                             | (1,518)                                                                                                                                                                            | 1,518                                | 4     | —                                                                                                                                 |
| Increase in inventories                                                                                    | (960)                                                                                                                 | —                                                                                                                 | —          | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | (960)                                                                                                                             |
| Increase in trade receivables,<br>deposits and prepayment                                                  | (665)                                                                                                                 | (14,412)                                                                                                          | (10)       | (14,422)                                                                                                                                                            | (15,418)                                                                                                                                                                           |                                      |       | (16,083)                                                                                                                          |
| Decrease in amount due from the<br>ultimate shareholder                                                    | —                                                                                                                     | 3,000                                                                                                             | —          | 3,000                                                                                                                                                               | 3,205                                                                                                                                                                              |                                      |       | 3,205                                                                                                                             |
| Increase in trade payables and<br>accruals                                                                 | 1,578                                                                                                                 | 58,518                                                                                                            | 134        | 58,652                                                                                                                                                              | 62,703                                                                                                                                                                             |                                      |       | 64,281                                                                                                                            |
| Increase in amount due to the<br>ultimate shareholder                                                      | —                                                                                                                     | —                                                                                                                 | 19,805     | 19,805                                                                                                                                                              | 21,173                                                                                                                                                                             |                                      |       | 21,173                                                                                                                            |
| Increase in amount due to a fellow<br>subsidiary                                                           | —                                                                                                                     | —                                                                                                                 | 1,420      | 1,420                                                                                                                                                               | 1,518                                                                                                                                                                              | (1,518)                              | 4     | —                                                                                                                                 |
| Cash generated from/(used in)<br>operations                                                                | (6,970)                                                                                                               | 43,033                                                                                                            | 692        | 43,725                                                                                                                                                              | 46,745                                                                                                                                                                             |                                      |       | 39,775                                                                                                                            |
| Income taxes refunded                                                                                      | 75                                                                                                                    | —                                                                                                                 | —          | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 75                                                                                                                                |
| Income taxes paid                                                                                          | (186)                                                                                                                 | —                                                                                                                 | —          | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | (186)                                                                                                                             |
| Interest paid                                                                                              | (409)                                                                                                                 | —                                                                                                                 | —          | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | (409)                                                                                                                             |
| <b>NET CASH GENERATED<br/>FROM/(USED IN)<br/>OPERATING ACTIVITIES</b>                                      | <b>(7,490)</b>                                                                                                        | <b>43,033</b>                                                                                                     | <b>692</b> | <b>43,725</b>                                                                                                                                                       | <b>46,745</b>                                                                                                                                                                      |                                      |       | <b>39,255</b>                                                                                                                     |
| <b>INVESTING ACTIVITIES</b>                                                                                |                                                                                                                       |                                                                                                                   |            |                                                                                                                                                                     |                                                                                                                                                                                    |                                      |       |                                                                                                                                   |
| Interest received                                                                                          | 291                                                                                                                   | 464                                                                                                               | —          | 464                                                                                                                                                                 | 496                                                                                                                                                                                |                                      |       | 787                                                                                                                               |
| Proceeds on disposal of property,<br>plant and equipment                                                   | 214                                                                                                                   | —                                                                                                                 | —          | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 214                                                                                                                               |
| Purchase of property, plant and<br>equipment                                                               | (4,516)                                                                                                               | (1,302)                                                                                                           | (31)       | (1,333)                                                                                                                                                             | (1,425)                                                                                                                                                                            |                                      |       | (5,941)                                                                                                                           |
| Acquisition of subsidiaries                                                                                | —                                                                                                                     | —                                                                                                                 | —          | —                                                                                                                                                                   | —                                                                                                                                                                                  | (27,857)                             | 1(a)  | (27,857)                                                                                                                          |
| Deposits paid for acquisition of<br>investments                                                            | (32,900)                                                                                                              | —                                                                                                                 | —          | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | (32,900)                                                                                                                          |
| Payments for concession<br>intangible assets                                                               | —                                                                                                                     | (260,753)                                                                                                         | (661)      | (261,414)                                                                                                                                                           | (279,467)                                                                                                                                                                          |                                      |       | (279,467)                                                                                                                         |

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION  
 ON THE ENLARGED GROUP

|                                                              |          |           |       | Combined<br>audited<br>cash flow<br>statements of<br>Equity<br>Pinghong<br>and<br>Equity Airui<br>for the<br>year/period<br>ended<br>31 December<br>2007<br>RMB'000 | Translated<br>combined<br>audited<br>cash flow<br>statements of<br>Equity<br>Pinghong<br>and<br>Equity Airui<br>for the<br>year/period<br>ended<br>31 December<br>2007<br>HK\$'000 | Pro forma<br>adjustments<br>HK\$'000 | Notes | Unaudited<br>pro forma<br>cash flow<br>statement<br>of Enlarged<br>Group<br>for the<br>year ended<br>31 March<br>2008<br>HK\$'000 |
|--------------------------------------------------------------|----------|-----------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------|-----------------------------------------------------------------------------------------------------------------------------------|
| NET CASH USED IN                                             |          |           |       |                                                                                                                                                                     |                                                                                                                                                                                    |                                      |       |                                                                                                                                   |
| INVESTING ACTIVITIES                                         | (36,911) | (261,591) | (692) | (262,283)                                                                                                                                                           | (280,396)                                                                                                                                                                          |                                      |       | (345,164)                                                                                                                         |
| FINANCING ACTIVITIES                                         |          |           |       |                                                                                                                                                                     |                                                                                                                                                                                    |                                      |       |                                                                                                                                   |
| Capital injection                                            | —        | 8,698     | —     | 8,698                                                                                                                                                               | 9,299                                                                                                                                                                              |                                      |       | 9,299                                                                                                                             |
| Repayments of secured bank borrowings                        | (23,469) | —         | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | (23,469)                                                                                                                          |
| Secured bank borrowings raised                               | 25,857   | —         | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 25,857                                                                                                                            |
| Repayments of obligation under a finance lease               | (379)    | —         | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | (379)                                                                                                                             |
| Advance from a director                                      | 1,200    | —         | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 1,200                                                                                                                             |
| Proceeds from issue of shares                                | 23,400   | —         | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 23,400                                                                                                                            |
| Proceeds from issue of call options                          | 11,607   | —         | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 11,607                                                                                                                            |
| Expenses on issue of shares                                  | (361)    | —         | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | (361)                                                                                                                             |
| Expenses on issue of call options                            | (270)    | —         | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | (270)                                                                                                                             |
| Proceeds from issue of shares upon exercise of share options | 2,202    | —         | —     | —                                                                                                                                                                   | —                                                                                                                                                                                  |                                      |       | 2,202                                                                                                                             |
| NET CASH GENERATED FROM FINANCING ACTIVITIES                 | 39,787   | 8,698     | —     | 8,698                                                                                                                                                               | 9,299                                                                                                                                                                              |                                      |       | 49,086                                                                                                                            |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                    | (4,614)  | (209,860) | —     | (209,860)                                                                                                                                                           | (224,352)                                                                                                                                                                          |                                      |       | (256,823)                                                                                                                         |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR       | 10,790   | 230,603   | —     | 230,603                                                                                                                                                             | 246,528                                                                                                                                                                            |                                      |       | 257,318                                                                                                                           |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR             | 6,176    | 20,743    | —     | 20,743                                                                                                                                                              | 22,176                                                                                                                                                                             |                                      |       | 495                                                                                                                               |
| ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS         |          |           |       |                                                                                                                                                                     |                                                                                                                                                                                    |                                      |       |                                                                                                                                   |
| Bank balances and cash                                       | 6,176    | 20,743    | —     | 20,743                                                                                                                                                              | 22,176                                                                                                                                                                             |                                      |       | 495                                                                                                                               |

*Notes:*

1. The unaudited pro forma information of the Enlarged Group is prepared as if the purchase option on the acquisition of 75% equity interests in Equity Pinghong and Equity Airui had been exercised and the Acquisition had been taken place on 31 March 2008 for the pro forma consolidated balance sheet and on 1 April 2007 for the pro forma consolidated income statement and consolidated cash flow statement of the Enlarged Group. Upon the completion of the Acquisition, Equity Pinghong and Equity Airui will be accounted for as subsidiaries of the Group. Under Hong Kong Financial Reporting Standard 3 “Business Combinations” and Hong Kong Accounting Standard 27 “Consolidated and Separate Financial Statements”, the Group will apply the purchase method to account for the acquisition of 75% equity interests in Equity Pinghong and Equity Airui. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of Equity Pinghong and Equity Airui will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion of the Acquisition. Any goodwill or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group’s interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of Equity Pinghong and Equity Airui at the date of completion of the Acquisition. Excess of the Group’s interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of Equity Pinghong and Equity Airui over consideration should be recognised immediately in the consolidated income statement.

Since the net fair value of the identifiable assets, liabilities and contingent liabilities of the Equity Pinghong and Equity Airui as at the date of the actual completion of the Acquisition may be different from the fair values used in the preparation of the unaudited pro forma consolidated balance sheet above, the goodwill arising from the Acquisition will be reassessed at the time of actual completion.

The adjustments reflect the following:

- (a) The consideration of HK\$211,714,000 (or RMB190,000,000 equivalent), comprising
  - (i) HK\$27,857,000 (or RMB25,000,000 equivalent) in cash; and
  - (ii) HK\$183,857,000 (or RMB165,000,000 equivalent) by issue of the Convertible Bonds at a conversion price of HK\$0.9 per conversion share to the vendor upon the completion of the Acquisition.

Consideration of HK\$211 million as disclosed in the letter of the board was translated at an exchange rate of RMB0.909 to HK\$1.00 while, for the purpose of this pro forma statement, the consideration amount as stated in Hong Kong dollars has been translated into Renminbi at an exchange rate of RMB0.8974 to HK\$1.00 which was the actual transaction rate incurred upon deposits payment by the Group to the vendor.

- (b) The estimated fair value of the derivative portion of HK\$37,009,000 is determined by Black-Scholes Pricing Model and the carrying amount of liability portion of HK\$146,848,000 is the residual value after separating the estimated fair value of derivative portion with reference to the discount cash flow method. The valuation of derivative portion and liability portion of the convertible bonds recorded by the Company was based on the valuation as at 25 September 2008, being the date prior to the Option Agreement was signed, which was prepared by Grant Sherman Appraisal Limited, an independent valuer.
  - (c) Goodwill arising from the acquisition of 75% equity interest in Equity Pinghong and Equity Airui, which represent the excess of consideration of HK\$211,714,000 over the fair value of 75% equity interests in Equity Pinghong and Equity Airui of 208,140,000, net of the Option Loan of HK\$21,173,000 at the date of Acquisition.
2. The adjustments represent the yearly imputed interest of HK\$12,336,000 for the Convertible Bonds and the actual interest payable of the Convertible Bonds of approximately HK\$3,677,000. The capitalised interest shall have a continuing effect on the financial statements of the Group in the subsequent years.
  3. The adjustment represented professional and legal fees and other expenses directly attributable to the Acquisition.
  4. Elimination of inter-company balances of the Enlarged Group.
  5. Elimination of share capital and pre-acquisition reserves of Equity Pinghong and Equity Airui by the Group and also share of 25% equity interest of the Equity Pinghong and Equity Airui by the vendor upon completion of the Acquisition.

**B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report from Shu Lun Pan Horwath Hong Kong CPA Limited, the reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.



**Shu Lun Pan Horwath Hong Kong CPA Limited**  
**香港立信浩華會計師事務所有限公司**  
20th Floor, Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong  
Telephone : (852) 2526 2191  
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horwath@horwath.com.hk  
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31 October 2008

The Board of Directors  
Gay Giano International Group Limited  
Unit 701-702, Grandtech Centre  
8 On Ping Street  
Siu Lek Yuen  
Shatin, N.T.  
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of Gay Giano International Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) and Equity Pinghong and Equity Airui (together with the Group hereinafter referred to as the “Enlarged Group”) as set out on pages 143 to 150 under the heading of “Unaudited Pro Forma Financial information on the Enlarged Group” in Appendix IV to the Company’s circular (the “Circular”) dated 31 October 2008, which have been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the proposed acquisition of 75% equity interests in Equity Pinghong and Equity Airui by exercising purchase option by the Group (the “Acquisition”), might have affected the financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 143 to 150 of the Circular.

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

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

(the “Listing Rules”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

### **Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information as set out in Appendices II(A) and II(B) of the Circular with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 March 2008 or any future date; or
- the financial results and cash flows of the Enlarged Group for the year ended 31 March 2008 or for any future period.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

For and on behalf of

**Shu Lun Pan Horwath Hong Kong CPA Limited**

*Certified Public Accountants*

Hong Kong

**Choi Man On**

*Director*

Practising Certificate number P02410

**GRANT SHERMAN APPRAISAL LIMITED**

Room 1701, 17/F  
Jubilee Centre  
18 Fenwick Street  
Wanchai  
Hong Kong

31 October 2008

The Directors  
Gay Giano International Group Limited  
Suites 701-702, 7th Floor  
Grandtech Centre  
8 On Ping Street  
Siu Lek Yuen, Shatin  
New Territories  
Hong Kong

Dear Sirs,

In accordance with the instructions from Gay Giano International Group Limited (“the Company”) and its subsidiaries (together referred as “Group”) to value the property interests of the Enlarged Group located in Hong Kong and the People’s Republic of China (“the PRC”), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 31 August 2008 (the “Valuation Date”).

Our valuation is our opinion of market value which we would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

We have valued the property interest in Group I by Comparison Approach assuming sale in their existing state with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market.

For the property interest in Group II and Group III, which are leased by the Group in Hong Kong and the PRC, we are of the opinion that no commercial value attribute to the Group due mainly to the short term nature or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuation has been made on the assumption that the owner sells the property on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the property value.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In valuing the property interests, we have assumed that the owner has free and uninterrupted rights to use the property for the whole of the unexpired term as granted and is entitled to transfer the property with the residual term without payment of any further premium to the government authorities or any third parties.

In the course of our valuation, we have assumed that all consents, approvals and licenses from relevant government authorities for the property have been granted or can be obtained and renewed without any onerous conditions or undue time delay which might affect its value.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

We have been provided with copies of extracts of title documents relating to the property. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. In the preparation of our valuation report regarding the properties in the PRC, we have relied to the considerable extent on the legal opinion provided by the Company's legal adviser, Zhong Lun Law Firm on the PRC laws regarding the titles of the property in the PRC.

In the course of our valuation, we have relied on a considerable extent on the information provided by the Company on such matters as property title, statutory notices, easements, tenure, occupation, site and floor areas, identification of the property and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, no structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structure which were covered, unexposed or inaccessible. We are therefore, unable to report that the properties are free of rot, infestation or any structural defect. No tests have been carried out on any of the building services.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

Unless otherwise specified, all amounts are denominated in Hong Kong Dollars.

We enclose herewith the valuation certificates.

Respectfully submitted,  
For and on behalf of  
**GRANT SHERMAN APPRAISAL LIMITED**  
**Peggy Y.Y. Lai**  
*MRICS MHKIS RPS (GP)*  
*Associate Director*  
*Real Estate Group*

*Note:* Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

SUMMARY OF VALUATION

Group I — Property interests held by the Enlarged Group in Hong Kong for investment purposes

| Property                                                                                                                    | Capital value in<br>existing state as at<br>31 August 2008<br>(HK\$) |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| 1. Flat B on 11th Floor of Block 8, Wonderland Villas<br>9 Wah King Hill Road<br>Kwai Chung<br>New Territories<br>Hong Kong | 6,440,000                                                            |
| Sub-total                                                                                                                   | 6,440,000                                                            |

Group II — Property interests leased by the Enlarged Group in Hong Kong

|                                                                                                             |                     |
|-------------------------------------------------------------------------------------------------------------|---------------------|
| 2. Shop 103 on 1/F., Style House<br>The Park Lane Hotel<br>310 Gloucester Road<br>Causeway Bay<br>Hong Kong | No Commercial Value |
| 3. Shop 111 on Level One, Man Yee Arcade<br>Man Yee Building<br>68 Des Voeux Road Central<br>Hong Kong      | No Commercial Value |
| 4. Shop 052, G/F., Cityplaza 2<br>18 Taikoo Shing Road<br>Taikoo Shing<br>Hong Kong                         | No Commercial Value |
| 5. Shop 2106, Level 2, Harbour City<br>Tsimshatsui<br>Kowloon                                               | No Commercial Value |

|          |                                                                                                        | Capital value in<br>existing state as at<br>31 August 2008<br>(HK\$) |
|----------|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Property |                                                                                                        |                                                                      |
| 6.       | Shop G35-G37, G/F., Fashion World<br>Site 2 Whampoa Garden<br>Hung Hom<br>Kowloon                      | No Commercial Value                                                  |
| 7.       | Shop Unit G80, Telford Plaza 1<br>Telford Garden<br>33 Wai Yip Street<br>Kowloon Bay<br>Kowloon        | No Commercial Value                                                  |
| 8.       | Shop 210-213, Level 2, Grand Century Place<br>KCRC Mongkok Station<br>Kowloon                          | No Commercial Value                                                  |
| 9.       | LG1-28, Level LG1, Festival Walk<br>80 Tat Chee Avenue<br>Kowloon Tong<br>Kowloon                      | No Commercial Value                                                  |
| 10.      | Shop L024-L025, G/F., New World Centre Shopping Mall<br>18-24 Salisbury Road<br>Tsimshatsui<br>Kowloon | No Commercial Value                                                  |
| 11.      | Shop No. UC-2, Upper Concourse Level<br>APM, Millennium City 5<br>418 Kwun Tong Road<br>Kowloon        | No Commercial Value                                                  |
| 12.      | Shop UG17, Upper Ground Floor, Olympian City 2<br>18 Hoi Ting Road<br>Tai Kok Tsui<br>Kowloon          | No Commercial Value                                                  |
| 13.      | Shop 472, 4/F., Phase 1, New Town Plaza<br>18 Shatin Centre Street<br>Shatin<br>New Territories        | No Commercial Value                                                  |

|                                                                        |                                                                                                                                                                                                                | Capital value in<br>existing state as at<br>31 August 2008<br>(HK\$) |
|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| 14.                                                                    | Shop No. 1100-1101, Level One, Metro City Phase II<br>Tseung Kwan O<br>New Territories                                                                                                                         | No Commercial Value                                                  |
| 15.                                                                    | Shop UG12, UG13 & UG15, Citywalk<br>No. 1 Yeung Uk Road<br>Tsuen Wan<br>New Territories                                                                                                                        | No Commercial Value                                                  |
| 16.                                                                    | Shop No. 3, Level 3, Langham Place<br>8 Argyle Street<br>Mongkok<br>Kowloon                                                                                                                                    | No Commercial Value                                                  |
| 17.                                                                    | Units 701-702 on 7/F and<br>Private Loading/Unloading Space No. 1 &<br>Private Lorry Parking Space No. 1 on 7th Floor<br>Grandtech Centre<br>No. 8 On Ping Street<br>Siu Lek Yuen<br>Shatin<br>New Territories | No Commercial Value                                                  |
| Sub-total                                                              |                                                                                                                                                                                                                | Nil                                                                  |
| Group III — Property interests leased by the Enlarged Group in the PRC |                                                                                                                                                                                                                |                                                                      |
| 18.                                                                    | An industrial complex located in<br>No. 1020 Bei Huan Lu<br>Xin Lu Tong Industrial Area<br>Shenzhen<br>the PRC                                                                                                 | No Commercial Value                                                  |
| Sub-total                                                              |                                                                                                                                                                                                                | Nil                                                                  |
| Grand total                                                            |                                                                                                                                                                                                                | 6,440,000                                                            |

VALUATION CERTIFICATE

Group I — Property interests held by the Enlarged Group in Hong Kong for investment purposes

| Property                                                                                                           | Description and tenure                                                                                                                                                                                                                                                                                                                | Particulars of Occupancy                                                                                                                                                                                                  | Capital value in the                             |
|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
|                                                                                                                    |                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                           | existing state as at<br>31 August 2008<br>(HK\$) |
| 1. Flat B on 11th Floor of Block 8, Wonderland Villas, 9 Wah King Hill Road, Kwai Chung, New Territories Hong Kong | Wonderland Villas is a residential development comprises a total of twenty two residential blocks with ancillary car park and shopping facilities.<br><br>The property comprises one of the two domestic units on 11th Floor of Block 8 of the subject development. Block 8 comprises a 24-storey was completed in about 1984.        | The property is to be leased to an independent third party for a term commencing from 15 September 2008 to 14 September 2010 at a monthly rental of HK\$20,000 inclusive of management fee and government rent and rates. | 6,440,000                                        |
| 482/10,000,000th parts or shares of and in The Remaining Portion of Kwai Chung Town Lot No. 369.                   | The property has a gross floor area of approximately 1,394 sq.ft.<br><br>The property is held under New Grant No. 5860 for a term of 99 years less the last three days from 1 July 1898 which was renewed upon expiry until 30 June 2047 at an annual Government rent of 3% of the rateable value for the time being of the property. |                                                                                                                                                                                                                           |                                                  |

Notes:

- (i) The registered owner of the property is Maxrola Limited, a wholly-owned subsidiary of the Company vide Memorial No. TW1162193 dated 28 July 1997.
- (ii) The property is subject to a legal charge in favour of Wing Hang Bank Limited vide Memorial No. 06060801770096 dated 1 July 2006.
- (iii) The property is subject to a Deed of Mutual Covenant and a Sub-Deed of Mutual Covenant vide Memorial Nos. TW332375 and TW335612 dated 7 December 1984 and 2 January 1985 respectively.

Group II — Property interests leased by the Enlarged Group in Hong Kong

| Property                                                                                            | Description and tenure                                                                                                                                                                                                                                                                                                                                                     | Particulars of Occupancy                                                                                                                                                                                                                                                                                                              | Capital value in the existing state as at 31 August 2008 (HK\$) |
|-----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 2. Shop 103 on 1/F., Style House, The Park Lane Hotel, 310 Gloucester Road, Causeway Bay, Hong Kong | <p>The property comprises a shop unit on 1/F of the shopping arcade of Park Lane Hotel completed in about 1973.</p> <p>The floor area of the property is approximately 1,033 sq.ft.</p> <p>The property is held under Conditions of Sale No. 9694 for a term of 75 years renewable for 75 years commencing from 28 April 1970 at an annual Government rent of \$4,798.</p> | <p>The property is leased to the Group from an independent third party for a term from 15 February 2008 to 14 February 2010 at a monthly rent of HK\$200,000 exclusive of management fee, air-conditioning charges, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p>            | No commercial value                                             |
| 3. Shop 111 on Level One, Man Yee Arcade, Man Yee Building, 68 Des Voeux Road Central, Hong Kong    | <p>The property comprises a shop unit on Level One of a multi-storey shopping arcade completed in about 1950.</p> <p>The floor area of the property is approximately 1,890 sq.ft.</p> <p>The property is held under Government Lease for a term of 999 years commencing from 9 July 1844 at an annual Government rent of \$504.45.</p>                                     | <p>The property is leased to the Group from an independent third party for a term from 18 April 2008 to 17 April 2011 at a monthly rent of HK\$151,200 exclusive of management fee, air-conditioning charge, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p> | No commercial value                                             |

| Property                                                                      | Description and tenure                                                                                                                                                                                                                                                                                                                  | Particulars of Occupancy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Capital value in the existing state as at 31 August 2008 (HK\$) |
|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 4. Shop 052, G/F., Cityplaza 2, 18 Taikoo Shing Road, Taikoo Shing, Hong Kong | <p>The property comprises a shop unit on G/F of a multi-storey shopping arcade completed in about 1987.</p> <p>The floor area of the property is approximately 3,368 sq.ft.</p> <p>The property is held under Government Lease for a term of 999 years commencing from 18 April 1900 at an annual Government rent of \$15,123.6.</p>    | <p>The property is leased to the Group from an independent third party for a term from 1 July 2006 to 31 June 2009 at a monthly basic rent of HK\$202,080 for Year 1, HK\$218,920 for Year 2, HK\$235,760 for Year 3 or a turnover rent calculated at 12.5% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p>      | No commercial value                                             |
| 5. Shop 2106, Level 2, Harbour City, Tsimshatsui, Kowloon                     | <p>The property comprises a shop unit on Level 2 of a multi-storey shopping arcade completed in about 1969.</p> <p>The floor area of the property is approximately 657 sq.ft.</p> <p>The property is held under Government Lease for a term of 999 years commencing from 13 September 1881 at an annual Government rent of \$2,324.</p> | <p>The property is leased to the Group from an independent third party for a term from 1 September 2007 to 31 August 2010 at a monthly basic rent of HK\$131,400 for Year 1, HK\$137,970 for Year 2, HK\$144,540 for Year 3 or a turnover rent calculated at 15% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p> | No commercial value                                             |

| Property                                                                                   | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                 | Particulars of Occupancy                                                                                                                                                                                                                                                                                                                                                                                                                                             | Capital value in the existing state as at 31 August 2008 (HK\$) |
|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 6. Shop G35-G37, G/F., Fashion World, Site 2 Whampoa Garden, Hunghom Kowloon               | <p>The property comprises three shop units on G/F of a multi-storey shopping arcade completed in about 1986.</p> <p>The floor area of the property is approximately 1,462 sq.ft.</p> <p>The property is held under Conditions of Exchange No. 11766 for a term of 75 years renewable for 75 years commencing from 14 December 1984 at an annual Government rent of \$12,700.</p>                       | <p>The property is leased to the Group from an independent third party for a term from 28 March 2007 to 27 March 2010 at a monthly basic rent of HK\$84,796 or a turnover rent calculated at 12% of the monthly gross turnover whichever is the higher, exclusive of service charge, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p>                                                        | No commercial value                                             |
| 7. Shop Unit G80, Telford Plaza 1, Telford Garden, 33 Wai Yip Street, Kowloon Bay, Kowloon | <p>The property comprises a shop unit on G/F of a multi-storey shopping arcade completed in about 1981.</p> <p>The floor area of the property is approximately 1,135 sq.ft.</p> <p>The property is held under Conditions of Grant No. 11083 for a term of 99 years less the last 3 days from 1 July 1898 which was renewed upon expiry until 30 June 2047 at an annual Government rent of \$1,000.</p> | <p>The property is leased to the Group from an independent third party for a term from 11 April 2006 to 10 April 2009 at a monthly basic rent of HK\$170,000 for Year 1, HK\$175,000 for Year 2 and Year 3 or a turnover rent calculated at 15% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p> | No commercial value                                             |

| Property                                                                       | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                         | Particulars of Occupancy                                                                                                                                                                                                                                                                                                                                                                                                                             | Capital value in the existing state as at 31 August 2008 (HK\$) |
|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 8. Shop 210-213, Level 2, Grand Century Place, KCRC Mongkok Station, Kowloon   | <p>The property comprises four shop units on Level 2 of a multi-storey shopping arcade completed in about 1997.</p> <p>The floor area of the property is approximately 1,280 sq.ft.</p> <p>The property is held under Conditions of Exchange No. UB12276 for a term commencing from 19 October 1993 to 30 June 2047 at an annual Government rent of 3% of the rateable value of the lot.</p>                   | <p>The property is leased to the Group from an independent third party for a term from 23 August 2007 to 22 August 2009 at a monthly basic rent of HK\$176,000 or a turnover rent calculated at 13% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p>           | No commercial value                                             |
| 9. LG1-28, Level LG1, Festival Walk, 80 Tat Chee Avenue, Kowloon Tong, Kowloon | <p>The property comprises 1 shop unit on LG1/F of a multi-storey shopping arcade completed in about 1998.</p> <p>The floor area of the property is approximately 1,630 sq.ft.</p> <p>The property is held under Conditions of Sale No. 12250 for a term commencing from 30 March 1993 to 30 June 2047 at an annual Government rent of at an annual Government rent of 3% of the rateable value of the lot.</p> | <p>The property is leased to the Group from an independent third party for a term from 1 March 2007 to 28 February 2009 at a monthly basic rent of HK\$253,000 for Year 1, HK\$261,000 for Year 2 or a turnover rent calculated at 15% of the monthly gross turnover whichever is the higher, exclusive of service charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p> | No commercial value                                             |

| Property                                                                                             | Description and tenure                                                                                                                                                                                                                                                                                                                                                                         | Particulars of Occupancy                                                                                                                                                                                                                                                                                                                                                                                                                      | Capital value in the existing state as at 31 August 2008 (HK\$) |
|------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 10. Shop L024-L025, G/F., New World Centre Shopping Mall, 18-24 Salisbury Road, Tsimshatsui, Kowloon | <p>The property comprises two shop units on G/F of a multi-storey shopping arcade completed in about 1996.</p> <p>The floor area of the property is approximately 1,375 sq.ft.</p> <p>The property is held under Conditions of Exchange No. UB11172 for a term of 150 years commencing from 3 November 1902 at an annual Government rent of \$3,508,546.</p>                                   | <p>The property is leased to the Group from an independent third party for a term from 15 September 2005 to 14 September 2008 at a monthly basic rent of HK\$89,375 or a turnover rent calculated at 12% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p>                 | No commercial value                                             |
| 11. Shop No. UC-2, Upper Concourse Level, APM, Millennium City 5, 418 Kwun Tong Road, Kowloon        | <p>The property comprises a shop unit on Upper Concourse Level of a multi-storey shopping arcade completed in about 2004.</p> <p>The floor area of the property is approximately 1,050 sq.ft.</p> <p>The property is held under Conditions of Exchange UB12617 for a term of 50 years commencing from 7 February 2002 at an annual Government rent of 3% of the rateable value of the lot.</p> | <p>The property is leased to the Group from an independent third party for a term from 22 February 2008 to 21 February 2010 at a monthly basic rent of HK\$98,500 or a turnover rent calculated at 12% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p> | No commercial value                                             |

| Property                                                                                      | Description and tenure                                                                                                                                                                                                                                                                                                                                                                             | Particulars of Occupancy                                                                                                                                                                                                                                                                                                                                                                                                                    | Capital value in the existing state as at 31 August 2008 (HK\$) |
|-----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 12. Shop UG17, Upper Ground Floor, Olympian City 2, 18 Hoi Ting Road, Tai Kok Tsui, Kowloon   | <p>The property comprises a shop unit on UG/F of a multi-storey shopping arcade completed in about 2001.</p> <p>The floor area of the property is approximately 1,139 sq.ft.</p> <p>The property is held under Conditions of Grant No. 12434 for a term commencing from 10 January 1997 to 30 June 2047 at an annual Government rent of 3% of the rateable value of the lot.</p>                   | <p>The property is leased to the Group from an independent third party for a term from 20 October 2005 to 19 October 2008 at a monthly basic rent of HK\$85,425 or a turnover rent calculated at 12% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p> | No commercial value                                             |
| 13. Shop 472, 4/F., Phase 1, New Town Plaza, 18 Shatin Centre Street, Shatin, New Territories | <p>The property comprises a shop unit on 4th Floor of a multi-storey shopping arcade completed in about 1984.</p> <p>The floor area of the property is approximately 1,099 sq.ft.</p> <p>The property is held under New Grant No. 11568 for a term of 99 years less the last 3 days from 1 July 1898 which was renewed upon expiry until 30 June 2047 at an annual Government rent of \$3,200.</p> | <p>The property is leased to the Group from an independent third party for a term from 15 September 2005 to 14 March 2009 at a monthly rent of HK\$170,345 or a turnover rent calculated at 13% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p>      | No commercial value                                             |

| Property                                                                               | Description and tenure                                                                                                                                                                                                                                                                                                                                                     | Particulars of Occupancy                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Capital value in the existing state as at 31 August 2008 (HK\$) |
|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 14. Shop No. 1100-1101, Level One, Metro City Phase II, Tseung Kwan O, New Territories | <p>The property comprises two shop units on Level One of a multi-storey shopping arcade completed in about 1999.</p> <p>The floor area of the property is approximately 2,129 sq.ft.</p> <p>The property is held under New Grant No. 8373 for a term commencing from 27 July 1994 to 30 June 2047 at an annual Government rent of 3% of the rateable value of the lot.</p> | <p>The property is leased to the Group from an independent third party for a term from 5 September 2006 to 4 September 2009 at a monthly basic rent of HK\$93,034 or a turnover rent calculated at 13% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p>                                                         | No commercial value                                             |
| 15. Shop UG12, UG13 & UG15, Citywalk, No. 1 Yeung Uk Road, Tsuen Wan, New Territories  | <p>The property comprises three shop units on UG/F of a multi-storey shopping arcade completed in about 2007.</p> <p>The floor area of the property is approximately 3,122 sq.ft.</p> <p>The property is held under New Grant No. TW7201 for a term of 50 years commencing from 4 December 2002 at an annual Government rent of 3% of the rateable value of the lot.</p>   | <p>The property is leased to the Group from an independent third party for a term from 2 January 2008 to 1 January 2011 at a monthly basic rent of HK\$158,000 for Year 1, HK\$163,000 for Year 2, HK\$168,000 for Year 3 or a turnover rent calculated at 12% of the monthly gross turnover whichever is the higher, exclusive of management fee, air-conditioning charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p> | No commercial value                                             |

| Property                                                                                                                                                                                         | Description and tenure                                                                                                                                                                                                                                                                                                                                                                                                                        | Particulars of Occupancy                                                                                                                                                                                                                                                                                                                                                                                                                 | Capital value in the existing state as at 31 August 2008 (HK\$) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 16. Shop No. 3, Level 3, Langham Place, 8 Argyle Street, Mongkok, Kowloon                                                                                                                        | <p>The property comprises a shop unit on Level 3 of a multi-storey shopping arcade completed in about 2004.</p> <p>The floor area of the property is approximately 1,169 sq.ft.</p> <p>The property is held under Conditions of Exchange No. UB12557 for a term commencing from 18 February 2000 to 30 June 2047 at an annual Government rent of 3% of the rateable value of the lot.</p>                                                     | <p>The property is leased to the Group from an independent third party for a term from 1 October 2007 to 30 September 2010 at a monthly rent of HK\$134,435 or a turnover rent calculated at 15% of the monthly gross turnover, whichever is the higher, exclusive of management fee, air-conditioning charges, promotion charge, government rates and other outgoings.</p> <p>The property is occupied by the Group as retail shop.</p> | No commercial value                                             |
| 17. Units 701-702 on 7/F and Private Loading/Unloading Space No. 1 & Private Lorry Parking Space No. 1 on 7th Floor, Grandtech Centre, No. 8 On Ping Street Siu Lek Yuen Shatin, New Territories | <p>The property comprises two non-domestic units, a lorry parking space and a loading/unloading area on 7th Floor of a 22-storey industrial building completed in about 1996.</p> <p>The floor area of the property is approximately 28,232 sq.ft.</p> <p>The property is held under New Grant No. 12381 for a term commencing from 19 November 1991 to 30 June 2047 at an annual Government rent of 3% of the rateable value of the lot.</p> | <p>The property is leased to the Group from an independent third party for a term from 1 November 2007 to 31 December 2008 at a monthly rent of HK\$270,000 exclusive of management fees and rates.</p> <p>The property is occupied by the Group for industrial and ancillary office use.</p>                                                                                                                                            | No commercial value                                             |

Group III — Property interests leased by the Enlarged Group in the PRC

| Property                                                                                                 | Description and tenure                                                                                                                                                                                                                                                                                                   | Particulars of Occupancy                                                                                                                                                                                                                    | Capital value in the existing state as at 31 August 2008 (HK\$) |
|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 18. An industrial complex located in No. 1020 Bei Huan Lu Xin Lu Tong Industrial Area, Shenzhen, the PRC | <p>The property comprises 1/F, 4/F, 5/F and 6/F of a 6-storey industrial building, a block of 2-storey dormitory building, 6/F of a 6-storey dormitory building and 2/F, 3/F, 4/F of a 5-storey dormitory building completed in about 1987.</p> <p>The total gross floor area of the property is about 5,865.9 sq.m.</p> | <p>The property is leased to the Group from an independent third party for a term from 1 May 2007 to 30 March 2012. <i>(see note (i) and (ii))</i></p> <p>The property is occupied by the Group for industrial and staff dormitory use.</p> | No commercial value                                             |

Notes:

- (i) Pursuant to a lease agreement dated 1 December 2006 (“lease agreement”), 1/F, 4/F, 5/F, 6/F of a 6-storey industrial building, a block of 2-storey dormitory building and 6/F of a 6-storey dormitory building with a total gross floor area of about 4,908.3 sq.m. is leased to 深圳隆威時裝制衣有限公司, a wholly-owned subsidiary of the Company for a term of from 1 May 2007 to 30 March 2012.

The monthly rent from 1 May 2007 to 30 April 2008 is RMB23 per sq.m. inclusive of management fees but exclusive of water and electricity charges.

The monthly rent from 1 May 2008 to 30 April 2009 is subject to a 3% increment and is about RMB23.69 per sq.m. inclusive of management fees but exclusive of water and electricity charges.

The monthly rent from 1 May 2009 to 30 April 2010 is subject to a further 5% increment and is about RMB24.87 per sq.m. inclusive of management fees but exclusive of water and electricity charges.

The monthly rent from 1 May 2010 to 30 March 2012 is subject to a further 5% increment and is about RMB26.11 per sq.m. inclusive of management fees but exclusive of water and electricity charges.
- (ii) Pursuant to a supplemental agreement dated 29 April 2007, 2/F, 3/F and 4/F of a 5-storey dormitory building with a total gross floor area of about 957.6 sq.m. is leased to 深圳隆威時裝制衣有限公司, a wholly-owned subsidiary of the Company. The monthly rent and the lease term is the same as the lease agreement mentioned in note (i).

- (iii) We have been provided with a PRC legal opinion on the property issued by Zhong Lun Law Firm, the PRC legal adviser, which contains, inter alias, the following information:
  - (a) As advised by the Company, the lessor is not the legal owner of the property
  - (b) This tenancy agreement would not be valid unless the lessor could provide the relevant sub-lease documents, including but not limited to provision of the consent letter or sub-lease authorization letter from the legal owner.

CHELBI Engineering Consultants, Inc.  
8/F, Shijixingyuan Building,  
20 Anyuan Road, Chaoyang District  
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Tel: +86-10-84896989  
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31 October 2008

To the Directors  
Gay Giano International Group Limited  
Suites 701-702, 7th Floor, Grandtech Centre  
8 On Ping Street, Siu Lek Yuen  
Shatin, Hong Kong

Dear Sir or Madam,

**EQUITY PINGHONG HIGHWAY DEVELOPMENT (JIANGXI) CO., LTD**  
**TRAFFIC FORECAST STUDY**

CHELBI Engineering Consultants, Inc. (the “Consultant”) was appointed by Gay Giano International Group Limited (the “Company”) to carry out independent traffic forecast for Pinghong Highway. The findings of this report are for the Company to purchase Pinghong Highway project.

All reasonable and professional skill, care and due diligence has been exercised in preparing this traffic forecast study final report. A summary of the findings of this report is set out below:

**1. PREFACE**

Brief introduction to Pinghong Highway:

The total length of Pinghong Highway is 34.4km. Pinghong Highway is an exit route in the highway network of Jiangxi province and Hunan province, and it is the most convenient passage from Pingxiang to Changsha Huanghua International Airport. The project is located in Pingxiang administrative region in Jiangxi province, starting from around Jinshanli village, Qingshan town, Anyuan district, Pingxing (the South side of National Highway 320) and ending at Hongkoujie, the intersection of Jiangxi province and Hunan province. The Southern part of Pinghong Highway is connected with the completed Changfu to Jinyushi Expressway, a main trunk of Shanghai to Yunnan Ruili national highway. The Northern part of Pinghong Highway is connected with

Hunan Liuyang to Hongkoujie Expressway, which is to be built. The Western part of Pinghong Highway is connected with Beijing to Zhuhai Expressway. The whole route is constructed in full compliance with highway construction standard, two-way and four-lane, subgrade width is 26 metres, design speed is 100km/hour, design load: automobile – super 20, trailer-120. The construction of this project started on 26 October 2006, and is expected to open to traffic in December 2009.

The toll standard of Pinghong Highway is based on the type of vehicles and its travel distance. According to the concession rights contract, project concession period is 310 calendar months from the date of the grand opening of Pinghong Highway.

2. OBJECTIVES AND SCOPE OF SERVICES

The scope of services provided by the Consultant comprises:

- (1) Collecting existing traffic data of various vehicles of road network in the area under examination.
- (2) Collecting current and historical socio-economic data so as to help to understand the past and future possible findings in the area under examination.
- (3) Conducting an origin-destination survey and classified vehicle count in the area under examination so as to determine the existing traffic situation.
- (4) Developing a traffic forecasting model for the area under examination. This model must be able to demonstrate the relationship between traffic volume and socio-economic development and has been validated using current traffic count data.
- (5) Preparing traffic forecast for the years of 2010, 2015, 2020, 2030 and 2035.
- (6) Preparing independent traffic volume forecast for each vehicle toll categories from 2010 to 2035. Forecast traffic volumes for these years are derived by linear interpolation.
- (7) Submitting an independent report on the traffic forecast including methodology and assumptions used for the forecast, in a form suitable for the interested investors.

3. TRAFFIC FORECAST METHODOLOGY

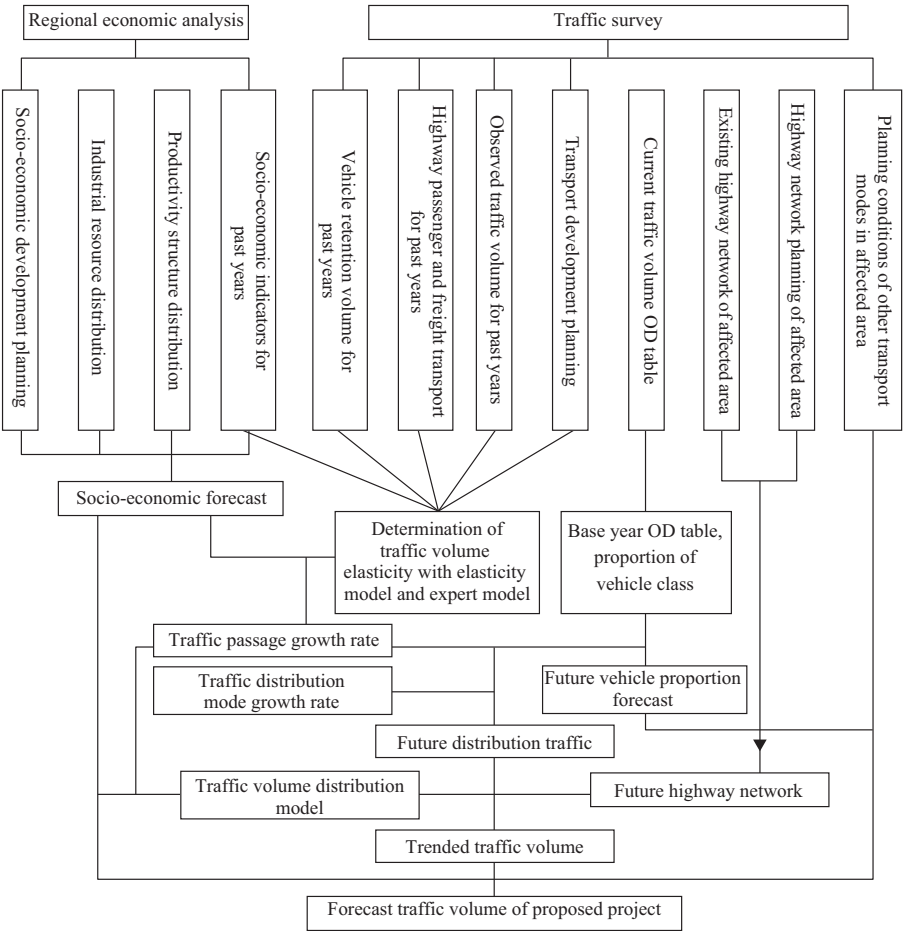
3.1 Forecast Stages

- The traffic forecast methodology of this study consists of the following stages:
- (1) Review the future economic growth rate in the area under examination.
  - (2) Determine the elasticity coefficient of future traffic (related to economy) by analyzing the elasticity coefficient.
  - (3) Calculate the interval travel matrix of various types of vehicles in the forecast characteristic years of 2010, 2015, 2020, 2030 and 2035.
  - (4) Demarcate the future road network of the forecast characteristic years of 2010, 2015, 2020, 2030 and 2035 to determine future toll standard and local traffic situation.
  - (5) Determine future time value and vehicle operation costs according to the type of vehicles of future forecast year.
  - (6) Allocate the traffic volume of forecast year according to various forecasts parameters.
  - (7) Determine the traffic volume of toll vehicles according to the proportion of future annual toll vehicles types.
  - (8) Obtain final forecast traffic volume of Pinghong Highway, the other years except characteristic years are derived by linear interpolation.

3.2 Forecast Methodology

Based on the analysis on current traffic volume and traffic survey data, traffic demand analysis is forecasted with a four-stage model. Traffic prediction is forecasted with models such as elasticity coefficient model, while traffic distribution is forecasted with FRATOR model in growth rate model. The traffic volume of this project is allocated based on the established traffic volume — speed model and generalized path cost model.

Figure 1 Forecast methodology flow chart



(1) *FRATOR model*

$$T'_{ij} = T_{ij} \cdot F_i \cdot E_j \cdot \frac{1}{2} \left( \frac{P_i}{\sum_{j=1}^n T_{ij} \cdot E_j} + \frac{A_j}{\sum_{i=1}^n T_{ij} \cdot F_i} \right)$$

Where:  $T'_{ij}$  — Traffic volume between area i and area j in future years;  
 $T_{ij}$  — Traffic volume between area i and area j in base year;  
 $F_i$  — Growth of traffic generation in area i;  
 $E_j$  — Growth of traffic attraction in area j;  
n — Number of traffic zones.

(2) *Generalized cost coefficient parameter*

The balanced distribution method uses the generalized cost coefficient recommended by Robin Carruthers, the traffic expert of World Bank:

Generalized path cost = time value of behavior\* road section travel time  
+ 0.8\* oil consumption per km\* road section length\* local oil price + road  
section toll

Time value of behavior is the judgment of time value during drivers' choice of routes. Drivers mainly consider out-of-pocket costs such as time, oil consumption and toll during choice of routes. The time value of behavior in all vehicle class distribution is the average time value of behavior.

(3) *Traffic volume — speed curve*

Traffic distribution and balance are based and premised on the effect of congestion on travelling time, and considered with traffic volume-speed coefficient.

The project adopts the amended traffic volume-speed curve of Highway Planning and Design Institute, Ministry of Communications as follows:

$$V_a = 80.14 \times \exp\left(-0.173\left(\frac{q_a}{C_a}\right)^2\right) \quad \frac{q_a}{C_a} \leq 0.8$$

$$V_a = 78.843 \times \exp\left(-0.561\left(\frac{q_a}{C_a}\right)^8\right) \quad \frac{q_a}{C_a} > 0.8 \quad (\text{Expressway})$$

$$V_a = 68.119 \times \exp\left(-0.197\left(\frac{q_a}{C_a}\right)^2\right) \quad \frac{q_a}{C_a} \leq 0.75$$

$$V_a = 64.274 \times \exp\left(-0.526\left(\frac{q_a}{C_a}\right)^8\right) \quad \frac{q_a}{C_a} > 0.75 \quad (\text{Class 1 highway})$$

$$V_a = 156.7 \times \frac{1}{q_a^{0.1681}} \quad (\text{Class 2 highway})$$

$$V_a = 99.1 \times \frac{1}{q_a^{0.1323}} \quad (\text{Class 3 highway})$$

$$V_a = 70.5 \times \frac{1}{q_a^{0.0988}} \quad (\text{Class 4 highway})$$

$$V_a = 72.6 \times \frac{1}{q_a^{0.1370}} \quad (\text{Substandard highway})$$

Where:  $V_a$  — Vehicle travel speed of road section a;  
 $q_a$  — Traffic volume of road section a;  
 $C_a$  — Capacity of road section a.

4. MAJOR MODEL ASSUMPTIONS

The major assumptions adopted in the traffic forecasting models comprise:

- (1) The assumption of GDP growth rates in the area under examination are given in Table 1 below:

Table 1 Regional GDP Forecast

| Area         | Year      | Jiangxi Province | Pingxiang City | Hunan Province |
|--------------|-----------|------------------|----------------|----------------|
| Growth rates | 2005-2010 | 11.0%            | 13.0%          | 10.0%          |
|              | 2010-2015 | 10.0%            | 12.0%          | 9.0%           |
|              | 2015-2020 | 9.0%             | 10.5%          | 8.0%           |
|              | 2020-2030 | 7.5%             | 9.0%           | 6.5%           |
|              | 2030-2040 | 5.5%             | 6.5%           | 5.0%           |

- (2) According to the plan of transport development in the area under examination, the transport network will be improved and perfected. The details of the major project construction in the future years are given in the following table.

Table 2 Major Project Construction in the Future Years

| No. | Project              | Description          | Date of Completion |
|-----|----------------------|----------------------|--------------------|
| 1   | Jian to Lianhua      | Four-lane expressway | 2015               |
| 2   | Hangzhou to Changsha | Rail passenger line  | 2015               |

- (3) Except for a small amount of military vehicles, police cars, fire engines etc which are free of toll charge, the other vehicles using the existing highways in Jiangxi Province are all subject to charges. The proportion of toll traffic volume of various vehicles respectively are: vehicles of Class I are 95%, vehicles of Class II are 98%, vehicles of Class III to Class IV are 100%; cargo vehicles below 2 tons are 95%, cargo vehicles of 2 tons to 5 tons are 98%, cargo vehicles above 5 tons are 100%.

5. CONCLUSION

The traffic forecasting model was calibrated and validated using the 2007 independent traffic volume survey and 2007 observed traffic counts, and has taken into account all fundamental assumptions. The models provided by the Consultant forecast the traffic flow of Pinghong Highway, the forecast results of traffic flow are shown in Table 3 ~ Table 5.

Normal Forecasts

Table 3 Traffic Volume Forecast of Whole Route (Unit: vehicle/day)

| Year         | Class I | ClassII | Class III | Class IV | Class V | Total  |
|--------------|---------|---------|-----------|----------|---------|--------|
| 2010         | 4,903   | 2,834   | 2,246     | 1,306    | 181     | 11,470 |
| 2015         | 9,159   | 4,979   | 4,062     | 2,411    | 372     | 20,982 |
| 2020         | 14,337  | 7,387   | 6,102     | 3,633    | 599     | 32,059 |
| 2030         | 22,108  | 10,257  | 8,701     | 5,210    | 969     | 47,245 |
| 2035         | 24,646  | 10,970  | 9,415     | 5,654    | 1,100   | 51,785 |
| Growth Rates |         |         |           |          |         |        |
| 2010-2015    | 13.31%  | 11.93%  | 12.58%    | 13.04%   | 15.50%  | 12.84% |
| 2015-2020    | 9.38%   | 8.21%   | 8.48%     | 8.55%    | 10.00%  | 8.85%  |
| 2020-2030    | 4.43%   | 3.34%   | 3.61%     | 3.67%    | 4.93%   | 3.95%  |
| 2030-2035    | 2.20%   | 1.35%   | 1.59%     | 1.65%    | 2.57%   | 1.85%  |

Forecast period: 2010.1.1-2035.10.31

Optimistic Forecasts

Compared to the normal proposal, this proposal was mainly based on an optimistic estimation of the rate of economic growth in the region where the project was located, and the total volume of the characteristic years was 2-3% higher than the normal proposal.

Table 4 Traffic Volume Forecast of Whole Route (Unit: vehicle/day)

| Year         | Class I | ClassII | Class III | Class IV | Class V | Total  |
|--------------|---------|---------|-----------|----------|---------|--------|
| 2010         | 4,996   | 2,888   | 2,289     | 1,331    | 184     | 11,688 |
| 2015         | 9,351   | 5,083   | 4,147     | 2,461    | 380     | 21,422 |
| 2020         | 14,667  | 7,557   | 6,243     | 3,717    | 612     | 32,797 |
| 2030         | 22,705  | 10,534  | 8,936     | 5,351    | 995     | 48,521 |
| 2035         | 25,361  | 11,288  | 9,689     | 5,818    | 1,132   | 53,287 |
| Growth Rates |         |         |           |          |         |        |
| 2010-2015    | 13.36%  | 11.97%  | 12.62%    | 13.08%   | 15.61%  | 12.88% |
| 2015-2020    | 9.42%   | 8.25%   | 8.53%     | 8.60%    | 10.00%  | 8.89%  |
| 2020-2030    | 4.47%   | 3.38%   | 3.65%     | 3.71%    | 4.98%   | 3.99%  |
| 2030-2035    | 2.24%   | 1.39%   | 1.63%     | 1.69%    | 2.61%   | 1.89%  |

Forecast period: 2010.1.1-2035.10.31

Conservative Forecasts

Compared to the normal proposal, this proposal was mainly based on a conservative estimation of the rate of economic growth in the region where the project was located, and the total volume of the characteristic years was 1-2% lower than the normal proposal.

Table 5 Traffic Volume Forecast of Whole Route (Unit: vehicle/day)

| Year           | Class I | ClassII | Class III | Class IV | Class V | Total  |
|----------------|---------|---------|-----------|----------|---------|--------|
| 2010           | 4,869   | 2,814   | 2,231     | 1,297    | 180     | 11,390 |
| 2015           | 9,081   | 4,937   | 4,027     | 2,390    | 369     | 20,803 |
| 2020           | 14,180  | 7,306   | 6,035     | 3,593    | 592     | 31,707 |
| 2030           | 21,754  | 10,093  | 8,562     | 5,127    | 953     | 46,489 |
| 2035           | 24,202  | 10,773  | 9,246     | 5,552    | 1,080   | 50,853 |
| Rate of Growth |         |         |           |          |         |        |
| 2010-2015      | 13.28%  | 11.90%  | 12.54%    | 13.00%   | 15.44%  | 12.80% |
| 2015-2020      | 9.32%   | 8.15%   | 8.43%     | 8.50%    | 9.92%   | 8.79%  |
| 2020-2030      | 4.37%   | 3.28%   | 3.56%     | 3.62%    | 4.88%   | 3.90%  |
| 2030-2035      | 2.16%   | 1.31%   | 1.55%     | 1.61%    | 2.53%   | 1.81%  |

Forecast period: 2010.1.1-2035.10.31

Yours faithfully,  
For and on behalf of  
**CHELBI Engineering Consultants, Inc.**  
**Tian Feng**  
*Director*

CHELBI Engineering Consultants, Inc.  
8/F, Shijixingyuan Building,  
20 Anyuan Road, Chaoyang District  
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31 October 2008

To the Directors  
Gay Giano International Group Limited  
Suites 701-702, 7th Floor, Grandtech Centre  
8 On Ping Street, Siu Lek Yuen  
Shatin, Hong Kong

Dear Sir or Madam,

**EQUITY AIRUI HIGHWAY DEVELOPMENT (JIANGXI) CO., LTD**  
**TRAFFIC FORECAST STUDY**

CHELBI Engineering Consultants, Inc. (the “Consultant”) was appointed by Gay Giano International Group Limited (the “Company”) to carry out independent traffic forecast for Airui Highway. The findings of this report are for the Company to purchase Airui Highway project.

All reasonable and professional skill, care and due diligence has been exercised in preparing this traffic forecast study final report. A summary of the findings of this report is set out below:

**1. PREFACE**

Brief introduction to Airui Highway:

The total length of Airui Highway is 31km. Airui Highway is a section of the highway in the Southeastern part in Jiangxi province of Xiamen to Chengdu Expressway in the State “7918” highway network. This project is located in Ruijin administrative region in Jiangxi province. This project starts from around Ailing, the intersection of Jiangxi province and Fujian province, connecting with Fujian section of Xiamen to Chengdu Expressway, and ends at the East of Huangzhubo, Yunshishan town, Ruijin, connecting with Ruijin to Ganzhou section of Xiamen to Chengdu Expressway, and intersects with

National Highway 323. It is one of the main trunks and exits in Jiangxi province. The whole route is constructed in full compliance with highway construction standard, two-way and four-lane, subgrade width is 26 metres, design speed is 100(80)km/hour, design load: automobile — super 20, trailer-120. The construction of the project started in September 2008 and is expected to open to traffic in September 2010.

The toll standard of Airui Highway is based on the type of vehicles and its travel distance. Approved toll year is 262 calendar months (not including the construction period) from the date of the grand opening of Airui Highway.

2. OBJECTIVES AND SCOPE OF SERVICES

The scope of services provided by the Consultant comprises:

- (1) Collecting existing traffic data of various vehicles of road network in the area under examination.
- (2) Collecting current and historical socio-economic data so as to help to understand the past and future possible findings in the area under examination.
- (3) Conducting an origin-destination survey and classified vehicle count in the area under examination so as to determine the existing traffic situation.
- (4) Developing a traffic forecasting model for the area under examination. This model must be able to demonstrate the relationship between traffic volume and socio-economic development and has been validated using current traffic count data.
- (5) Preparing traffic forecast for the years of 2010, 2015, 2020, 2030 and 2032.
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3. TRAFFIC FORECAST METHODOLOGY

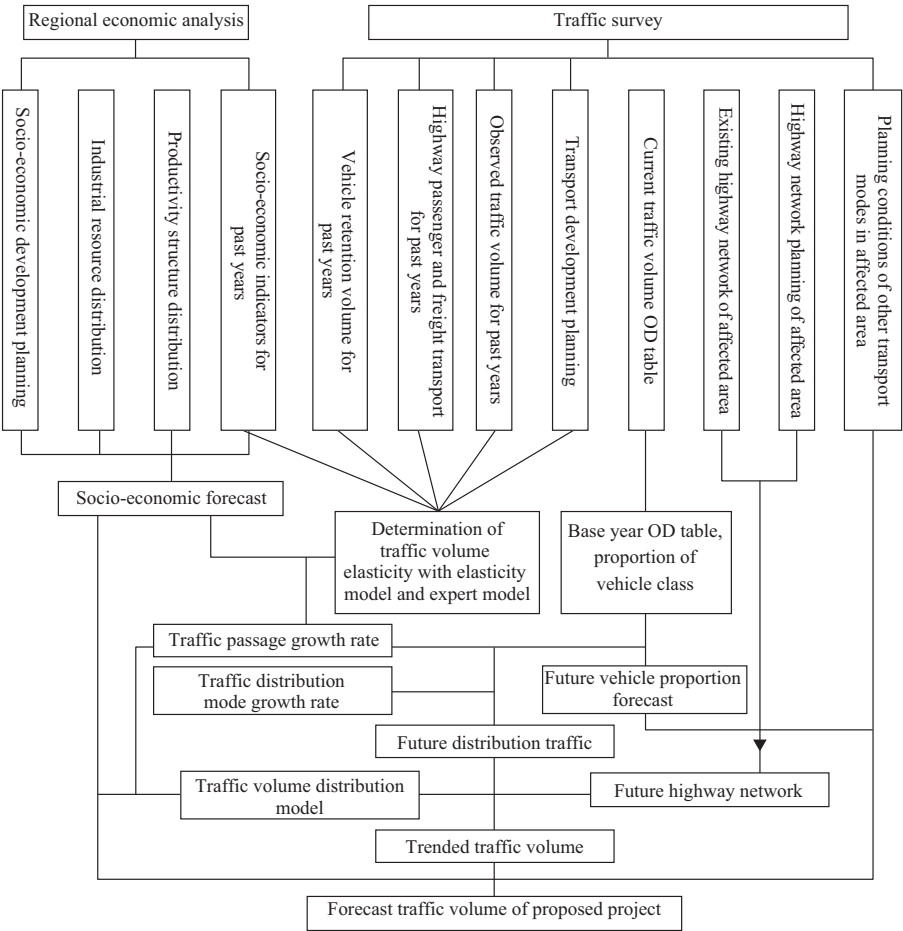
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- (1) Review the future economic growth rate in the area under examination.
  - (2) Determine the elasticity coefficient of future traffic (related to economy) by analyzing the elasticity coefficient.
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  - (6) Allocate the traffic volume of forecast year according to various forecasts parameters.
  - (7) Determine the traffic volume of toll vehicles according to the proportion of future annual toll vehicles types.
  - (8) Obtain final forecast traffic volume of Airui Highway, the other years except characteristic years are derived by linear interpolation.

3.2 Forecast Methodology

Based on the analysis on current traffic volume and traffic survey data, traffic demand analysis is forecasted with a four-stage model. Traffic prediction is forecasted with models such as elasticity coefficient model, while traffic distribution is forecasted with FRATOR model in growth rate model. The traffic volume of this project is allocated based on the established traffic volume — speed model and generalized path cost model.

Figure 1 Forecast methodology flow chart



(1) *FRATOR model*

$$T'_{ij} = T_{ij} \cdot F_i \cdot E_j \cdot \frac{1}{2} \left( \frac{P_i}{\sum_{j=1}^n T_{ij} \cdot E_j} + \frac{A_j}{\sum_{i=1}^n T_{ij} \cdot F_i} \right)$$

Where:  $T'_{ij}$  — Traffic volume between area i and area j in future years;  
 $T_{ij}$  — Traffic volume between area i and area j in base year;  
 $F_i$  — Growth of traffic generation in area i;  
 $E_j$  — Growth of traffic attraction in area j;  
n — Number of traffic zones.

(2) *Generalized cost coefficient parameter*

The balanced distribution method uses the generalized cost coefficient recommended by Robin Carruthers, the traffic expert of World Bank:

Generalized path cost = time value of behavior\* road section travel time + 0.8\* oil consumption per km\* road section length\* local oil price + road section toll

Time value of behavior is the judgment of time value during drivers' choice of routes. Drivers mainly consider out-of-pocket costs such as time, oil consumption and toll during choice of routes. The time value of behavior in all vehicle class distribution is the average time value of behavior.

(3) *Traffic volume — speed curve*

Traffic distribution and balance are based and premised on the effect of congestion on travelling time, and considered with traffic volume-speed coefficient.

The project adopts the amended traffic volume-speed curve of Highway Planning and Design Institute, Ministry of Communications as follows:

$$V_a = 80.14 \times \exp\left(-0.173\left(\frac{q_a}{C_a}\right)^2\right) \quad \frac{q_a}{C_a} \leq 0.8$$

$$V_a = 78.843 \times \exp\left(-0.561\left(\frac{q_a}{C_a}\right)^8\right) \quad \frac{q_a}{C_a} > 0.8 \quad (\text{Expressway})$$

$$V_a = 68.119 \times \exp\left(-0.197\left(\frac{q_a}{C_a}\right)^2\right) \quad \frac{q_a}{C_a} \leq 0.75$$

$$V_a = 64.274 \times \exp\left(-0.526\left(\frac{q_a}{C_a}\right)^8\right) \quad \frac{q_a}{C_a} > 0.75 \quad (\text{Class 1 highway})$$

$$V_a = 156.7 \times \frac{1}{q_a^{0.1681}} \quad (\text{Class 2 highway})$$

$$V_a = 99.1 \times \frac{1}{q_a^{0.1323}} \quad (\text{Class 3 highway})$$

$$V_a = 70.5 \times \frac{1}{q_a^{0.0988}} \quad (\text{Class 4 highway})$$

$$V_a = 72.6 \times \frac{1}{q_a^{0.1370}} \quad (\text{Substandard highway})$$

Where:  $V_a$  — Vehicle travel speed of road section a;  
 $q_a$  — Traffic volume of road section a;  
 $C_a$  — Capacity of road section a.

4. MAJOR MODEL ASSUMPTIONS

The major assumptions adopted in the traffic forecasting models comprise:

- (1) The assumption of GDP growth rates in the area under examination are given in the Table 1 below:

Table 1 Regional GDP Forecast

| Area        | Year      | Jiangxi Province | Ganzhou City | Ruijin City |
|-------------|-----------|------------------|--------------|-------------|
| Growth Rate | 2005-2010 | 11.0%            | 12.0%        | 12.5%       |
|             | 2010-2015 | 10.0%            | 11.0%        | 11.5%       |
|             | 2015-2020 | 9.0%             | 9.5%         | 9.5%        |
|             | 2020-2030 | 7.5%             | 8.0%         | 8.0%        |
|             | 2030-2040 | 5.5%             | 6.0%         | 6.0%        |

- (2) According to the plan of transport development in the area under examination, the transport network will be improved and perfected. The details of the major project construction in the future years are given in the following table.

Table 2 Major Project Construction in the Future Years

| No. | Project             | Description          | Date of Completion |
|-----|---------------------|----------------------|--------------------|
| 1   | Shicheng to Lianhua | Four lane expressway | 2010               |
| 2   | Xunnan to Quanwu    | Four lane expressway | 2020               |
| 3   | Ruijin to Xunwu     | Four lane expressway | 2015               |

- (3) Except for a small amount of military vehicles, police cars, fire engines etc which are free of toll charge, the other vehicles on the existing highways in Jiangxi Province are all subject to charges. The proportion of toll traffic volume of various vehicles respectively are: vehicles of Class I are 95%, vehicles of Class II are 98%, vehicles of Class III to Class IV are 100%; cargo vehicles below 2 tons are 95%, cargo vehicles of 2 tons to 5 tons are 98%, cargo vehicles above 5 tons are 100%.

5. CONCLUSION

The traffic forecasting model was calibrated and validated using the 2007 independent traffic volume survey and 2007 observed traffic counts, and has taken into account all fundamental assumptions. The models provided by the Consultant forecast the traffic flow of Airui Highway, the forecast results of traffic flow is shown in Table 3, Table 4 and Table 5.

According to the concession rights contract, the toll charge period of the project ends in July 2032, and the calculation of the toll charge income of 2010 is based on 3 months while the income of 2032 is based on 7 months.

Normal Forecasts

Table 3 Traffic Volume Forecast of Whole Route (Unit: vehicle/day)

| Year         | Class I | Class II | Class III | Class IV | Class V | Total  |
|--------------|---------|----------|-----------|----------|---------|--------|
| 2010         | 3,619   | 2,588    | 1,241     | 1,417    | 1,292   | 10,156 |
| 2015         | 6,362   | 4,313    | 2,063     | 2,445    | 2,148   | 17,331 |
| 2020         | 9,304   | 6,013    | 2,851     | 3,501    | 2,983   | 24,653 |
| 2030         | 15,960  | 9,506    | 4,360     | 5,759    | 4,702   | 40,286 |
| 2032         | 17,103  | 10,100   | 4,662     | 6,172    | 4,986   | 43,023 |
| Growth Rates |         |          |           |          |         |        |
| 2010-2015    | 11.94%  | 10.75%   | 10.70%    | 11.53%   | 10.70%  | 11.28% |
| 2015-2020    | 7.90%   | 6.87%    | 6.68%     | 7.44%    | 6.79%   | 7.30%  |
| 2020-2030    | 5.54%   | 4.69%    | 4.34%     | 5.10%    | 4.66%   | 5.03%  |
| 2030-2032    | 3.52%   | 3.08%    | 3.41%     | 3.52%    | 2.98%   | 3.34%  |

Forecast period: 2010.10.1-2032.7.31

Optimistic Forecasts

Compared to the normal proposal, this proposal was mainly based on an optimistic estimation of the rate of economic growth in the region where the project was located, and the total volume of the characteristic years was 2-3% higher than the normal proposal.

Table 4 Traffic Volume Forecast of Whole Route (Unit: vehicle/day)

| Year         | Class I | Class II | Class III | Class IV | Class V | Total  |
|--------------|---------|----------|-----------|----------|---------|--------|
| 2010         | 3,695   | 2,642    | 1,267     | 1,447    | 1,319   | 10,370 |
| 2015         | 6,505   | 4,410    | 2,110     | 2,500    | 2,197   | 17,721 |
| 2020         | 9,527   | 6,158    | 2,920     | 3,585    | 3,054   | 25,244 |
| 2030         | 16,391  | 9,762    | 4,477     | 5,914    | 4,829   | 41,374 |
| 2032         | 17,599  | 10,392   | 4,797     | 6,351    | 5,131   | 44,270 |
| Growth Rates |         |          |           |          |         |        |
| 2010-2015    | 11.98%  | 10.79%   | 10.74%    | 11.56%   | 10.74%  | 11.31% |
| 2015-2020    | 7.93%   | 6.91%    | 6.71%     | 7.48%    | 6.81%   | 7.33%  |
| 2020-2030    | 5.58%   | 4.72%    | 4.37%     | 5.13%    | 4.69%   | 5.06%  |
| 2030-2032    | 3.62%   | 3.18%    | 3.51%     | 3.63%    | 3.08%   | 3.44%  |

Forecast period: 2010.10.1-2032.7.31

Conservative Forecasts

Compared to the normal proposal, this proposal was mainly based on a conservative estimation of the rate of economic growth in the region where the project was located, and the total volume of the characteristic years was 1-2% lower than the normal proposal.

Table 5 Traffic Volume Forecast of Whole Route (Unit: vehicle/day)

| Year         | Class I | Class II | Class III | Class IV | Class V | Total  |
|--------------|---------|----------|-----------|----------|---------|--------|
| 2010         | 3,590   | 2,567    | 1,231     | 1,406    | 1,282   | 10,075 |
| 2015         | 6,292   | 4,265    | 2,041     | 2,418    | 2,125   | 17,140 |
| 2020         | 9,174   | 5,929    | 2,811     | 3,452    | 2,941   | 24,307 |
| 2030         | 15,681  | 9,339    | 4,283     | 5,658    | 4,620   | 39,581 |
| 2032         | 16,778  | 9,908    | 4,573     | 6,054    | 4,892   | 42,205 |
| Growth Rates |         |          |           |          |         |        |
| 2010-2015    | 11.88%  | 10.69%   | 10.64%    | 11.45%   | 10.64%  | 11.21% |
| 2015-2020    | 7.83%   | 6.81%    | 6.61%     | 7.38%    | 6.72%   | 7.24%  |
| 2020-2030    | 5.51%   | 4.65%    | 4.30%     | 5.07%    | 4.62%   | 5.00%  |
| 2030-2032    | 3.44%   | 3.00%    | 3.33%     | 3.44%    | 2.90%   | 3.26%  |

Forecast period: 2010.10.1-2032.7.31

Yours faithfully,

For and on behalf of

CHELBI Engineering Consultants, Inc.

Tian Feng

Director

Shenzhen Hechuang Construction Project  
Consultants Co. Ltd.  
Room 1018 Tower A, Zhongshen Building,  
Caitian Road, Futian District, Shenzhen  
Contact tel.: 0755-83048876  
Fax: 0755-82996518

31 October 2008

To the Directors  
Gay Giano International Group Limited  
Suites 701-702, 7th Floor, Grandtech Centre  
8 On Ping Street, Siu Lek Yuen  
Shatin, Hong Kong

Dear Sir or Madam,

**ESTIMATION REPORT ON CONSTRUCTION COSTS AND OPERATION AND  
MAINTENANCE COSTS OF THE PROJECTS OF  
EQUITY REALTY DEVELOPMENT COMPANY LIMITED**

Shenzhen Hechuang Construction Project Consultants Co. Ltd. (深圳市合創建設工程顧問有限公司) (the “Consultant”) was appointed by Gay Giano International Group Limited to conduct an independent forecast study of operation and maintenance costs for Equity Pinghong Highway Development (Jiangxi) Co., Ltd. and Equity Airui Highway Development (Jiangxi) Co., Ltd., and to evaluate the construction costs for the projects of Jiangxi Province Pingxiang-Hongkoujie Highway (“Pinghong Highway”) and Ailing-Ruijin Highway (“Airui Highway”). Using our own professional techniques and related experiences and taking into account of the actual situation of the projects, as well as the economic and geographic conditions of the site, the Consultant makes the following research report after comprehensive analyses:

**I. OBJECTIVES AND SCOPE OF SERVICES**

This report is for Gay Giano International Group Limited for reference purposes to purchase Pinghong Highway and Airui Highway projects.

The scope of services of this report comprised:

- 1. Evaluating the construction progress of Pinghong Highway and Airui Highway projects;
- 2. Forecasting the operation and maintenance costs of Pinghong Highway and Airui Highway projects in future years; and
- 3. Evaluating the construction costs of Pinghong Highway and Airui Highway projects.

II. DATE OF THE REPORT: 31 OCTOBER 2008

III. BASIS OF THE REPORT

This report adopts the following bases:

1. Letter of engagement from Gay Giano International Group Limited;
2. National Development and Reform Commission Document Fagaijiaoyun (發改交運) No. [2007]1354; Jiangxi Development and Reform Commission Document Ganfagaisheshenzi (贛發改設審字) No. [2006]56, Ganfagaishezi (贛發改設字) No. [2006]57;
3. All construction information related to the project provided by the client;
4. Field investigation, and meeting with the senior management, engineers, accountants and relevant operators of the construction headquarters of Pinghong Highway and Airui Highway;
5. Preliminary design, construction drawing design and relevant documents of Pinghong Highway and Airui Highway projects;
6. Relevant national and local laws and regulations, industrial guidelines and statistics;
7. Evaluation experience in respect of similar projects in the PRC.

IV. CONSTRUCTION PROGRESS OF PINGHONG HIGHWAY

The construction of Pinghong Highway started on 26 October 2006. The construction progress as at 31 August 2008 was as follows: (This information is provided and confirmed by Equity Realty Development Company Limited)

Table for the Construction Progress

| Item | Name of works                          | Planned progress % | Actual progress % as at 31 August 2008 | Status          | Expected completion date |
|------|----------------------------------------|--------------------|----------------------------------------|-----------------|--------------------------|
| I    | Roadbed works                          |                    |                                        |                 | 2009-1                   |
| 1    | Roadbed cubic meter of earth and stone | 50.00              | 61.90                                  | On schedule     | 2009-1                   |
| 2    | Drainage works                         | 0.00               | 0.00                                   | Not yet started | 2009-1                   |
| 3    | Protection works                       | 20.00              | 20.00                                  | On schedule     | 2009-1                   |
| 4    | Special roadbed processing             | 100.00             | 94.00                                  | On schedule     | 2009-1                   |
| II   | Road surface works                     | 0.00               | 0.00                                   | Not yet started | 2009-10                  |
| III  | Bridge and culvert works               |                    |                                        |                 | 2009-3                   |
| 1    | Culvert                                | 70.00              | 61.30                                  | On schedule     | 2008-11                  |
| 2    | Main bridge                            | 50.00              | 52.00                                  | On schedule     | 2009-3                   |
| 3    | Minor bridge                           | 70.00              | 30.50                                  | Behind schedule | 2008-11                  |
| IV   | Intersection works                     |                    |                                        |                 | 2009-5                   |
| 1    | Shangli Intersection                   | 20.00              | 15.00                                  | Behind schedule | 2009-5                   |
| 2    | Shuangshan Intersection                | 50.00              | 40.00                                  | On schedule     | 2009-5                   |
| 3    | Zhangping Intersection                 | 30.00              | 10.00                                  | Behind schedule | 2009-5                   |
| 4    | Separated interchange                  | 30.00              | 30.00                                  | On schedule     | 2009-5                   |
| 5    | Corridor                               | 60.00              | 30.00                                  | Behind schedule | 2009-5                   |
| V    | Subway works                           |                    |                                        |                 | 2009-5                   |
| 1    | Hongkoujie Subway                      | 5.00               | 5.00                                   | On schedule     | 2009-5                   |
| 2    | Mingshan Subway                        | 10.00              | 10.00                                  | On schedule     | 2009-5                   |
| 3    | Jiaoyuan Subway                        | 20.00              | 40.00                                  | On schedule     | 2009-5                   |
| 4    | Zhangping Subway                       | 25.00              | 41.20                                  | On schedule     | 2009-5                   |
| VI   | Other works and auxiliary facilities   | 0.00               | 0.00                                   | Not yet started | 2009-11                  |
| VII  | Temporary works                        | 100.00             | 100.00                                 | Completed       | 2006-12                  |
| VIII | Requisition of land, relocation        | 100.00             | 100.00                                 | Completed       | 2006-10                  |
| IX   | Investigation and design               | 70.00              | 70.00                                  | On schedule     | 2006-10                  |
| X    | Tender                                 | 90.00              | 90.00                                  | On schedule     | 2006-9                   |
| XI   | Treatment of karsts cave and goaf      | 0.00               | 0.00                                   | Not yet started | 2009-6                   |

Since the end of last year, various natural disasters such as snowstorms and floods occurred in Southern China, which had material impact on the construction of the project. Certain works were behind schedule. However, after study and analysis, the Consultant considers that in the absence of significant natural disaster in the remaining construction period and with sufficient fund for construction, the construction work can be completed in December 2009 as scheduled.

V. CONSTRUCTION PROGRESS OF AIRUI HIGHWAY

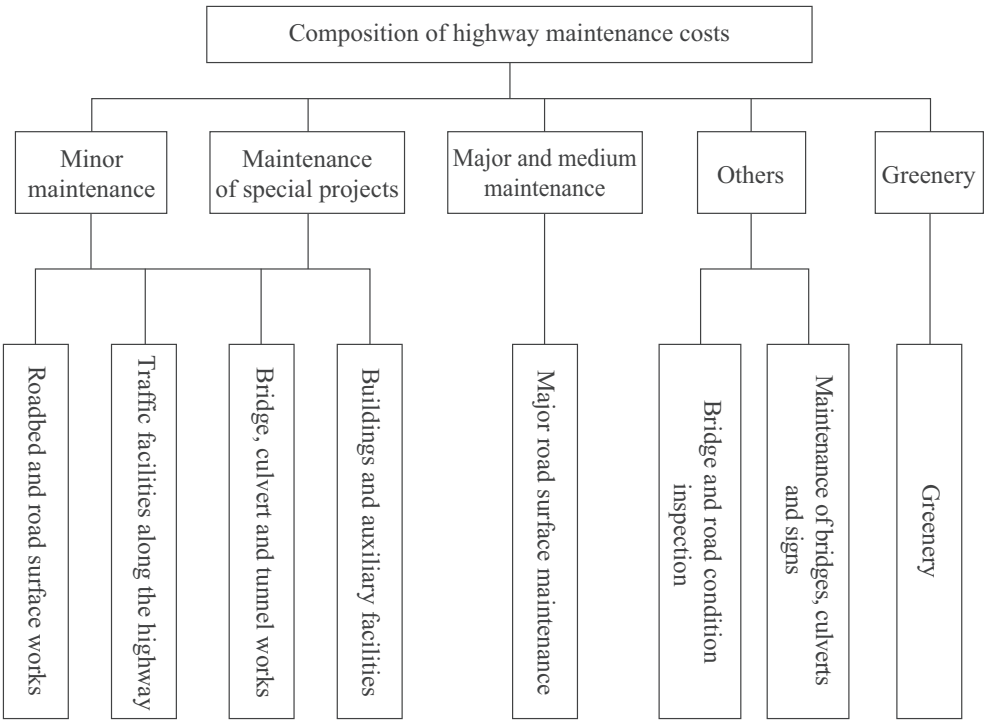
Currently, the examination and approval procedure of the project has been completed. Pre-construction work preparations are in progress, including resettlements of residents, requisition of land and relocation and tender.

The construction is expected to start in September 2008, and open to traffic in September 2010.

VI. FORECAST OF OPERATION AND MAINTENANCE COSTS OF PINGHONG HIGHWAY DEVELOPMENT (JIANGXI) CO., LTD.

1. Composition of maintenance costs:

The maintenance costs of Pinghong Highway mainly comprised 5 major parts as set out in the table below:



2. Analysis of operation and maintenance costs

- (1) Operation and management fees: Based on the total length of the proposed project of approximately 34.4km, with toll stations at 4 locations, service zone at 1 location, maintenance center at 1 location, tunnel control station at 1 location, a management staff team of 180 people, it is forecasted that the required cost will be approximately RMB32,000 per head per year in 2010 in relation to the operation and management after the project is open to vehicle traffic, with reference to the actual level of highway operation and management costs in Jiangxi Province in 2007. It is also forecasted that the cost will increase at an average annual rate of 2%.
- (2) Maintenance cost: Based on the prospective traffic volume of the proposed project, after taking into consideration the geographic landform and geographic condition at the location and the construction implementation plan, and with reference to the feasibility report of the project, the historical data from the same industry in the PRC and the actual level of highway maintenance cost in Jiangxi Province in 2007 provided by the High-grade Highway Administration of Jiangxi Province, the maintenance cost of the project (a 4-way highway) will be RMB87,000/km in 2010, and it is forecasted that the cost will increase at an average annual rate of 4% during the period of forecast due to inflation.
- (3) Major repair cost: The proposed project will conduct a major repair every 10 years after it has completed construction and become open to vehicle traffic. Based on the provision standard of comparable highway project companies in Jiangxi Province, and taking into account the actual situation of the present project, it is forecasted that the major repair cost will be provided at RMB200,000 per km per year during the period of evaluation.

3. Forecast stages:

- (1) The time for conducting major and medium maintenance is determined using the PQI decay formula model and based on the standards for major and medium maintenance in the “Standards of Highway Maintenance” (《高速公路養護規範》) (the need arises when the value of the relevant PQI drops to the level where major maintenance is needed). This study is based on the situation of major and medium maintenance of other similar highways in Jiangxi Province, and the cost is generally RMB2,000,000/km;
- (2) The cost of minor maintenance is forecasted by integrating the forecast model for cost of major and medium maintenance and using MC forecast model of cement-concrete road surface, MC forecast model of asphalt-concrete road surface and the PQI decay formula model;
- (3) The special project construction maintenance cost is forecasted on the basis of the composition of historical maintenance cost composition of other similar highways in Jiangxi Province;
- (4) All forecasted costs are added up for the total maintenance cost of Pinghong Highway.

4. Period of forecast

The toll collection period of the project is 25 years and 10 months. As it is expected that the project will be open to traffic in December 2009, the period of forecast is from 2010 to 2035, in which the year 2035 only covers 10 months.

5. Results of forecast

As per table below:

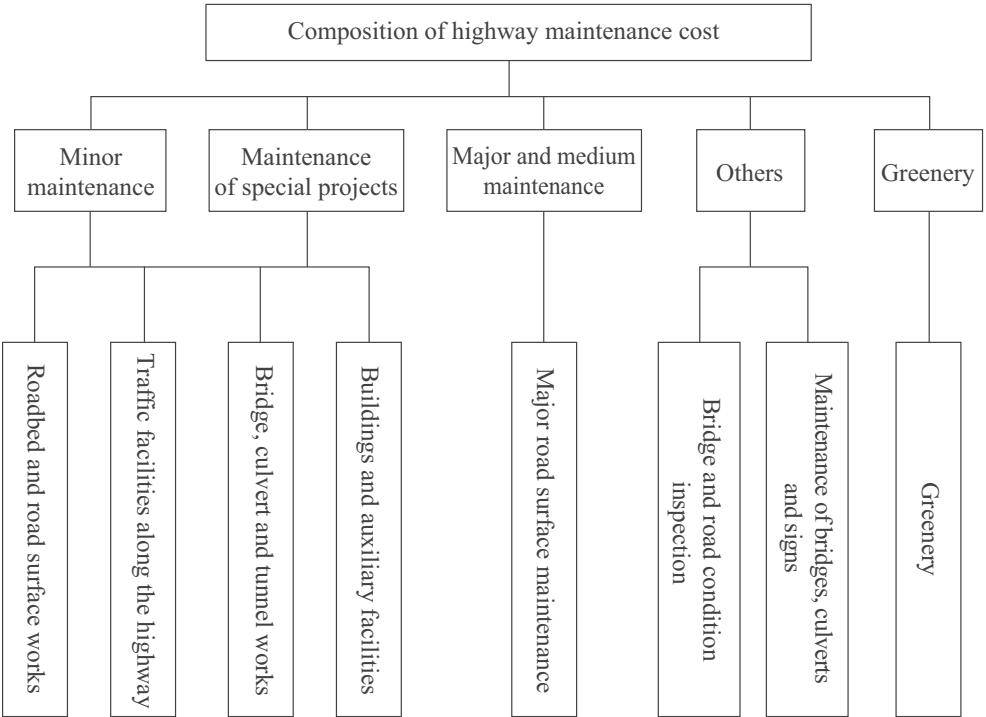
Forecast of operation and maintenance costs of Pinghong Highway  
(Unit: RMB10 thousand)

| Year | Operation cost | Maintenance cost | Annual share of major repair cost | Total |
|------|----------------|------------------|-----------------------------------|-------|
| 2010 | 582            | 299              | 688                               | 1,569 |
| 2011 | 594            | 311              | 688                               | 1,593 |
| 2012 | 606            | 324              | 688                               | 1,618 |
| 2013 | 618            | 337              | 688                               | 1,643 |
| 2014 | 630            | 350              | 688                               | 1,668 |
| 2015 | 643            | 364              | 688                               | 1,695 |
| 2016 | 656            | 379              | 688                               | 1,723 |
| 2017 | 669            | 394              | 688                               | 1,751 |
| 2018 | 682            | 410              | 688                               | 1,780 |
| 2019 | 696            | 426              | 688                               | 1,810 |
| 2020 | 710            | 443              | 688                               | 1,841 |
| 2021 | 724            | 461              | 688                               | 1,873 |
| 2022 | 738            | 479              | 688                               | 1,905 |
| 2023 | 753            | 498              | 688                               | 1,939 |
| 2024 | 768            | 518              | 688                               | 1,974 |
| 2025 | 783            | 539              | 688                               | 2,010 |
| 2026 | 799            | 561              | 688                               | 2,048 |
| 2027 | 815            | 583              | 688                               | 2,086 |
| 2028 | 831            | 606              | 688                               | 2,125 |
| 2029 | 848            | 631              | 688                               | 2,167 |
| 2030 | 865            | 656              | 688                               | 2,209 |
| 2031 | 882            | 682              | 688                               | 2,252 |
| 2032 | 900            | 709              | 688                               | 2,297 |
| 2033 | 918            | 738              | 688                               | 2,344 |
| 2034 | 936            | 767              | 688                               | 2,391 |
| 2035 | 796            | 665              | 573                               | 2,034 |

VII. FORECAST OF OPERATION AND MAINTENANCE COSTS OF EQUITY AIRUI HIGHWAY DEVELOPMENT (JIANGXI) CO., LTD.

1. Composition of maintenance costs:

The maintenance costs of Airui Highway mainly comprised 5 major parts as set out in the table below:



2. Analysis of operation and maintenance costs

- (1) Operation and management fees: Based on the total length of the proposed project of approximately 31km, with toll stations at 3 locations, service zone at 1 location, maintenance center at 1 location, tunnel control station at 1 location, a management staff team of 170 people, it is forecasted that the required cost will be RMB32,000 per head per year in 2010 in relation to the operation and management after the project is open to vehicle traffic, with reference to the actual level of highway operation and management costs in Jiangxi Province in 2007. It is also forecasted that the cost will increase at an average annual rate of 2%.
- (2) Maintenance cost: Based on the prospective traffic volume of the proposed project, after taking into consideration the geographic landform and geographic condition at the location and the construction implementation plan, and with reference to the feasibility report of the project, the historical data from the same industry in the PRC and the actual level of highway maintenance cost in Jiangxi Province in 2007 provided by the High-grade Highway Administration of Jiangxi Province, the maintenance cost of the project (a 4-way highway) will be RMB87,000/km in 2010, and it is forecasted that the cost will increase at an average annual rate of 4% during the period of forecast due to inflation.

- (3) Major repair cost: The proposed project will conduct a major repair every 10 years after it has completed construction and become open to vehicle traffic. Based on the provision standard of comparable highway project companies in Jiangxi Province, and taking into account the actual situation of the present project, it is forecasted that the major repair cost will be provided at RMB200,000 per km per year during the period of evaluation.

3. Forecast stages:

- (1) The time for conducting major and medium maintenance is determined using the PQI decay formula model and based on the standards for major and medium maintenance in the “Standards of Highway Maintenance” (《高速公路養護規範》) (the need arises when the value of the relevant PQI drops to the level where major maintenance is needed). This study is based on the situation of major and medium maintenance of other similar highways in Jiangxi Province, and the cost is generally RMB2,000,000/km;
- (2) The cost of minor maintenance is forecasted by integrating the forecast model for cost of major and medium maintenance and using MC forecast model of cement-concrete road surface, MC forecast model of asphalt-concrete road surface and the PQI decay formula model;
- (3) The special project construction maintenance cost is forecasted on the basis of the composition of historical maintenance cost composition of other similar highways in Jiangxi Province;
- (4) All forecasted costs are added up for the total maintenance cost of Airui Highway.

4. Period of forecast

The toll collection period of the project is 21 years and 10 months. As it is expected that the project will be open to traffic in September 2010, the period of forecast is from 2010 to 2032, in which the year 2010 only covers 3 months, and the year 2032 only covers 7 months.

5. Results of forecast

As per table below:

Forecast of operation and maintenance costs of Airui Highway  
(Unit: RMB10 thousand)

| Year | Operation cost | Maintenance cost | Annual share of major repair cost | Total |
|------|----------------|------------------|-----------------------------------|-------|
| 2010 | 138            | 68               | 155                               | 360   |
| 2011 | 561            | 280              | 620                               | 1,461 |
| 2012 | 572            | 292              | 620                               | 1,484 |
| 2013 | 583            | 303              | 620                               | 1,507 |
| 2014 | 595            | 316              | 620                               | 1,531 |
| 2015 | 607            | 328              | 620                               | 1,555 |
| 2016 | 619            | 341              | 620                               | 1,580 |
| 2017 | 632            | 355              | 620                               | 1,606 |
| 2018 | 644            | 369              | 620                               | 1,633 |
| 2019 | 657            | 384              | 620                               | 1,661 |
| 2020 | 670            | 399              | 620                               | 1,689 |
| 2021 | 684            | 415              | 620                               | 1,719 |
| 2022 | 697            | 432              | 620                               | 1,749 |
| 2023 | 711            | 449              | 620                               | 1,780 |
| 2024 | 725            | 467              | 620                               | 1,812 |
| 2025 | 740            | 486              | 620                               | 1,846 |
| 2026 | 755            | 505              | 620                               | 1,880 |
| 2027 | 770            | 525              | 620                               | 1,915 |
| 2028 | 785            | 546              | 620                               | 1,952 |
| 2029 | 801            | 568              | 620                               | 1,989 |
| 2030 | 817            | 591              | 620                               | 2,028 |
| 2031 | 833            | 615              | 620                               | 2,068 |
| 2032 | 496            | 373              | 362                               | 1,230 |

VIII. EVALUATION OF CONSTRUCTION COST OF PINGHONG HIGHWAY

1. Basis of evaluation

- (1) Ganfagaisheshenzi (贛發改設審字) No. [2006]56, Ganfagaishezi (贛發改設字) No. [2006]57.
- (2) Index: “Estimate Index of Highway Project” 《公路工程估算指標》 issued by the Ministry of Communications under Jiaogonglufa (交公路發) (1996) No. 611.
- (3) Rate of fees and calculation method: “Investment Estimation Compilation Method for Highway Fundamental Construction” (《公路基本建設工程投資估算編製辦法》) issued by the Ministry of Communications under Jiaogonglufa (交公路發) (1996) No. 611, “Price Evaluation and Budget Compilation Method for Highway Fundamental Construction” (《公路基本建設工程概算、預算編製辦法》) issued by the Ministry of Communications under Jiaogonglufa (交公路發) (1996) No. 612, and “Circular of Jiangxi Province on Issuing the Supplementary Provisions on ‘Price Evaluation and Budget Compilation Method for Highway Fundamental Construction’” (〈關於印發《江西省〈公路基本建設工程概算、預算編製辦法〉補充規定〉的通知〉) (hereinafter as “Supplementary Provisions”) issued by the Department of Communications of Jiangxi Province under Ganjiaojifa (贛交計發) (1996) No. 146.
- (4) Unit labor and material costs
  - (1) Labor wages are implemented in accordance with the Supplementary Provisions where the construction team is a class one enterprise and the unit labor cost is adjusted to RMB35.80/working day;
  - (2) Material cost: Calculated in accordance with the Supplementary Provisions, where the prices of supply of major imported materials are in accordance with the “Circular on Information on the Average Prices of Supply of the Major Imported Materials for Highway and Water Transport Projects in July and August 2006” issued by the Department of Communications of Jiangxi Province under Gongchengdingezhangangjiaozaojiazi [2006] No. 18, and determined after taking into account the analysis of current market price trends.

2. Calculation of related costs

- (1) General rate of other direct costs, general rate of on-site costs, general rate of indirect costs, rate of construction techniques and equipments, profit margin of the project and general tax rate are all calculated in accordance with the provisions of “Price Evaluation and Budget Compilation Method for Highway Fundamental Construction”, where:
  - (1) Subsidy for main non-staple food transportation is calculated at the rate for an overall distance of 3km;
  - (2) Site transfer cost is calculated at a site transfer distance of 300km;

- (2) Equipment acquisition cost is calculated at RMB33,303,400.
- (3) Other costs of the project are all calculated in accordance with the contents and provisions of “Price Evaluation and Budget Compilation Method for Highway Fundamental Construction”, where:

(1) Compensation for requisition of land is calculated with reference to the standard of compensation for requisition of land for the Wenjiazen–Shatangai Section of Jingfu Highway; the average compensation for requisition of land is RMB7,200 per mu (inclusive of recovery of seedlings, trees, reservoirs, and other fees such as 2% land management fees, compensation for requisition of forest land, settlement subsidy, and compensation for forest, fruit trees and attachments), regardless of land type and nature of use including land use for toll stations, service zones and other auxiliary facilities of the highway.

In addition, the calculation of compensation for requisition of land includes 6 charges payable as below:

- a. Tax on occupying farmland is calculated at RMB2 per square meter of farmland area;

b. Fund of flood prevention is calculated at RMB250/mu of farmland area;

c. Compensation fee for farmland clearing is calculated at RMB3,000/mu of farmland area;

d. Fee of forest and vegetation recovery for provincial focal project is calculated at RMB1.5/square meter of forest area;

e. Compensation for biological measures for soil and water conservation is calculated at RMB0.5/square meter of vegetation area;

f. Land management fee is calculated at 2% of the compensation for requisition of land.
- (2) Investigation and design fees are calculated at RMB34,273,500;
- (3) Management fee of construction unit is calculated in accordance with the tender amount in the PRC with the progressive method;
- (4) Supervision fee of project is calculated at 1.6% of the tender amount in the PRC;
- (5) Interests on loans during the construction period are calculated in accordance with the situation of construction fund raising. The amount of loan is estimated to be 65% of the total cost, and the construction fund of the project is considered to be calculated at a loan amount of RMB1.1 billion from banks in the PRC, and an interest rate at the current interest rate for bank long term loan of 7.83%.

- (6) Start-up fee is calculated at 5% of the total amount of the costs for the first, second and third parts;
- (7) Relic protection fee is calculated at RMB0.1/square meter of the total project area in accordance with Gongjiazi (贛價字) [1999] No. 37 “Circular on Fees for Archeology Investigation and Exploration Projects in Jiangxi Province”.
- (8) Geological damage evaluation fee and soil and water conservation solution compilation fee are calculated at RMB2,000/km, pressed ore evaluation fee is calculated at RMB1,000/km.
- (9) Index inflation rate is considered to be 2%.

3. Verified estimation of amounts for the construction work

As per table below:

Summary of estimated construction cost  
of the Highway between Pingxian City and Hongkoujie

| Item | Name of works or fee                      | Estimated amount<br>(RMB10 thousand) |
|------|-------------------------------------------|--------------------------------------|
| I    | Project installation construction         | 130,433.06                           |
| A    | Roadbed works                             | 22,139.70                            |
| 1    | Roadbed cubic meter of earth and stone    | 17,987.43                            |
| 2    | Drainage works                            | 2,481.11                             |
| 3    | Protection works                          | 964.34                               |
| 4    | Special roadbed processing                | 706.82                               |
| B    | Road surface works                        | 17,986.37                            |
| C    | Bridge and culvert works                  | 14,235.79                            |
| 1    | Culvert                                   | 438.63                               |
| 2    | Main bridge                               | 13,675.47                            |
| 3    | Minor bridge                              | 121.69                               |
| D    | Intersection works                        | 28,846.48                            |
| 1    | Shangli Intersection                      | 4,781.40                             |
| 2    | Shuangshan Intersection                   | 11,541.56                            |
| 3    | Zhangping Intersection                    | 6,241.74                             |
| 4    | Separated interchange                     | 4,675.12                             |
| 5    | Corridor                                  | 1,606.66                             |
| E    | Subway works                              | 25,389.95                            |
| 1    | Hongkoujie Subway                         | 3,380.59                             |
| 2    | Mingshan Subway                           | 13,169.83                            |
| 3    | Jiaoyuan Subway                           | 4,262.28                             |
| 4    | Zhangping Subway                          | 4,577.25                             |
| F    | Other works and auxiliary facilities      | 7,919.21                             |
| G    | Temporary works                           | 222.91                               |
| H    | House management, maintenance and service | 2,680.34                             |
| I    | Construction technique and equipment cost | 2,926.57                             |
| J    | Expenses other than construction cost     | 3,902.13                             |
| K    | Tax                                       | 4,183.61                             |

| Item | Name of works or fee                              | Estimated amount<br>(RMB10 thousand) |
|------|---------------------------------------------------|--------------------------------------|
| II   | Equipment and tools acquisition cost              | 3,330.34                             |
| III  | Other costs of project construction               | 17,838.87                            |
| A    | Compensation for requisition of land              | 9,117.29                             |
| B    | Management fee for construction unit              | 4,908.17                             |
| C    | Investigation and design fees                     | 3,427.35                             |
| D    | Other costs                                       | 186.02                               |
| E    | Compilation fee for work tender files             | 200.04                               |
|      | Total of I+II+III                                 | 151,602.27                           |
|      | Basic start-up fee                                | 7,580.11                             |
|      | Interests on loans during the construction period | 7,839.96                             |
|      | Cost of treatment of karsts cave and goaf         | 2,000.00                             |
|      | Total amount of estimates                         | 169,022.34                           |

4. Result of analysis

After comprehensive analysis by the Consultant, it is considered that the estimated total investment amount of the project of RMB1,690,220,000 and the average construction cost of RMB49,710,000 per km are comparatively reasonable.

IX. EVALUATION OF CONSTRUCTION COST OF THE HIGHWAY BETWEEN AILING AND RUIJIN IN JIANGXI PROVINCE

1. Basis of evaluation

- Approval of Ailing (Fujian-Jiangxi boundary) — Ruijin Highway Project in Jiangxi Province issued by National Development and Reform Commission under Document Fagaijiaoyun (發改交運) [2007] No. 1354.
- Index: “Estimate Index of Highway Project” 《公路工程估算指標》 issued by the Ministry of Transport under Jiaogonglufa (交公路發) (1996) No. 611.
- Rate of fees and calculation method: “Investment Estimation Compilation Method for Highway Fundamental Construction” (《公路基本建設工程投資估算編製辦法》) issued by the Ministry of Transport under Jiaogonglufa (交公路發) (1996) No. 611, “Price Evaluation and Budget Compilation Method for Highway Fundamental Construction” (《公路基本建設工程概算、預算編製辦法》) issued by the Ministry of Communications under Jiaogonglufa (交公路發) (1996) No. 612, and “Circular of Jiangxi Province on Issuing the Supplementary Provisions on ‘Price Evaluation and Budget Compilation Method for Highway Fundamental Construction’” (〈關於印發《江西省〈公路基本建設工程概算、預算編製辦法〉補充規定〉的通知〉) (hereinafter as “Supplementary Provisions”) issued by the Department of Communications of Jiangxi Province under Ganjiaojifa (贛交計發) (1996) No. 146.

- (4) Unit labor and material costs
- (1) Labor wages are implemented in accordance with the Supplementary Provisions where the construction team is a class one enterprise and the unit labor cost is adjusted to RMB35.80/working day;

(2) Material cost: Calculated in accordance with the Supplementary Provisions, where the prices of supply of major imported materials are in accordance with the “Circular on Information on the Average Prices of Supply of the Major Imported Materials for Highway and Water Transport Projects in July and August 2008” issued by the Department of Communications of Jiangxi Province under Gongchengdingezhangangjiaozaojiazi [2008] No. 12, and determined after taking into account the analysis of current market price trends.

2. Calculation of related costs

- (1) General rate of other direct costs, general rate of on-site costs, general rate of indirect costs, rate of construction techniques and equipments, profit margin of the project and general tax rate are all calculated in accordance with the provisions of “Price Evaluation and Budget Compilation Method for Highway Fundamental Construction”, where:

(1) Subsidy for main non-staple food transportation is calculated at the rate for an overall distance of 3km;

(2) Site transfer cost is calculated at a site transfer distance of 300km;
- (2) Equipment acquisition cost is calculated at RMB24,587,800.
- (3) Other costs of the project are all calculated in accordance with the contents and provisions of “Price Evaluation and Budget Compilation Method for Highway Fundamental Construction”, where:
- (1) Compensation for requisition of land is calculated with reference to the standard of compensation for requisition of land for the Gongzhou–Ruijin Section of Sharong Highway; standards for compensation for requisition of land: paddy field, vegetable field, cotton land, fruit farm at RMB20,000/mu; dry land at RMB10,000/mu, reservoir at RMB6,600/mu; general unit compensation for forest land at RMB5,000/mu; building foundation at RMB6,000/mu; general unit compensation for waste hill, waste land, waste bay and other land type at RMB2,400 per mu; standards for compensation for renting land: RMB3,600 per mu. In addition, the calculation of compensation for requisition of land includes 6 charges payable as below:

a. Tax on occupying farmland is calculated at RMB2 per square meter of farmland area;

b. Fund of flood prevention is calculated at RMB250 per mu of farmland area;

- c. Compensation fee for farmland clearing is calculated at RMB6,000/mu of farmland area;
  - d. Fee of forest and vegetation recovery for provincial focal project is calculated at RMB1.5/square meter of forest area;
  - e. Compensation for biological measures for soil and water conservation is calculated at RMB0.6/square meter of vegetation area;
  - f. Land management fee is calculated at 2% of the compensation for requisition of land.
- (2) Investigation and design fees are calculated at RMB18,250,000;
- (3) Management fee of project unit is calculated in accordance with the tender amount in the PRC with the progressive method;
- (4) Supervision fee of project is calculated at 1.6% of the tender amount in the PRC;
- (5) Interests on loans during the construction period are calculated in accordance with the situation of construction fund raising. The amount of loan is estimated to be 65% of the total cost, and the construction fund of the project is considered to be calculated at a loan amount of RMB0.7 billion from banks in the PRC, and an interest rate at the current interest rate for bank long term loan of 7.83%.
- (6) Start-up fee is calculated at 5% of the total amount of the costs for the first, second and third parts;
- (7) Relic protection fee is calculated at RMB0.1/square meter of the total project area in accordance with Gongjiazi (贛價字) (1999) No. 37 “Circular on Fees for Archeology Investigation and Exploration Projects in Jiangxi Province”.
- (8) Geological damage evaluation fee and soil and water conservation solution compilation fee are calculated at RMB2,000/km, pressed ore evaluation fee is calculated at RMB1,000/km.
- (9) Index inflation rate is considered to be 2%.

3. Verified estimation of amounts for the construction work

As per table below:

Summary of estimated construction cost  
of the highway between Ailing and Ruijin

| Item | Name of works or fee                              | Estimated amount<br>(RMB 10 thousand) |
|------|---------------------------------------------------|---------------------------------------|
| I    | Project installation construction                 | 91,774.56                             |
| A    | Roadbed works                                     | 14,486.54                             |
| 1    | Roadbed cubic meter of earth and stone            | 10,616.17                             |
| 2    | Drainage works                                    | 2,200.10                              |
| 3    | Protection works                                  | 1,546.97                              |
| 4    | Special roadbed processing                        | 123.30                                |
| B    | Road surface works                                | 19,324.89                             |
| C    | Bridge and culvert works                          | 20,370.26                             |
| 1    | Culvert                                           | 1,311.37                              |
| 2    | Main bridge                                       | 19,058.89                             |
| D    | Intersection works                                | 16,431.34                             |
| 1    | Ruijin East Intersection                          | 2,957.67                              |
| 2    | Yunshishan Intersection                           | 4,036.53                              |
| 3    | Ruijin Hub Intersection                           | 2,638.92                              |
| 4    | Separated interchange between highways            | 3,339.07                              |
| 5    | Corridor                                          | 3,459.15                              |
| E    | Subway works                                      | 4,623.11                              |
| 1    | Ailing Subway                                     | 4,623.11                              |
| F    | Other works and auxiliary facilities              | 6,040.57                              |
| G    | Temporary works                                   | 116.99                                |
| H    | House management, maintenance and service         | 2,950.47                              |
| I    | Construction technique and equipment cost         | 1,899.77                              |
| J    | Expenses other than construction cost             | 2,671.29                              |
| K    | Tax                                               | 2,859.32                              |
| II   | Equipment and tools acquisition cost              | 2,458.78                              |
| III  | Other costs of project construction               | 18,219.51                             |
| A    | Compensation for requisition of land              | 6,169.93                              |
| B    | Management fee for construction unit              | 3,268.61                              |
| C    | Research investigation fee                        | 100.00                                |
| D    | Pre-project fee                                   | 475.00                                |
| E    | Exploration and design fee                        | 1,825.00                              |
| F    | Interests on loans during the construction period | 6,380.98                              |
|      | Total of I+II+III                                 | 112,452.85                            |
|      | Basic start-up fee                                | 5,393.57                              |
|      | Total amount of estimates                         | 117,846.42                            |

4. Result of analysis

After comprehensive analysis by the Consultant, it is considered that the estimated total investment amount of the project of RMB1,178,460,000 and the average construction cost of RMB38,010,000 per km are comparatively reasonable.

Yours faithfully,  
For and on behalf of  
Shenzhen Hechuang Construction Project  
Consultants Co. Ltd.  
Ning Wei Hong  
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly 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, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

|                                                                                                                                                                                                                                   |                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| <i>Authorized share capital</i>                                                                                                                                                                                                   | <i>HK\$</i>        |
| <u>1,000,000,000</u> Shares of HK\$0.1 each                                                                                                                                                                                       | <u>100,000,000</u> |
| <i>Issued as fully paid</i>                                                                                                                                                                                                       |                    |
| 248,840,000                                                                                                                                                                                                                       | 24,884,000         |
| <i>Conversion Shares to be issued if the Convertible Bonds (which will be issued if Completion takes place following the exercise of the Purchase Option by the Group) are exercised in full at the Initial Conversion Price:</i> |                    |
| <u>204,285,709</u>                                                                                                                                                                                                                | <u>20,428,571</u>  |
| <u>453,125,709</u>                                                                                                                                                                                                                | <u>45,312,571</u>  |

3. DISCLOSURE OF INTERESTS

(1) Directors’ interests

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company 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 notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the

SFO, to be recorded in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

*Long positions*

(a) *Ordinary shares of HK\$0.10 each in the Company*

| Name of director             | Category                                 | Number of issued ordinary shares held<br>(note i) | Percentage of the issued share capital of the Company |
|------------------------------|------------------------------------------|---------------------------------------------------|-------------------------------------------------------|
| Mr. Wong Pak Lam, Louis      | Held by controlled corporation (note ii) | 84,004,000                                        | 33.76%                                                |
| Mr. Wong Kwong Lung, Terence | Beneficial owner                         | 2,188,400                                         | 0.88%                                                 |

(b) *Directors’ interests in the underlying shares of the share options of the Company*

| Name of director             | Number of share options held | Exercisable period       | Exercise price per share<br>HK\$ |
|------------------------------|------------------------------|--------------------------|----------------------------------|
| Mr. Wong Pak Lam, Louis      | 218,840                      | 21.11.2007 to 20.11.2017 | 2.334                            |
| Mr. Wong Kwong Lung, Terence | 2,188,400                    | 21.11.2007 to 20.11.2017 | 2.334                            |
|                              | 2,407,240                    |                          |                                  |

Notes:

- i. Shares of HK\$0.10 each in the capital of the Company.
- ii. These shares are held by Ti Yu Investments Limited which is incorporated in the British Virgin Islands and is wholly-owned by Mr. Wong Pak Lam, Louis beneficially.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions 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 are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO); or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

(2) Substantial Shareholders’ interests

As at the Latest Practicable Date, so far as known to any Director and chief executive of the Company, persons other than a Director or chief executive of the Company, who have an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more 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 were as follows:

Long position in shares of the company:

| Name                                     | Category                                    | Type of interests | Number of shares held | % of the issued share capital |
|------------------------------------------|---------------------------------------------|-------------------|-----------------------|-------------------------------|
| Ti Yu Investment Limited <i>(note i)</i> | Beneficial owner                            | Corporate         | 48,004,000            | 19.29                         |
|                                          | Other                                       | Corporate         | 36,000,000            | 14.47                         |
| Kingston Finance Limited                 | Person having a security interest in shares | Corporate         | 36,000,000            | 14.47                         |
| Chu Yuet Wah                             | Interest of controlled corporation          | Personal          | 36,000,000            | 14.47                         |
| Ma Siu Fong                              | Interest of controlled corporation          | Personal          | 36,000,000            | 14.47                         |

| Name                                                   | Category                   | Type of interests | Number of shares held | % of the issued share capital |
|--------------------------------------------------------|----------------------------|-------------------|-----------------------|-------------------------------|
| Asian Harvest Enterprises Limited                      | Beneficial owner           | Corporate         | 30,000,000            | 12.06                         |
| Evolution Capital Management LLC                       | Investment Manager         | Corporate         | 40,324,000            | 16.20                         |
| Evolution Master Fund Ltd. SPC, Segregated Portfolio M | Beneficial owner           | Corporate         | 40,324,000            | 16.20                         |
| Venus Ventures Ltd.                                    | Nominee for another person | Corporate         | 36,000,000            | 14.47                         |
| Huggins Limited                                        | Nominee for another person | Corporate         | 36,000,000            | 14.47                         |
| So Siu Ngan Amy                                        | Nominee for another person | Personal          | 36,000,000            | 14.47                         |

Short position in shares of the company:

| Name                                                   | Category         | Type of interests | Number of shares held | % of the issued share capital |
|--------------------------------------------------------|------------------|-------------------|-----------------------|-------------------------------|
| Evolution Master Fund Ltd. SPC. Segregated Portfolio M | Beneficial owner | Corporate         | 36,000,000            | 14.47                         |

Notes:

- i. Mr. Wong Pak Lam, Louis holds 100% of the shares in issue of Ti Yu Investment Limited and therefore has a controlling interest in it. By virtue of the SFO, Mr. Wong Pak Lam, Louis is taken to be interested in the shares of the Company held by Ti Yu Investment Limited. Mr. Wong Pak Lam, Louis, is a director of Ti Yu Investment Limited.

Save as disclosed above, so far as known to any Director and chief executive of the Company, there were no persons other than a Director or chief executive of the Company, who have an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 5% or more 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 as at the Latest Practicable Date.

#### **4. MATERIAL ADVERSE CHANGE**

The Directors confirm that there is no material adverse changes in the financial or trading position of the Group since 31 March 2008, the date to which the latest published audited consolidated accounts of the Group were made up.

#### **5. LITIGATION**

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

#### **6. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Group.

#### **7. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has entered, or is proposing to enter into any service contract with the Enlarged Group which is not expiring or may not be terminated by the Enlarged Group within a year without payment of any compensation (other than statutory compensation).

#### **8. INTERESTS IN CONTRACTS AND ASSETS OF THE ENLARGED GROUP**

None of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, any member of the Enlarged Group or are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 March 2008, the date to which the latest published audited consolidated financial statements of the Group were made up.

None of the Directors are materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

9. EXPERTS

The following are the qualifications of the experts who have given opinions and/or advice contained in this circular:

| Name                                                              | Qualification                                                               |
|-------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Sun Lun Pan Horwath Hong<br>Kong CPA Limited                      | Chartered Accountants<br>Certified Public Accountants                       |
| Grant Sherman Appraisal<br>Limited                                | Registered professional Surveyor and valuers &<br>property consultants      |
| Zhong Lun Law Firm                                                | PRC Legal Adviser                                                           |
| Chelbi Engineering<br>Consultants, Inc.                           | Traffic consultant with regard to the toll roads of the<br>Target Companies |
| Shenzhen Hechuang<br>Construction Project<br>Consultants Co. Ltd. | Project cost consultancy enterprise                                         |

Each of the above experts have given and have not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports and letters and the reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, none of the above experts have any shareholding, directly or indirectly in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group; nor does it have any direct or indirect interest in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2008, being the date to which the latest published audited financial statements of the Company were made up.

**10. MATERIAL CONTRACTS**

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Enlarged Group, within the two years preceding the Latest Practicable Date and are or may be material:

- (a) the placing agreement dated 14 September 2007 entered into between the Company and Baron Capital Limited (as the placing agent) in relation to the placing of up to 40,026,000 call options at HK\$0.01 each;
- (b) the placing agreement dated 15 October 2007 entered into between the Ti Yu Investment Limited (“Ti Yu”, a company solely owned by Mr. Wong Pak Lam, Louis, an executive Director and the Chairman of the Company) and DBS Asia Capital Limited (as the placing agent) for the placement of 10,000,000 shares of HK\$0.10 each in the Company held by Ti Yu at a price of HK\$2.34 per share to independent third parties;
- (c) the subscription agreement dated 15 October 2007 entered into between the Company and the Ti Yu Investments Limited (“Ti Yu”, a company solely owned by Mr. Wong Pak Lam, Louis, an executive Director and the Chairman of the Company) in which Ti Yu subscribed for 10,000,000 new shares of HK\$0.10 each in the Company at a price of HK\$2.34 per share;
- (d) the conditional agreement dated 30 October 2007 entered into between the Diamante Globe Limited, an indirect wholly owned subsidiary of the Company, and Chengdu Zing An Mining Co. Ltd. (成都靜安礦業有限公司), pursuant to which Diamante Globe Limited conditionally agreed to acquire 70% of the equity interests in three mining companies at a consideration of HK\$361 million (as to HK\$343 million in cash and as to HK\$18 million by the issue of convertible bonds of the Company); and the agreement was terminated due to the non-fulfillment of certain conditions precedent in the agreement as disclosed in the Company’s announcement dated 3 April 2008;
- (e) the subscription agreement dated 19 August 2008 entered into between the Company and Asian Harvest Enterprises Limited (as the subscriber) in relation to the issue of 30,000,000 new shares by the Company to the subscriber at HK\$0.80 each;
- (f) the Sale and Purchase Agreement;
- (g) the Termination Agreement; and
- (h) the Option Agreement.

**11. MISCELLANEOUS**

- (a) The qualified accountant and company secretary of the Company is Mr. Cheung Lap Kei who is a member of CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The head office and principal place of business of the Company in Hong Kong is at Suites 701-702, 7th Floor, Grandtech Centre, 8 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited, Room 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. (Saturdays, Sundays and public holidays excepted) at the registered office of the Company at Suites 701-702, 7th Floor, Grandtech Centre, 8 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong from the date of this circular up to and including 14 November 2008:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the accountants' report on Equity Pinghong, the text of which is set out in Appendix II(A) to this circular;
- (c) the accountants' report on Equity Airui, the text of which is set out in Appendix II(B) to this circular;
- (d) the accountants' report on unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (e) the property valuation report on the Enlarged Group prepared by Grant Sherman Appraisal Limited, the text of which is set out in Appendix IV to this circular;

- (f) the traffic study report on the Target Highways prepared by Chelbi Engineering Consultants, Inc, the text of which is set out in Appendix V to this circular;
- (g) the report of the forecast of operation costs, maintenance costs and evaluation of construction costs prepared by Shenzhen Hechuang Construction Project Consultants Co. Ltd., the text of which is set out in Appendix VI to this circular;
- (h) the written consents from each of the experts as referred to under the “Experts” section in this Appendix;
- (i) each of the material contracts referred to under the “Material Contracts” section in this Appendix;
- (j) the annual reports of the Company for the two financial years ended 31 March 2007 and 31 March 2008 respectively;
- (k) all circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited accounts (i.e. 31 March 2008); and
- (l) this circular.

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## NOTICE OF SPECIAL GENERAL MEETING

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### GAY GIANO INTERNATIONAL GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 686)**

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (the “**SGM**”) of Gay Giano International Group Limited (the “**Company**”) will be held at Function Room (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 28 November 2008 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions:

#### **ORDINARY RESOLUTION**

#### **“THAT**

- (a) the deed of call option dated 26 September 2008 (the “**Option Deed**”) entered into between the Company, Yield Long Limited (the “**Grantee**”), Universal Summit Investment Limited (“**Universal Summit**”), Equity Realty Development Company, Limited (“**Equity Realty**”, together with Universal Summit, the “**Grantors**”) and Mr. Huang Guo Dong pursuant to which the Grantors have agreed to grant to the Grantee an option (the “**Option**”) to require the Grantors to sell or cause the sale of 75 per cent equity interest in 大益萍洪高速公路發展 (江西) 有限公司 (Equity Pinghong Highway Development (Jiangxi) Co. Ltd.) and 75 per cent equity interest in 大益隘瑞高速公路發展 (江西) 有限公司 (Equity Airui Highway Development (Jiangxi) Co. Ltd.) (“**Equity Airui**”) (the “**Option Shares**”) and to assign or cause the assignment of a non interest-bearing related party’s loans due from Equity Airui to Universal Summit (the “**Option Loan**”), details of the Option Deed is more particularly described in the circular of the Company dated 31 October 2008 (a copy of the Option Deed has been produced to the meeting marked “A” and initiated for the purpose of identification by the chairman of the meeting), and the transactions contemplated thereunder including but not limited to the exercise of the Option by the Grantee be and are hereby approved, confirmed and ratified;
- (b) the directors of the Company (the “**Directors**”) be and are hereby authorised to issue the convertible bonds of an aggregate principal amount of US\$23,571,428 (the “**Convertible Bonds**”) pursuant to the Option Deed as part payment of the consideration for the acquisition of the Option Shares and the Option Loan;

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## NOTICE OF SPECIAL GENERAL MEETING

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- (c) the Directors be and are hereby generally and unconditionally authorised to issue and allot such number of shares in the share capital of the Company (the “**Conversion Shares**”), credited as fully paid, to the holders of the Convertible Bonds (or its/their nominee), upon conversion of the Conversion Bonds (in part or in full) and that the Conversion Shares, when issued and allotted, shall rank pari passu in all respects with all other shares of the Company in issue as at the date of such issue and allotment; and
- (d) any Director be and is hereby generally and unconditionally authorised to do all such acts and things, to sign and execute all such further documents for and on behalf of the Company by hand, or in case of execution of documents under seal, to do so jointly with any of a second Director, a duly authorised representative of the Director or the secretary of the Company and to take such steps as he/she may in his/her absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Option Deed and the transactions contemplated thereunder.”

### SPECIAL RESOLUTION

#### “THAT

- (a) subject to the approval of the Registrar of Companies in Bermuda, the English name of the Company be changed from “Gay Giano International Group Limited” to “Time Infrastructure Holdings Limited” and, subject to the new English name of the Company becoming effective, “太益控股有限公司” be adopted as the Chinese name of the Company for identification purposes; and
- (b) the Directors be and are hereby generally and unconditionally authorised to prepare and execute all documents and to do all things as they consider necessary, appropriate, desirable or expedient to give effect to or in connection with the change of name of the Company.”

By Order of the Board  
**Gay Giano International Group Limited**  
**Wong Pak Lam, Louis**  
*Chairman*

Hong Kong, 31 October 2008

*Principal Office:*  
Suites 701-702, 7th Floor  
Grandtech Centre  
8 On Ping Street  
Siu Lek Yuen, Shatin  
New Territories  
Hong Kong

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## NOTICE OF SPECIAL GENERAL MEETING

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*Notes:*

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint and vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company's Hong Kong branch share registrar, Union Registrars Limited of Room 1901-02 Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong together with a power of a attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the SGM or adjourned meeting.
2. Completion and return of the form of proxy will not preclude any Shareholder from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.
3. The Register of Members of the Company will be closed from 25 November 2008 to 28 November 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited of Room 1901-02 Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 24 November 2008.