

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

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

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

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.



## **CHINAINFO HOLDINGS LIMITED**

**神州資訊控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8206)**

### **CONDITIONAL VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION INVOLVING THE ACQUISITION OF CERTAIN BENEFITS LINKED TO THE OPERATION OF CERTAIN ONLINE GAME IN THE PRC AND RE-ELECTION OF DIRECTOR**

Financial adviser to the Company



Independent financial adviser to the independent board committee  
and the Independent shareholders of the Company

**Nuada Limited**

A letter of advice from the independent board committee of the Company is set out on page 18 of this circular. A letter of advice of Nuada Limited, the independent financial adviser, containing its opinion and advice to the independent board committee and the independent shareholders of the Company is set out on pages 19 to 28 of this circular.

A notice convening an extraordinary general meeting (the "EGM") of the Company to be held at 10:30 a.m. on Monday, 18 December 2006 at the Meeting Room, Units 2115-2116, 21/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong is set out on pages 109 to 110 of this circular.

Whether or not you are able to attend the EGM, you are advised to read the notice and to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon, to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting in person if you so wish.

*This circular will remain at [www.hkgem.com](http://www.hkgem.com) on the "Latest company announcements" page of the GEM website for at least 7 days from the date of its posting and on the website of the Company at [www.hk6.com](http://www.hk6.com).*

## CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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## DEFINITIONS

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

“Acquisition”	the acquisition of the right to receive the Net Revenue by Success Advantage from CCI for the period between 1 January 2007 and 10 August 2009 under the SA Agreement and the transactions contemplated thereunder
“Announcement”	the announcement of the Company dated 26 October 2006 in respect of the Acquisition
“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the executive directors of the Company
“Business Day”	a day (other than a Saturday or Sunday) on which licensed banks are generally open for business in Hong Kong
“CCC”	神州通信有限公司 (China Communication Co., Ltd.), a company established under the laws of the PRC, a nationwide telecom operator and internet network operator in the PRC
“CCI”	神州通信投資有限公司 (China Communication Investment Ltd.), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of CCC
“CCP”	神州奧美網絡有限公司 (China Cyber Port Co., Ltd.), a company established under the laws of the PRC and an indirect wholly-owned subsidiary of CCC
“CCID Consulting”	CCID Consulting Company Limited, a company listed on GEM, which specialises in the provision of consulting services for the information industry in the PRC
“Company”	Chinainfo Holdings Limited, a company incorporated in the Cayman Islands and the issued Shares of which are listed on GEM
“Completion”	completion of the SA Agreement in accordance with the terms thereof

## DEFINITIONS

“Consideration Shares”	30,000,000 new Shares to be allotted and issued for settling part of the consideration of the Acquisition pursuant to the SA Agreement
“Directors”	the directors of the Company from time to time
“EGM”	an extraordinary general meeting of the Company to be convened and held to approve the Acquisition and the transactions contemplated thereunder and re-election of Director
“Enlarged Group”	the Group immediately after Completion
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GH Agreement”	an agreement entered into between CCP and GameHi Inc. on 10 August 2006, pursuant to which, among other things, CCP was licensed by GameHi Inc. an exclusive right to operate “Sudden Attack” in the PRC, Hong Kong and Macau
“Guaranteed Net Revenue”	the unconditional and irrevocable undertaking by CCI to Success Advantage that the Net Revenue to be received by Success Advantage for 2007, 2008 and the period between 1 January 2009 to 10 August 2009 will not be less than RMB160,000,000 (equivalent to approximately HK\$156,863,000), RMB260,000,000 (equivalent to approximately HK\$254,902,000) and RMB150,000,000 (equivalent to approximately HK\$147,059,000) respectively
“Grant Sherman”	Grant Sherman Appraisal Limited, a professional firm of valuers independent of the Company and its connected persons (as defined in the GEM Listing Rules), appointed by Success Advantage to provide a valuation report on the fair value of the right to receive the Net Revenue
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

## DEFINITIONS

“Independent Board Committee”	a committee, comprising all the independent non-executive Directors, established to advise the Independent Shareholders as to whether the terms of the SA Agreement are fair and reasonable and to make recommendations to the Independent Shareholders to vote for or against the ordinary resolution to be proposed at the EGM
“Independent Financial Adviser”	Nuada Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities as defined under the SFO, being independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders, other than CCI and its associates, who are not required to abstain from voting at a general meeting to approve the SA Agreement and the transactions contemplated thereunder (as defined under Chapter 20 of the GEM Listing Rules)
“Issue Price”	the issue price of HK\$4.5 per Consideration Share
“Latest Practicable Date”	28 November 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
“Macau”	the Macau Special Administrative Region of the PRC
“Net Revenue”	the Net Revenue payable by CCI to Success Advantage which is equivalent to 40% of the net sales revenue derived from operating “Sudden Attack” in the PRC by CCP. Pursuant to the SA Agreement, such net sales revenue is determined as the aggregate amount of game fees, advertising fees, income from organizing electronic sports tournaments and sales of peripheral products net of their respective channel costs such as processing fees for prepaid rechargeable game cards, ISP, credit cards, gift certificates, tournament organizing costs and commissions to sales agents
“PRC”	the People’s Republic of China, which, for the purposes of this circular, shall exclude Hong Kong, Macau and Taiwan

## DEFINITIONS

“Promissory Note”	the non-transferable promissory note in the principal sum of HK\$425,000,000 which is unsecured, carrying an interest rate of 2% per annum payable yearly and maturing on 10 August 2009 and to be issued by Success Advantage to CCI for settling part of the consideration under the SA Agreement
“RSM Nelson Wheeler”	RSM Nelson Wheeler, the reporting accountants independent of the Company and its connected persons (as defined in the GEM Listing Rules), appointed by the Company in respect of the Acquisition
“Success Advantage”	Success Advantage Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
“SA Agreement”	the conditional agreement (in Chinese) entered into on 20 October 2006 between Success Advantage, CCI and CCC pursuant to which Success Advantage has conditionally agreed to acquire, at a consideration of HK\$620,000,000, the right to receive the Net Revenue from CCI for the period between 1 January 2007 and 10 August 2009. CCC, as guarantor, has unconditionally and irrevocably undertaken to Success Advantage the due and punctual performance by CCI of all the obligations expressed to be imposed on or assumed by it under the SA Agreement
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholder(s)”	shareholders of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

*In this circular, unless otherwise specifies, conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1.02 = HK\$1.00.*

LETTER FROM THE BOARD



**CHINAINFO HOLDINGS LIMITED**

**神州資訊控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8206)**

*Executive Directors:*

Mr. He Chenguang (*Chairman*)  
Mr. Xiao Haiping  
Mr. Zhang Peng (*Managing Director*)  
Ms. Zhang Jialin

*Independent non-executive Directors:*

Mr. Yip Tai Him  
Dr. Lam Lee G

*Registered office:*

P.O. Box 309 GT  
Ugland House  
South Church Street  
Grand Cayman  
Cayman Islands

*Head office and principal*

*place of business in Hong Kong:*  
Units 2115-2116, 21/F  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

30 November 2006

*To the Shareholders (and, for information  
purpose only, the option holders of the Company)*

Dear Sir or Madam,

**CONDITIONAL VERY SUBSTANTIAL ACQUISITION  
AND CONNECTED TRANSACTION  
INVOLVING THE ACQUISITION OF CERTAIN BENEFITS  
LINKED TO THE OPERATION OF  
CERTAIN ONLINE GAME IN THE PRC  
AND  
RE-ELECTION OF DIRECTOR**

**THE ACQUISITION**

The Company announced that on 20 October 2006, Success Advantage, a wholly-owned subsidiary of the Company, entered into the SA Agreement with CCI and CCC pursuant to which Success Advantage has conditionally agreed to acquire, at a consideration of HK\$620,000,000, the right to receive the Net Revenue from CCI for the period between 1 January 2007 and 10 August 2009 (the "Term"). CCC, being the sole shareholder of CCI, is the guarantor under the SA Agreement pursuant to which CCC has unconditionally and

\* For identification purpose only

## LETTER FROM THE BOARD

irrevocably undertaken to Success Advantage the due and punctual performance by CCI of all the obligations expressed to be imposed on or assumed by it under the SA Agreement and undertaken to indemnify and keep effectively indemnified Success Advantage (if necessary, by the payment of cash on first demand) against all liabilities, losses, damages, costs and expenses stipulated under the SA Agreement or otherwise which Success Advantage may suffer or incur in connection with any default or delay on the part of CCI in the performance of any such obligations.

The Net Revenue payable by CCI to Success Advantage is equivalent to 40% of the net sales revenue derived from operating "Sudden Attack" in the PRC by CCP. Pursuant to the SA Agreement, such net sales revenue is determined as the aggregate amount of game fees, advertising fees, income from organizing electronic sports tournaments and sales of peripheral products net of their respective channel costs such as processing fees for prepaid rechargeable game cards, ISP, credit cards, gift certificates, tournament organizing costs and commissions to sales agents.

### THE SA AGREEMENT DATED 20 OCTOBER 2006

#### A. Parties to the SA Agreement:

- (a) CCI (as vendor);
- (b) Success Advantage (as purchaser); and
- (c) CCC (as guarantor).

#### B. Consideration and payment terms

The total consideration for the Acquisition of HK\$620,000,000 was arrived at after arms' length negotiations between the parties to the SA Agreement and the Acquisition was on normal commercial terms with reference to (i) a preliminary valuation of the right to receive the Net Revenue of approximately RMB736,700,000 (equivalent to approximately HK\$722,255,000) prepared on a discounted cash flow basis by Grant Sherman, a valuer independent of the Company and its connected persons (as defined in the GEM Listing Rules) as at 30 September 2006; (ii) the future prospects of online game industry in the PRC; and (iii) the Guaranteed Net Revenue. The Board has been given to understand that the discount rate used for the preliminary valuation has factored in risks adjustments including small capitalization risk premium, start-up risk premium and intangible asset risk premium. As such, the Board considers that the preliminary valuation of the right to receive the Net Revenue was prepared with an appropriate discount rate.

Taking into account the preliminary valuation and the reasons and benefits as stated in the paragraph below headed "Reasons for and benefits of the Acquisition", the Board considers that the consideration is fair and reasonable and the Acquisition was on normal commercial terms, in the Company's ordinary and usual course of business, and in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE BOARD

The total consideration for the Acquisition of HK\$620,000,000 represents a discount of approximately 14.2% to the final valuation of the right to receive the Net Revenue of approximately RMB736,700,000 (equivalent to approximately HK\$722,255,000) by Grant Sherman as at 30 September 2006, details of which can be referred to in the valuation report as set out in Appendix II to this circular.

The consideration of HK\$620,000,000 will be settled by the Company in the following manner:

- (a) a refundable deposit in the sum of HK\$20,000,000 (the “**Deposit**”) in cash will be paid to CCI within three Business Days upon signing of the SA Agreement;
- (b) HK\$40,000,000 in cash will be paid to CCI within three Business Days upon Completion;
- (c) HK\$135,000,000 will be satisfied by the allotment and issue of the Consideration Shares, credited as fully paid, at the Issue Price to CCI within 14 Business Days upon Completion; and
- (d) HK\$425,000,000 will be satisfied by the issue of the Promissory Note to CCI.

The Deposit of HK\$20,000,000 was paid to CCI on 25 October 2006 and is subject to refund without interest to Success Advantage within 3 Business Days after the lapse of the SA Agreement. The Board intends to finance the aggregate cash consideration of HK\$60,000,000 out of the Company’s internal resources. The Board considers that the payment terms of the Acquisition will enable the Company to minimize its initial cash outflow and are in the interests of the Company and the Shareholders as a whole.

### *Consideration Shares*

The Consideration Shares, comprising 30,000,000 new Shares, represent approximately 4.68% of the existing issued share capital of the Company and approximately 4.47% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Issue Price of HK\$4.5 per Consideration Share represents:

- (i) a premium of approximately 12.5% over the closing price of HK\$4.00 per Share as quoted on the Stock Exchange on 20 October 2006, being the last trading day immediately prior to the publication of the Announcement;
- (ii) a premium of approximately 16.3% over the average of the closing prices of approximately HK\$3.868 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including 20 October 2006, being the last trading day immediately prior to the publication of the Announcement;

## LETTER FROM THE BOARD

- (iii) a premium of approximately 23.6% over the average of the closing prices of approximately HK\$3.641 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including 20 October 2006, being the last trading day immediately prior to the publication of the Announcement; and
- (iv) a premium of approximately 1,143% over the adjusted consolidated net assets of the Company, being the audited consolidated net assets as at 31 March 2006 (adjusted for the net proceeds from the top-up placement in May 2006) of approximately HK\$0.362 per Share.

The Issue Price was arrived at after arm's length negotiations between the Company and CCI. The Board considers that the Issue Price is fair and reasonable and the allotment and issue of the Consideration Shares on such terms are in the interests of the Company and the Shareholders as a whole.

Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares will be issued under a special mandate to be approved by the Independent Shareholders at the EGM. The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with all the Shares in issue on the date of allotment.

### *Promissory Note*

The Promissory Note in the principal sum of HK\$425,000,000 (the "**Principal Sum**"), to be issued by Success Advantage to CCI on completion of the SA Agreement, is unsecured and carries an interest rate of 2% per annum payable once every year in arrears. The Promissory Note will mature on 10 August 2009 and is non-transferable. Success Advantage has the right to repay the whole or part of the Principal Sum at any time at par value together with interest accrued on any Principal Sum outstanding before maturity.

Any outstanding Principal Sum can be used to set-off against any sum due and payable by CCI to Success Advantage pursuant to the SA Agreement, including the payment of the Net Revenue and/or any amount arising from the Guaranteed Net Revenue.

### **C. Net Revenue and Guaranteed Net Revenue**

The Net Revenue will be determined for each calendar month and payable by CCI to Success Advantage bi-annually by no later than 45 days after 30 June and 31 December each year or after termination of the SA Agreement. CCI will, within 10 days after the end of each calendar month, submit a revenue report to Success Advantage prepared according to the principles set out in the SA Agreement for the determination of the Net Revenue. Such revenue report must be approved by the financial controller of CCP before submission to Success Advantage. The revenue report is expected to be prepared with reference to the relevant accounting standards and principles in the PRC given CCP is a company organized under the laws of the PRC.

## LETTER FROM THE BOARD

Pursuant to the SA Agreement, Success Advantage has the right to appoint auditors or agents annually to verify the revenue reports and to issue a certificate to confirm the amount of Net Revenue to be received by Success Advantage for 2007, 2008 and the period between 1 January 2009 to 10 August 2009 at the end of each period respectively. The amount of Net Revenue to be received by Success Advantage, if to be confirmed by its auditors or agents, shall be final and binding on the parties to the SA Agreement. The Company will procure Success Advantage to exercise its right to appoint auditors annually to verify the revenue reports and to issue respective certificates as and when it considers necessary. CCI has unconditionally and irrevocably undertaken to Success Advantage that the Guaranteed Net Revenue to be received by Success Advantage for 2007, 2008 and the period between 1 January 2009 to 10 August 2009 shall not be less than RMB160,000,000 (equivalent to approximately HK\$156,863,000), RMB260,000,000 (equivalent to approximately HK\$254,902,000) and RMB150,000,000 (equivalent to approximately HK\$147,059,000) respectively. Should the Net Revenue (as confirmed by Success Advantage's auditors or agents) be less than the Guaranteed Net Revenue, CCI shall pay the shortfall in cash or by offsetting against any outstanding Principal Sum at its option by no later than 45 days after the end of 2007, 2008 and the expiry of the SA Agreement in 2009, as the case maybe.

The Company will make an announcement when the Net Revenue was lower than the Guaranteed Net Revenue and will disclose in its annual reports (i) whether the Net Revenue was higher than the Guaranteed Net Revenue; (ii) details of any shortfall (if any); and (iii) whether CCI has fulfilled its payment obligations in respect of such shortfall.

### **D. Conditions precedent of the Acquisition**

The Acquisition is conditional upon, among other things, the following conditions being satisfied on or before 31 January 2007 or such other date as the parties to the SA Agreement may agree:

- (a) all necessary consents, authorisations, licenses and approvals required to be obtained on the part of CCI and CCC in respect of the SA Agreement and the transactions contemplated thereunder having been obtained;
- (b) the passing of an ordinary resolution to approve the SA Agreement and the transactions contemplated thereunder by the Independent Shareholders at the EGM to be convened and held, including, but not limited to the allotment and issue of the Consideration Shares to CCI, credited as fully paid, and the issue of the Promissory Note to CCI;
- (c) the obtaining of legal opinions to be issued by a firm of PRC lawyers and a firm of Singaporean lawyers acceptable to Success Advantage covering such matters under their respective jurisdiction relevant to the transactions contemplated under the SA Agreement in such form and substance to the satisfaction of Success Advantage;

## LETTER FROM THE BOARD

- (d) the obtaining of a valuation report to be issued by a firm of valuers appointed by Success Advantage showing the fair value of the right to receive the Net Revenue to be not less than RMB700,000,000;
- (e) the GEM Listing Committee granting the listing of, and permission to deal in, the Consideration Shares;
- (f) the warranties and representations provided by CCI under the SA Agreement remaining true and accurate in all respects;
- (g) completion of a satisfactory due diligence review on the carrying out of the operation of "Sudden Attack" by CCP; and
- (h) all other matters reasonably requested by Success Advantage.

### **E. Completion**

Completion of the Acquisition will take place on the third Business Day after the satisfaction of all the abovementioned conditions or the waiver thereof (except for conditions (b), (d) and (e) above which cannot be waived) obtained from Success Advantage. If any of the abovementioned conditions are not satisfied on or before 31 January 2007 or such other date as the parties of the SA Agreement may agree, the SA Agreement will lapse and all the obligations and liabilities of the parties to the SA Agreement will cease and terminate save for any antecedent breaches of the terms thereof. CCI shall refund the Deposit without interest to Success Advantage within 3 Business Days after the lapse of the SA Agreement.

### **F. Right of Renewal**

CCI and CCC have given a first right to Success Advantage to renew the SA Agreement after expiry of the Term on the same terms and conditions or such other terms as the parties may agree, provided that, after the expiry of the SA Agreement, CCP has renewed its license to continue operating "Sudden Attack" under the GH Agreement.

### **G. Termination**

If, for any reason, the GH Agreement is terminated or found invalid, or CCP cannot continue to operate "Sudden Attack", the SA Agreement (including the Promissory Note) will be terminated at the same time. The Net Revenue and the Guaranteed Net Revenue will be adjusted on a pro rata basis with reference to the date of termination.

If the SA Agreement is terminated, the parties to the SA Agreement agreed that the total amount of Net Revenue to be received by Success Advantage will not be, in any event, less than the total consideration paid (including any amount of cash payment, the issue of Consideration Shares and repayment of the Promissory Note) by Success Advantage. CCI shall compensate Success Advantage the amount by which the total consideration paid exceeds the total amount of Net Revenue received by Success Advantage. On the contrary, if the total amount of the Net Revenue received by Success Advantage exceeds the total consideration paid, Success Advantage is under no obligation to refund the difference to CCI.

## LETTER FROM THE BOARD

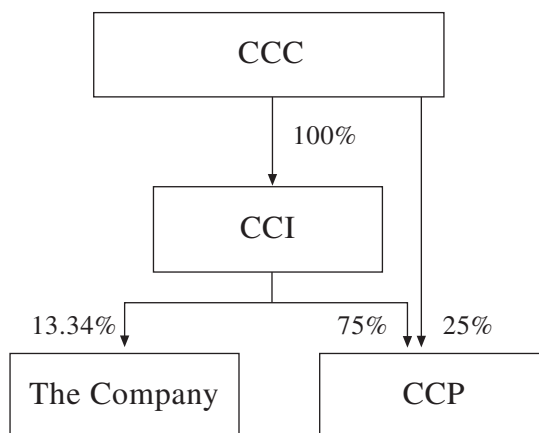
### RELATIONSHIP BETWEEN CCC, CCI AND CCP

CCC is a nationwide telecom operator and internet network operator in the PRC covering a wide range of value-added telecom services. Currently, CCC is launching an electronic wallet called “Shentong Card” which is approved by the Industrial and Commercial Bank of China whereby money can be transferred between an individual’s bank account and his designated “Shentong Card”. As an electronic wallet, “Shentong Card” is designed to pay transportation fees, bank charges, IP phone fees, online trading fees and home utilities fees.

CCI, a wholly-owned subsidiary of CCC, is interested in 75% of the registered capital in CCP and approximately 13.34% in the issued share capital of the Company before the issue of the Consideration Shares. CCI is principally engaged in investments in information technology related businesses, including the operation and distribution of computer games.

CCP, an indirect wholly-owned subsidiary of CCC, is principally engaged in the development, operation and distribution of computer games in the PRC. CCP currently operates nationwide game platforms such as battlenet platform, online game platform, mobile game platform, and casual game platform. CCP is licensed to distribute and operate a number of well-known computer games in the PRC market, including “Counter Strike”, “Warcraft”, “Starcraft”, “Half Life” and “Diablo”.

Current shareholding structure relationship between CCC, CCI, CCP and the Company is as follows:



### INFORMATION ON SUDDEN ATTACK (“突襲OL”)

“Sudden Attack” is a First Person Shooting (“FPS”) game based on a storyline of counter-terrorism operations. Players can choose to become a soldier from a list of special-forces like British SAS, US Delta Force, Republic of Korea Marine Force and etc.. Players can also choose a wide range of weapons for their virtual soldiers. Launched in Korea in August 2005, “Sudden Attack” was developed by GameHi Inc., a Korean game developer specializing in online multiplayer online role playing games, FPS and other causal games including “Dekeron”, “Sudden Attack”, and “Paran Game”. GameHi Inc. was established in 2002 and operates a single platform for computer online games servicing players in Korea and Asia.

## LETTER FROM THE BOARD

In Korea, "Sudden Attack" is operated through CJ Internet Corp.'s online game portal Netmarble.

According to information released by CJ Internet Corp., since the launch of its open beta version in Korea earlier this year, "Sudden Attack" has gained enormous popularity and registered more than 160,000 concurrent users in October 2006. CJ Internet Corp. also holds tournaments for "Sudden Attack". According to information disclosed in [www.gametrics.com](http://www.gametrics.com), "Sudden Attack" ranked number one (No. 1) among the most popular online games in Korea's internet cafes as at 27 November 2006 with a market share of about 11.33%.

On 10 August 2006, CCP entered into the GH Agreement with GameHi Inc. pursuant to which CCP has been licensed by GameHi Inc. to operate "Sudden Attack" in the PRC, Hong Kong and Macau for an initial term of 3 years from 10 August 2006 to 10 August 2009. The GH Agreement is automatically renewable for one year upon expiry of the initial 3-year term or each renewed 1-year term thereafter unless terminated by GameHi Inc. or CCP serving the other party written notice of its intention not to renew the GH Agreement, or by GameHi Inc. because of a material breach of the GH Agreement by CCP. According to the GH Agreement, CCP will pay GameHi Inc. a fixed licensing fee and royalty fees during the term of the GH Agreement based on a certain percentage of net sales revenue (determined on a basis similar to that of the Net Revenue under the SA Agreement) to be generated by "Sudden Attack" in the PRC, Hong Kong and Macau. Since the intangible assets, being the license to operate "Sudden Attack" in the PRC, Hong Kong and Macau, acquired by CCP under the GH Agreement is different from the right to receive the Net Revenue under the SA Agreement, the Board considers it impractical to derive an original purchase cost for the right to receive the Net Revenue. Each of CJ Internet Corp. and GameHi Inc. is independent of the Company and its connected persons (as defined in the GEM Listing Rules).

According to CCP's operation plan, CCP will be responsible for the preparation, installation, implementation and maintenance of hardware, software and facilities for the Chinese version of "Sudden Attack". Also, CCP will develop an official website for "Sudden Attack" in Chinese as well as establish an internet sales channel for its peripheral products. According to CCP, localisation of "Sudden Attack" and close beta testing was commenced in November 2006. It is expected that "Sudden Attack" will be launched commercially in the PRC in January 2007. Hence, there is no track record for the operation of "Sudden Attack" in the PRC. Pursuant to Rule 19.69(4)(b) of the GEM Listing Rules, a profit and loss statement for the three preceding financial years on the Net Revenue shall be included in this circular. As there is no track record for the operation of "Sudden Attack" in the PRC, no profit and loss statement for the three preceding financial years on the Net Revenue is available.

In the PRC computer game market, a FPS computer game called "Counter-Strike" ("反恐精英") gained huge popularity over the past years with more than 12 million players during its peak according to information provided by CCP, the licensee to operate and distribute "Counter-Strike" in the PRC market. "Sudden Attack" is being similar to "Counter-Strike" in terms of contents and design. It is considered to be an online version of "Counter-Strike" and has some advantages over "Counter-Strike" due to its easiness to play and minimal waiting time. "Sudden Attack" targets online game and casual game

## LETTER FROM THE BOARD

players of about 20 to 40 years' old male who are FPS computer game players but are also interested in playing casual games. The Board believes that "Sudden Attack" would be well received in the PRC online game market having regard to the popularity of "Counter-Strike" in the PRC and the current popularity enjoyed by "Sudden Attack" in Korea.

### INFORMATION ON THE GROUP

The Group is principally engaged in the provision of (i) real-time financial news and up-to-date financial market commentaries and recommendations through multimedia; (ii) financial programs and video production services; and (iii) investor education on financial markets in Hong Kong. The Group is also engaged in the licensing of computer games in the PRC.

### REASONS FOR AND BENEFITS OF THE ACQUISITION

The Board considers that the PRC multimedia and internet market is a fast growing sector with significant business potential. To capture the benefit of such potential, the Group has been seeking opportunities to form alliances or to cooperate with partners that have well developed multimedia networks in the PRC. In 2003, the General Administration of Sports announced electronic sports as the 99th sports in the PRC. The Board believes that the online game and electronic sports industry in the PRC will develop rapidly in the near future. According to CCID Consulting, an independent consulting agent, the PRC online game market size is expected to reach about RMB22.7 billion in 2010. The Board considers that the Acquisition will enable the Group to expose to the fast growing industry of online games in the PRC.

Leveraging on the extensive experience of the Company's management in the telecommunication and computer game industry, the Board considers that the Acquisition represents a good opportunity for the Group to benefit from the fast growing online game market in the PRC. The Board does not anticipate any changes in the composition of the board of directors of the Company upon Completion. The Board is of the view that as the operation of "Sudden Attack" in the PRC are carried out by CCP, the fact that the Company's management has no prior experience in operating online game shall have no adverse effect to the operation of "Sudden Attack" in the PRC. Based on the favorable payment terms for the consideration, including the issue of Consideration Shares and Promissory Note, as well as the Guaranteed Net Revenue, the Board considers that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Upon Completion, the right to receive the Net Revenue will be accounted for as available-for-sale financial asset in the Company's consolidated financial statements. According to the Company's accounting policies, "available-for-sale financial asset" is initially and subsequently measured at fair value. Gains or losses arising from changes in fair value are recognised directly in equity, until the financial asset is determined to be impaired, at which time the cumulative gains or losses previously recognised in equity will be recognised in the income statement. Impairment losses recognised in the income statement are not subsequently reversed through the income statement. As such, it is anticipated that the fair value of the right to receive the Net Revenue will be determined

## LETTER FROM THE BOARD

at each of the Company's interim and year end balance sheet date and any gains or losses arising from changes in fair value will be recognised according to the Company's accounting policies as mentioned above.

### EFFECT ON SHAREHOLDING STRUCTURE AFTER COMPLETION

To the best knowledge of the Directors, the existing shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company upon the allotment and issue of the Consideration Shares are as follows:

Name	Before the Acquisition		After the allotment and issue of the Consideration Shares	
	Number of Shares	(approximately %)	Number of Shares	(approximately %)
CCI (Note 1)	85,542,000	13.34	115,542,000	17.22
He Jianren	1,660,000	0.26	1,660,000	0.25
Supreme System Investments Limited (Note 2)	79,001,144	12.32	79,001,144	11.77
Superhero Limited (Note 3)	74,979,195	11.70	74,979,195	11.17
Chan Wong Kam Fung, Cecilia	68,905,798	10.75	68,905,798	10.27
Other public Shareholders	330,998,624	51.63	330,998,624	49.32
<b>Total</b>	<b>641,086,761</b>	<b>100.00</b>	<b>671,086,761</b>	<b>100.00</b>

Note 1: The entire issued share capital of CCI is beneficially owned by CCC.

Note 2: The entire issued share capital of Supreme System Investments Limited is beneficially owned by Mr. He Jianren.

Note 3: The entire issued share capital of Superhero Limited is beneficially owned by Ms. Mi Hui Ying.

None of Mr. He Jianren, Ms. Mi Hui Ying and Ms. Chan Wong Kam Fung, Cecilia is involved in the management and operation of the Company and each of them is not acting in concert with each other.

### IMPLICATIONS UNDER THE GEM LISTING RULES

As at the Latest Practicable Date, CCI was interested in approximately 13.34% of the entire issued share capital of the Company. Therefore, the Acquisition constitutes a connected transaction for the Company under the GEM Listing Rules and is subject to approval of the Independent Shareholders at the EGM by way of poll. In addition, the Acquisition constitutes a very substantial acquisition on the part of the Company under Chapter 19 of the GEM Listing Rules. CCI and its associates will abstain from voting in respect of the ordinary resolution to be proposed at the EGM to consider and, if thought fit, to approve the Acquisition, including issue of the Consideration Shares, and the transactions contemplated thereunder.

## LETTER FROM THE BOARD

If the ordinary resolution to be proposed at the EGM in relation to the Acquisition is not approved by the Independent Shareholders, the SA Agreement will cease and terminate and the Acquisition will not proceed.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable and to make recommendations to the Independent Shareholders to vote for or against the ordinary resolution to be proposed at the EGM. Nuada Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Acquisition is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders to vote for or against the ordinary resolution to be proposed at the EGM. A circular containing, among other things, details of the Acquisition, a letter of advice from the Independent Financial Adviser, a letter of advice from the Independent Board Committee to the Independent Shareholders and other required information to be disclosed under the GEM Listing Rules, together with a notice of the EGM and a proxy form.

### **EFFECT OF THE ACQUISITION TO THE GROUP**

#### **Earnings**

Upon Completion, the Group will be entitled to receive the Net Revenue during the Term. According to the unaudited pro forma income statement of the Enlarged Group, details of which are set out in Appendix IV to this circular, the pro forma profit attributable to shareholders of the Enlarged Group will be approximately HK\$116,492,460 compared to a loss of approximately HK\$6,260,540 as at 31 March 2006. The Board considers that the Acquisition will enhance the Group's financial performance and broaden its earnings base.

#### **Asset and liabilities**

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular, the pro forma total assets and total liabilities of the Enlarged Group will be approximately HK\$768,885,643 and HK\$400,738,218 respectively. The gearing ratio, defined as the ratio of total liabilities to total assets, of the Enlarged Group will be approximately 52.1% compared to approximately 0.09% as at 30 September 2006. The unaudited pro forma consolidated net assets of the Enlarged Group will increase to approximately HK\$368,147,425 as a result of the Acquisition, representing an increase of approximately 56.6% from the Group's unaudited consolidated net assets as at 30 September 2006. The Board considers that the Acquisition will improve the Group's overall financial position.

## LETTER FROM THE BOARD

### FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is a multimedia financial information services provider offering a comprehensive range of financial information services which include the provision of real-time financial news and up-to-date financial market commentaries and recommendations through multimedia and investor education of financial markets in Hong Kong. The Group is also engaged in the licensing of computer games in the PRC. For the financial year ended 31 March 2006, the Group recorded net loss attributable to Shareholders of approximately HK\$6,260,540 (2005: approximately HK\$3,270,173) and basic loss per Share was approximately HK1.48 cents (2005: HK0.82 cent).

The Board considers that the PRC multimedia and Internet market is a fast growing sector with significant business potential. The Board also believes that the computer games and electronic sports industry in the PRC will expand rapidly in the foreseeable future given the industrial policy supports from the PRC government. The Board is of the opinion that the Acquisition will enable the Group to participate in PRC's promising online game market and the Board is optimistic about the financial and trading prospects of the Group.

### RE-ELECTION OF DIRECTOR

In accordance with Article 95 of the Articles of Association of the Company, Dr. Lam Lee G, being an independent non-executive Director appointed by the Board to fill a casual vacancy with effect from 31 October 2006, shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Dr. Lam Lee G shall retire at the EGM and being eligible, he offers himself for re-election at the EGM.

Biographical details of Dr. Lam Lee G are set out in the section headed "Biographical details of Directors and senior management" in Appendix V to this circular on page 103.

As at the Latest Practicable Date, the number of independent non-executive directors of the Company falls below the minimum requirement pursuant to Rule 5.05 of the GEM Listing Rules. As such, the Company will make its best endeavors to identify an appropriate person to fill the vacancy for the position of independent non-executive director of the Company within three months from 27 November 2006.

### EGM

In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be completed in accordance with the instructions printed thereon and delivered to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting in person if you so wish.

## LETTER FROM THE BOARD

### PROCEDURES FOR DEMANDING A POLL

Pursuant to article 76 of the Articles of Association, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the GEM Listing Rules. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote; or
- (c) any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

### RECOMMENDATIONS

The Directors consider the terms of the SA Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the SA Agreement and the transactions contemplated thereunder.

The Directors consider the re-election of Dr. Lam Lee G as independent non-executive Director is in the interest of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to re-elect Dr. Lam Lee G as independent non-executive Director.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board  
**Chinainfo Holdings Limited**  
**He Chenguang**  
*Chairman*



**CHINAINFO HOLDINGS LIMITED**

**神州資訊控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8206)**

30 November 2006

*To the Shareholders*

Dear Sir or Madam,

**CONDITIONAL VERY SUBSTANTIAL ACQUISITION  
AND CONNECTED TRANSACTION  
INVOLVING THE ACQUISITION OF CERTAIN BENEFITS  
LINKED TO THE OPERATION OF  
CERTAIN ONLINE GAME IN THE PRC**

We refer to the circular dated 30 November 2006 issued by the Company (the "Circular"), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the SA Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the SA Agreement and the transactions contemplated thereunder and to recommend how the Independent Shareholders should vote at the EGM. The Independent Financial Adviser has been appointed to advise the Independent Board Committee in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 17 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the SA Agreement and the transactions contemplated thereunder as set out on pages 21 to 27 of the Circular.

Having taken into account the terms of the SA Agreement and the advice of the Independent Financial Adviser, we are of the view that the terms of the SA Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM in respect of the SA Agreement of the transactions contemplated thereunder.

Yours faithfully  
Independent Board Committee of  
**Chinainfo Holdings Limited**  
**Yip Tai Him      Dr. Lam Lee G**

\* For identification purpose only

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Nuada Limited setting out its opinion regarding the terms of the SA Agreement prepared for the purpose of incorporation in this circular.*

# Nuada Limited

7th Floor, New York House  
60 Connaught Road Central  
Hong Kong

30 November 2006

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION INVOLVING THE ACQUISITION OF CERTAIN BENEFITS LINKED TO THE OPERATION OF CERTAIN ONLINE GAME IN THE PRC**

#### **INTRODUCTION**

We refer to our engagement as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the SA Agreement, details of which are set out in the letter from the Board (the "Letter") contained in the circular of the Company dated 30 November 2006 to the Shareholders (the "Circular"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

The SA Agreement was entered into between Success Advantage (a wholly-owned subsidiary of the Company) as purchaser, CCI (a wholly-owned subsidiary of CCC) as vendor and CCC as guarantor, pursuant to which Success Advantage has conditionally agreed to acquire, at a consideration of HK\$620,000,000, the right to receive the Net Revenue from CCI for the period between 1 January 2007 and 10 August 2009. Pursuant to the SA Agreement, the Net Revenue refers to 40% of the net sales revenue derived from operating the Game titled "Sudden Attack" in the PRC by CCP, which is owned as to 75% by CCI and 25% by CCC.

As at the Latest Practicable Date, CCI is interested in approximately 13.34% of the entire issued share capital of the Company. Accordingly, the Acquisition constitutes a connected transaction for the Company under the GEM Listing Rules and is thus subject to approval of the Independent Shareholders at the EGM by way of poll. In addition, the Acquisition constitutes a very substantial acquisition for the Company under the GEM

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Listing Rules. CCI and its associates will abstain from voting in respect of the ordinary resolutions to be proposed at the EGM to approve the Acquisition.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the GEM Listing Rules, our role is to give you an independent opinion as to whether the terms of the SA Agreement are on normal commercial terms, in the ordinary course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### **BASES AND ASSUMPTIONS**

In formulating our opinion, we have relied on the accuracy of the information and facts supplied, and the opinions and representations expressed to us by the Directors, the Company and its management. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Circular and provided to us by the Company and the Directors, and have been advised by the Directors that no material facts have been omitted from the information provided to us and referred to in the Circular. We have also assumed that all statements of intention of the Company or its Directors as set out in the Circular will be implemented.

In formulating our opinion, we have obtained and reviewed relevant information and documents provided by the Directors, the Company and its management in connection with the SA Agreement and discussed with the management of the Group so as to assess the fairness and reasonableness of the terms of the SA Agreement. Relevant information and documents, included, among other things, (i) the SA Agreement; (ii) the valuation report of Grant Sherman Appraisal Limited (the "Valuer") in respect of the valuation of the right to receive the Net Revenue (the "Valuation Report"); and (iii) the annual report and accounts of the Company for the year ended 30 March 2006, the first quarterly report of the Company for the three months ended 30 June 2006 and the interim report of the Company for the six months ended 30 September 2006. We have also made reference to certain market research information available to us. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the SA Agreement.

We have assumed that all information and representations made or referred to in the Circular and provided to us by the Company and the Directors, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and continue to be true, complete and accurate at the date of the EGM. We have not, however, carried out any independent verification of the information and representations provided to and reviewed by us nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Company, CCP, CCI, CCC and/or their respective subsidiaries or associates and/or any of their partners and/or the potential popularity of the Game in the PRC market. Neither have we carried out any independent verification or investigation of the market research information reviewed or referred to by us. We have not studied, investigated nor

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

verified the validity of all legal aspects of, and procedural aspects for, the SA Agreement. We have further assumed that all material governmental, regulatory or other consents, rights, waivers, authorisations, clearances and approvals necessary for the effectiveness and implementation of the SA Agreement have been or will be obtained and will not be withdrawn without any adverse effect on the Group, the assets and liabilities of the Group or the contemplated benefits to the Group as derived from the SA Agreement.

Our opinion is necessarily based upon the financial, economic (including exchange rates and interest rates), market, regulatory and other conditions as they exist on, and the facts, information, representations and opinions made available to us as of the Latest Practicable Date. Our opinion does not in any manner address the Company's own decision to proceed with the SA Agreement. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have taken into account in assessing the SA Agreement and in giving our advice to the Independent Board Committee and the Independent Shareholders are set out below:

#### **I. Background and benefits of the SA Agreement**

The Group is principally engaged in the provision of (i) real-time financial news and up-to-date financial market commentaries and recommendations through multimedia; (ii) financial programs and video production services; and (iii) investor education on financial markets in Hong Kong. The Group is also engaged in the licensing of computer games in the PRC.

Pursuant to the SA Agreement, the Group agrees to acquire from CCI the right to receive the Net Revenue which is equivalent to 40% of the net sales revenue derived from operating the Game titled "Sudden Attack" in the PRC. Such net sales revenue is determined as the aggregate amount of game fees, advertising fees, income from organizing electronic sports tournaments and sales of peripheral products net of their respective channel costs such as processing fees for prepaid rechargeable game cards, ISP, credit cards, gift certificates, tournament organizing cost and commissions to sales agents.

As stated in the annual report 2005/2006 of the Company, the Company considers that the PRC multimedia and internet market is a fast growing sector with significant business potential. To capture the benefit of this fast growing market, the Group has been seeking opportunities to form alliances or to cooperate with partners that have well developed multimedia networks in the PRC. We consider that the Acquisition is in line with the Group's business development in the PRC online game market and would broaden the revenue base of the Group through the right to receive the Net Revenue. The Board believes that "Sudden Attack" would be well received in the PRC online game market having regard to the current popularity of "Sudden Attack" in Korea and the popularity of "Counter-Strike", a computer game similar to "Sudden Attack" in term of content and

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

design, in the PRC as detailed in the Letter. In addition, as published by The Korea Times, a Korean newspaper, in May 2006, "Sudden Attack" was increasingly winning the favour of casual gamers and had topped various online rankings for about a year.

According to iResearch Consulting Group ("iResearch"), a market research company in China which focuses on the Internet industry, the number of China online gamers in 2005 was 29 million, up from 21 million in 2004 and 16.8 million in 2003, while its proportion to total number of Internet users in China had also been increasing from 21.1% in 2003 to 22.3% in 2004 and 26.1% in 2005. It is estimated that the number of China online gamers would reach 81 million in 2010 and its proportion to the total number of Internet users in China would be 34.9%. In addition, according to iResearch, the market size of China online game industry achieved RMB6.1 billion in 2005, up from RMB4.1 billion in 2004 and RMB2.8 billion in 2003, and it is estimated that the figure would reach RMB14.3 billion in 2010. As such, we consider that the Acquisition represents a business opportunity for the Group to capture the growth potentials of the PRC online game sector.

Given the Acquisition is in line with the Group's business development in the PRC online game market, broadens the revenue base of the Group and provides an opportunity for the Group to benefit from the potential growth of the online game market in the PRC and the popularity of "Sudden Attack", we consider that the Acquisition is in the ordinary course of business and in the interest of the Company and the Independent Shareholders as a whole.

## II. Principal terms of the SA Agreement

### *Consideration and payment terms*

Pursuant to the SA Agreement, Success Advantage conditionally agrees to acquire the right to receive the Net Revenue from CCI for the period between 1 January 2007 and 10 August 2009 at a consideration of HK\$620,000,000. The consideration of HK\$620,000,000 shall be settled by the Company in the following manner:

- (a) a refundable deposit in the sum of HK\$20,000,000 in cash shall be payable to CCI within three Business Days upon signing of the SA Agreement;
- (b) HK\$40,000,000 in cash shall be payable to CCI within three Business Days upon Completion;
- (c) HK\$135,000,000 shall be satisfied by the issue and allotment of the Consideration Shares credited as fully paid at the Issue Price to CCI within 14 Business Days upon Completion; and
- (d) HK\$425,000,000 shall be satisfied by the issue of the Promissory Note to CCI.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The consideration was arrived at after arms' length negotiations between the parties to the SA Agreement with reference to (i) the preliminary valuation of the right to receive the Net Revenue of approximately RMB736,700,000 (equivalent to approximately HK\$722,255,000) as at 30 September 2006 prepared by the Valuer; (ii) the future prospects of the online game industry in the PRC; and (iii) the Guaranteed Net Revenue.

We have reviewed the Valuation Report and discussed with the Valuer regarding, among other things, the assumptions, basis and methodologies adopted therein. We note that the Valuer have considered the market approach, the cost approach and the income approach, being three commonly used valuation methodologies, in valuing the right to receive the Net Revenue and had selected the income approach with the adoption of the discounted cash flow method based on the financial projections provided by CCP. We understand from the Valuer that the income approach was selected taking into consideration that the market approach and the cost approach rely on data from public trading markets or game developers which are rarely available in most of valuation of games and that it is not generally appropriate to apply the market or cost approach to value a game business due to the uniqueness of the game asset and the income generating nature of the right to receive the Net Revenue under the SA Agreement.

We have also discussed with the Valuer regarding the determination of the discount rate adopted under the discounted cash flow method by the Valuer which had been derived using the Capital Asset Pricing Model ("CAPM") with reference to the required rate of return demanded by investors for similar projects. We are given to understand that the rate of return is the sum of the risk-free return, which is arrived at taking into account the stock data for eight comparable companies (the "Comparables"), and the equity risk premium, with adjustments by adding the small capitalization risk premium, the start-up risk premium and the intangible asset risk premium (the "Adjustment premium"). As advised by the Valuer, the Adjustment premium is applied to reflect the additional risks exposed to by the Game as compared to the Comparables and the respective rates of the Adjustment premium are determined based on the Valuer's professional judgment. Given the discount rate is determined taking into account the stock data of the Comparables and the differential circumstance between the Comparables and the Game by applying the Adjustment premium, we consider that the discount rate adopted in the Valuation Report reasonable and appropriate. Based on our review of the Valuation Report and discussion with the Valuer regarding, among other things, (i) the scope of work and assumptions of the valuation; (ii) the valuation basis and methodologies, in particular the discount rate adopted under the discounted cash flow method; and (iii) the due diligence works performed by the Valuer in preparing the Valuation Report, including review of the relevant market researches, the financial projections of the Game and the worksheets prepared by the Valuer in respect of the parameters of the Comparables and the computation of the net present value of the Game, we consider the due diligence works performed by the Valuer as well as the basis, assumptions and methodologies adopted for the valuation of the right to receive the Net Revenue appropriate.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Valuation Report included as Appendix II in this Circular, the valuation for the right to receive the Net Revenue amounted to RMB736,700,000 (equivalent to approximately HK\$722,255,000) as at 30 September 2006. The consideration for the Acquisition thus represents a discount of approximately 14.2% to the valuation of the right to receive the Net Revenue as at 30 September 2006 by the Valuer. In addition, pursuant to the SA Agreement, CCI has unconditionally and irrevocably undertaken to Success Advantage that the Guaranteed Net Revenue to be received by Success Advantage for 2007, 2008 and the period between 1 January 2009 to 10 August 2009 shall not be less than RMB160,000,000 (equivalent to approximately HK\$156,863,000), RMB260,000,000 (equivalent to approximately HK\$254,902,000) and RMB150,000,000 (equivalent to approximately HK\$147,059,000) respectively. Accordingly, the Guaranteed Net Revenue amounts to an aggregate of RMB570,000,000 (equivalent to approximately HK\$558,824,000) during the term of the SA Agreement.

We consider that the Guaranteed Net Revenue would provide the Group with secured income on top of which the Group may enjoy sharing additional potential income of the Net Revenue. In addition, the Guaranteed Net Revenue receivable by Success Advantage under the SA Agreement shall cover the immediate cash outflow of HK\$60,000,000 from the Group for the Acquisition as well as the Promissory Note in the principal sum of HK\$425,000,000 to be issued by Success Advantage to CCI and the interest accrued thereon. As such, we consider that the Guaranteed Net Revenue is in the interest of the Company and the Shareholders as a whole and the consideration for the Acquisition is fair and reasonable so far as the Company and the Independent Shareholders are concerned, in particular given the premium represented by the Issue Price of the Consideration Shares over the market price of the Shares as detailed below.

### *Issue and allotment of the Consideration Shares*

As mentioned above, the consideration for the Acquisition shall be partially satisfied as to HK\$135,000,000 by the issue and allotment of the Consideration Shares, credited as fully paid, at the Issue Price pursuant to the SA Agreement. The Consideration Shares, comprising 30,000,000 new Shares, represent approximately 4.68% of the existing issued share capital of the Company and approximately 4.47% of the issued share capital of the Company as enlarged by the issue and allotment of the Company.

The Issue Price of HK\$4.500 per Consideration Share represents

- (i) a premium of approximately 12.5% over the closing price of HK\$4.000 per Share as quoted on the Stock Exchange on 20 October 2006 being the last trading day immediately before the publication of the Announcement (the "Last Trading Day");
- (ii) a premium of approximately 16.3% over the average of the closing prices of approximately HK\$3.868 per Share as quoted on the Stock Exchange

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

for the last five consecutive trading days up to and including 20 October 2006, being the last trading day immediately before the publication of the Announcement;

- (iii) a premium of approximately 23.6% over the average of the closing prices of approximately HK\$3.641 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including 20 October 2006, being the last trading day immediately before the publication of the Announcement;
- (iv) a premium of approximately 1,143% over the adjusted consolidated net assets of the Company, being the audited consolidated net assets as at 31 March 2006 (adjusted for the net proceeds from the top-up placement in May 2006) of approximately HK\$0.362 per Share (the “Adjusted NAV per Share”); and
- (v) a premium of approximately 12.2% over the closing price of HK\$4.010 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

We set out in the table below the highest and lowest trading prices of the Shares for each of the calendar month during the period from 1 October 2005 up to and including the Latest Practicable Date, being the 12-month period prior to the month of the Announcement and thereafter up to and including the Latest Practicable Date (the “Review Period”):

Trading price	Highest trading price (HK\$)	Lowest trading price (HK\$)
<b>2005</b>		
October	0.300	0.240
November	0.300	0.215
December	0.290	0.235
<b>2006</b>		
January (Note 1)	0.265	0.240
February (Note 1)	0.620	0.300
March	1.000	0.570
April	1.730	0.990
May (Note 2)	1.800	1.560
June	1.760	1.510
July	2.125	1.740
August	2.200	1.850
September	3.060	2.230
October (Note 3)	4.180	2.880
November (up to the Latest Practicable Date)	4.180	3.430

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Notes:*

1. Trading of the Shares was suspended from 13 January 2006 to 1 February 2006.
2. Trading of the Shares was suspended on 16 May 2006.
3. Trading of the Shares was suspended from 23 October 2006 to 26 October 2006.

As illustrated in the above table, the trading prices of the Shares ranged from the lowest of HK\$0.215 to the highest of HK\$4.180 per Share during the Review Period. The Issue price of HK\$4.500 per Consideration Share is above highest end of the trading prices of the Shares during the Review Period. Given that the issue price of the Consideration Shares represents a premium to the closing price of the Shares on the Last Trading Day, the average closing price of the Shares for the five consecutive trading days up to and including the Last Trading Day, the average closing price of the Shares for the 10 consecutive trading days up to and including the Last Trading Day, the closing price of the Shares on the Latest Practicable Date and the Adjusted NAV per Share, we consider that the issue price of the Consideration Shares is acceptable.

We, however, would like to draw the Shareholders' attention that the allotment and issue of the Consideration Shares will affect the shareholding structure of the Company. Upon the issue and allotment of the Consideration Shares, assuming other things remain constant, the shareholding of CCI would be increased to approximately 17.22% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares from approximately 13.34% of the issued share capital of the Company as at the Latest Practicable Date, while the aggregate shareholding of existing public shareholders would be diluted to approximately 49.32% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares from approximately 51.63% of the issued share capital of the Company as at the Latest Practicable Date. Nevertheless, we are of the view that given the premium represented by the Issue Price over the market price of the Shares and the Adjusted NAV per Share, the allotment and issue of the Consideration Shares for partial settlement of the consideration for the Acquisition, instead of settling the consideration in full by cash, is in the interest of the Company and the Shareholders as a whole in that the Company could retain more cash resources and working capital for its day-to-day operations and future developments.

*Promissory Note*

As mentioned above, the consideration for the Acquisition shall be partially satisfied as to HK\$425,000,000 by the issue of the Promissory Note by Success Advantage to CCI. The Promissory Note, in the principal sum of HK\$425,000,000, is unsecured and carries an interest rate of 2% per annum payable once every year in arrears. The Promissory Note will mature on 10 August 2009. With reference to the prime lending rate for Hong Kong dollars of 7.75% as quoted by The Hongkong and Shanghai Banking Corporation Limited as at the Latest Practicable Date, we consider that the interest rate of 2% per annum under the Promissory Note is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account (1) the Acquisition is in line with the business development of the Group in the PRC online game market and the benefits of the Acquisition to the Group as detailed in the section headed "Background and benefits of the SA Agreement" above; (2) the consideration represents a discount of 14.2% to the valuation of the right to receive the Net Revenue as prepared by the Valuer; (3) the Guaranteed Net Revenue, the aggregate amount of which shall cover the total amount of cash payment for the Acquisition including the principal sum of the Promissory Note and the interest accrued thereon; (4) the premium represented by the Issue Price of the Consideration Shares over the market price of the Shares and the Adjusted NAV per Share; and (5) the terms of the Promissory Note as detailed above, we consider that the Acquisition is in the ordinary course of business of the Group and in the interest of the Company and the Shareholders as a whole, and the terms of the SA Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### III. Financial effects

#### *Earnings*

For the year ended 31 March 2006, the Group incurred an audited loss attributable to Shareholders of approximately HK\$6.26 million. According to the unaudited pro forma income statement of the Enlarged Group as shown in the section headed "Pro forma financial information of the Enlarged Group" in Appendix IV of this Circular, the unaudited pro forma consolidated profit attributable to Shareholders of the Enlarged Group for the year ended 31 March 2006 shall be approximately HK\$116.49 million. Please refer to Appendix IV for details of the unaudited pro forma income statement of the Enlarged Group. Given the Net Revenue and the Guaranteed Net Revenue receivable by Success Advantage under the SA Agreement, we expect the SA Agreement would have a positive impact on the Group's future earnings.

#### *Net asset value, gearing and working capital*

The unaudited net assets of the Group amounted to approximately HK\$235.15 million as at 30 September 2006 and approximately HK\$0.370 per Share based on the issued share capital of the Company of 635,086,761 Shares as at 30 September 2006. According to the unaudited pro forma net assets statement of the Enlarged Group as shown in the section headed "Pro forma financial information of the Enlarged Group" in Appendix IV of this Circular (the "Proforma Net Assets Statement"), the unaudited pro forma consolidated net assets of the Enlarged Group as at 30 September 2006 shall be approximately HK\$368.15 million (the "Proforma NAV"). As at the Latest Practicable Date, the Company had a total of 641,086,761 Shares in issue. Based on the Proforma NAV and the issued share capital of the Company of 671,086,761 Shares as enlarged by the issue and allotment of the Consideration Shares, the unaudited pro forma consolidated net asset value per Share of the Enlarged Group as at 30 September 2006 is calculated as approximately HK\$0.549 per Share. In addition, as stated in the Proforma Net Assets Statement,

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the gearing of the Enlarged Group shall be increased by HK\$348,529,000, being the fair value of the Promissory Note on the date of Completion. Please refer to Appendix IV for details of the unaudited pro forma net assets statement of the Enlarged Group.

The Net Revenue and the Guaranteed Net Revenue receivable by Success Advantage would generate cash inflow to the Group during the term of the SA Agreement. Given the aggregate amount of the Guaranteed Net Revenue shall cover the total amount of cash payment for the Acquisition, including the principal sum of the Promissory Note and the interest accrued thereon, we consider that the SA Agreement would have a positive impact on the Group's working capital.

### RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that the Acquisition is in the ordinary course of business of the Group and in the interest of the Company and the Shareholders as a whole, and the terms of the SA Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM in respect of the SA Agreement.

Yours faithfully,  
For and on behalf of  
**Nuada Limited**

**Bernard Chan**  
*Executive Director*

**Po Chan**  
*Executive Director*

## 1. SUMMARY OF FINANCIAL STATEMENTS

Set out below is a summary of the audited consolidated income statements of the Group for the years ended 31 March 2004, 2005 and 2006, unaudited balance sheet as at 30 September 2006 and the unaudited income statements of the Group for the six months ended 30 September 2006 together with the comparative unaudited figures for the corresponding period in 2005, and the audited balance sheets of the Group as at 31 March 2004, 2005 and 2006 as extracted from the Company's annual report of year 2005 and 2006 and the interim report for the six months ended 30 September 2006. The auditors of the Company have given an unqualified opinion on each of the Company's and the Group's financial statements for the years ended 31 March 2004, 2005 and 2006.

## CONSOLIDATED INCOME STATEMENT

	Unaudited		Audited		
	For the six months ended 30 September		For the year ended 31 March		
	2006	2005	2006	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	10,411,138	1,286,907	7,765,796	4,569,961	2,693,048
Cost of sales	(7,541,790)	(226,500)	(4,322,010)	(1,451,860)	(487,022)
Gross profit	2,869,348	1,060,407	3,443,786	3,118,101	2,206,026
Gain on derecognition of promissory note	693,818	-	-	-	-
Other revenue	1,020,855	158,674	396,208	33,481	62,594
Selling expenses	-	(154,348)	(263,100)	(331,496)	(245,119)
Administrative expenses	(5,773,781)	(2,279,851)	(5,881,756)	(3,889,804)	(3,575,242)
Other operating expenses	(3,361,540)	(632,855)	(3,066,841)	(1,648,508)	(1,786,878)
<b>Operating profit</b>	<b>(4,551,300)</b>	<b>(1,847,973)</b>	<b>(5,371,703)</b>	<b>(2,718,226)</b>	<b>(3,338,619)</b>
Finance costs	(880,261)	(70,968)	(353,524)	-	-
Share of loss of associated company	(496,846)	(838,364)	(1,650,448)	(551,947)	-
<b>Loss before income tax</b>	<b>(5,928,407)</b>	<b>(2,757,305)</b>	<b>(7,375,675)</b>	<b>(3,270,173)</b>	<b>(3,338,619)</b>
Income tax	-	-	1,115,135	-	-
<b>Loss attributable to shareholders</b>	<b>(5,928,407)</b>	<b>(2,757,305)</b>	<b>(6,260,540)</b>	<b>(3,270,173)</b>	<b>(3,338,619)</b>
<b>Loss per share – basic</b>	<b>(HK0.99 cent)</b>	<b>(HK0.66 cent)</b>	<b>(HK1.48 cent)</b>	<b>(HK0.82 cent)</b>	<b>(HK0.83 cent)</b>
<b>Loss per share – diluted</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

## CONSOLIDATED BALANCE SHEET

	Unaudited		Audited	
	As at 30 September 2006 HK\$	2006 HK\$	As at 31 March 2005 HK\$	2004 HK\$
<b>NON-CURRENT ASSETS</b>				
Fixed assets	277,623	452,388	103,621	250,989
Deferred tax assets	1,115,135	1,115,135	–	–
Intangible assets	138,750,000	146,250,000	–	–
Investments in an associated company	3,529,162	4,026,008	5,569,353	4,622,641
	<u>143,671,920</u>	<u>151,843,531</u>	<u>5,672,974</u>	<u>4,873,630</u>
<b>CURRENT ASSETS</b>				
Loan receivable from an associated company	1,884,615	1,884,615	1,850,436	–
Accounts receivable	29,760	21,360	30,080	18,440
Amount due from a related Company	14,423,077	4,807,692	–	–
Deposits and prepayments	2,543,594	412,164	221,945	746,594
Cash and bank balances	72,803,677	2,850,589	4,683,667	9,486,992
	<u>91,684,723</u>	<u>9,976,420</u>	<u>6,786,128</u>	<u>10,252,026</u>
<b>CURRENT LIABILITIES</b>				
Accounts payable	–	–	5,370	6,866
Accrued expenses	160,221	147,189	239,287	144,187
Convertible bonds	–	4,805,083	–	–
Receipts in advance and other payables	41,497	41,497	124,905	1,113,549
	<u>201,718</u>	<u>4,993,769</u>	<u>369,562</u>	<u>1,264,602</u>
<b>NET CURRENT ASSETS</b>	<u>91,483,005</u>	<u>4,982,651</u>	<u>6,416,566</u>	<u>8,987,424</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>235,154,925</u>	<u>156,826,182</u>	<u>12,089,540</u>	<u>13,861,054</u>
<b>NON-CURRENT LIABILITIES</b>				
Promissory Note	–	69,733,626	–	–
<b>TOTAL NET ASSETS</b>	<u>235,154,925</u>	<u>87,092,556</u>	<u>12,089,540</u>	<u>13,861,054</u>
<b>FINANCED BY</b>				
Share capital	6,350,868	5,135,520	4,000,000	4,000,000
Reserves	228,804,057	81,957,036	8,089,540	9,861,054
	<u>235,154,925</u>	<u>87,092,556</u>	<u>12,089,540</u>	<u>13,861,054</u>

## 2. AUDITED FINANCIAL STATEMENTS FOR THE TWO YEARS ENDED 31 MARCH 2006

Set out below are the audited financial statements of the Group for the two years ended 31 March 2006, which are extracted from the annual report of the Company for the year ended 31 March 2006. The auditors of the Company have given an unqualified opinion on each of the Group's financial statements for each of the two years ended 31 March 2006.

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
<b>Turnover</b>	5	7,765,796	4,569,961
Cost of sales		<u>(4,322,010)</u>	<u>(1,451,860)</u>
Gross profit		3,443,786	3,118,101
Other revenue		396,208	33,481
Selling expenses		(263,100)	(331,496)
Administrative expenses		(5,881,756)	(3,889,804)
Other operating expenses		<u>(3,066,841)</u>	<u>(1,648,508)</u>
<b>Operating loss</b>	6	(5,371,703)	(2,718,226)
Finance costs	7	(353,524)	–
Share of loss of associated company		<u>(1,650,448)</u>	<u>(551,947)</u>
<b>Loss before income tax</b>		(7,375,675)	(3,270,173)
Income tax	8	<u>1,115,135</u>	–
<b>Loss attributable to shareholders</b>		<u><u>(6,260,540)</u></u>	<u><u>(3,270,173)</u></u>
<b>Loss per share for loss attributable to shareholders of the Company during the year</b>	10		
– Basic		<u><u>(HK1.48 cents)</u></u>	<u><u>(HK0.82 cent)</u></u>
– Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

## CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	452,388	103,621
Deferred tax assets	14	1,115,135	–
Intangible assets	15	146,250,000	–
Investments in associated company	16(a)	4,026,008	5,569,353
		<u>151,843,531</u>	<u>5,672,974</u>
<b>CURRENT ASSETS</b>			
Loan receivable from associated company	16(b)	1,884,615	1,850,436
Accounts receivable	18	21,360	30,080
Amount due from a related company	19	4,807,692	–
Deposits and prepayments		412,164	221,945
Cash and bank balances		2,850,589	4,683,667
		<u>9,976,420</u>	<u>6,786,128</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	20	–	5,370
Accrued expenses		147,189	239,287
Convertible bonds	21	4,805,083	–
Receipts in advance and other payables		41,497	124,905
		<u>4,993,769</u>	<u>369,562</u>
<b>NET CURRENT ASSETS</b>		<u>4,982,651</u>	<u>6,416,566</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		156,826,182	12,089,540
<b>NON-CURRENT LIABILITIES</b>			
Promissory notes	23	69,733,626	–
<b>NET ASSETS</b>		<u>87,092,556</u>	<u>12,089,540</u>
<b>FINANCED BY</b>			
Share capital	22	5,135,520	4,000,000
Reserves		81,957,036	8,089,540
<b>TOTAL EQUITY</b>		<u>87,092,556</u>	<u>12,089,540</u>

**BALANCE SHEET**

AS AT 31 MARCH 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$</i>	<b>2005</b> <i>HK\$</i>
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiary companies	17	48,134,229	10,585,794
<b>CURRENT ASSETS</b>			
Cash and bank balances		479,556	3,922,647
<b>CURRENT LIABILITIES</b>			
Accrued expenses		22,969	24,000
Convertible bonds		4,805,083	–
		4,828,052	24,000
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(4,348,496)</u>	<u>3,898,647</u>
<b>TOTAL NET ASSETS</b>		<u>43,785,733</u>	<u>14,484,441</u>
<b>FINANCED BY</b>			
Share capital	22	5,135,520	4,000,000
Reserves		38,650,213	10,484,441
<b>TOTAL EQUITY</b>		<u>43,785,733</u>	<u>14,484,441</u>

**APPENDIX I**
**FINANCIAL INFORMATION ON THE GROUP**
**STATEMENTS OF CHANGES IN EQUITY OF THE GROUP AND THE COMPANY  
FOR THE YEAR ENDED 31 MARCH 2006**
**Group**

	Share capital	Share premium	Merger reserve	Capital surplus	Asset revaluation reserve	Exchange revaluation reserve	Convertible bond reserve	Employee share-based compensation reserve	Accumul- ated losses	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance as at										
1 April 2004	4,000,000	15,195,487	8,320,333	-	-	-	-	-	(13,654,766)	13,861,054
Loss for the year	-	-	-	-	-	-	-	-	(3,270,173)	(3,270,173)
Excess amount contributed by the major investor of the associated company	-	-	-	1,498,659	-	-	-	-	-	1,498,659
Balance as at										
1 April 2005	4,000,000	15,195,487	8,320,333	1,498,659	-	-	-	-	(16,924,939)	12,089,540
Loss for the year	-	-	-	-	-	-	-	-	(6,260,540)	(6,260,540)
Issue of shares	1,118,420	33,353,340	-	-	-	-	-	-	-	34,471,760
Currency translation differences										
- Group	-	-	-	-	-	34,179	-	-	-	34,179
- Associate	-	-	-	-	-	107,103	-	-	-	107,103
Employee share option scheme										
- Value of employee services	-	-	-	-	-	-	-	317,241	-	317,241
- Proceed from shares issued	20,000	74,000	-	-	-	-	-	-	-	94,000
Convertible bond issuing expenses	-	-	-	-	-	-	(100,000)	-	-	(100,000)
Share issue expenses	-	(329,582)	-	-	-	-	-	-	-	(329,582)
Repurchase of shares	(2,900)	(91,300)	-	-	-	-	-	-	-	(94,200)
Equity component for the convertible bonds issued during the year	-	-	-	-	-	-	448,441	-	-	448,441
Revaluation -intangible assets	-	-	-	-	46,314,614	-	-	-	-	46,314,614
Balance as at										
31 March 2006	5,135,520	48,201,945	8,320,333	1,498,659	46,314,614	141,282	348,441	317,241	(23,185,479)	87,092,556

## Company

	Share capital HK\$	Share premium HK\$	Convertible bond reserve HK\$	Employee share-based compensation reserve HK\$	Accumulated losses HK\$	Total HK\$
Balance as at 1 April 2004	4,000,000	15,195,487	-	-	(2,143,313)	17,052,174
Loss for the year	-	-	-	-	(2,567,733)	(2,567,733)
Balance as at 1 April 2005	4,000,000	15,195,487	-	-	(4,711,046)	14,484,441
Loss for the year	-	-	-	-	(5,506,368)	(5,506,368)
Issue of shares	1,118,420	33,353,340	-	-	-	34,471,760
Employees share option scheme						
- value of employee services	-	-	-	317,241	-	317,241
- proceeds from shares issued	20,000	74,000	-	-	-	94,000
Convertible bonds issuing expenses	-	-	(100,000)	-	-	(100,000)
Share issue expenses	-	(329,582)	-	-	-	(329,582)
Repurchases of shares	(2,900)	(91,300)	-	-	-	(94,200)
Equity component for the convertible bonds issued during the year	-	-	448,441	-	-	448,441
Balance as at 31 March 2006	<u>5,135,520</u>	<u>48,201,945</u>	<u>348,441</u>	<u>317,241</u>	<u>(10,217,414)</u>	<u>43,785,733</u>

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	<i>Note</i>	2006 HK\$	2005 HK\$
<b>Cash flows from operating activities</b>	25	(6,433,824)	(2,910,158)
Interest paid		(100,000)	–
<b>Net cash used in operating activities</b>		(6,533,824)	(2,910,158)
<b>Cash flows from investing activities</b>			
Purchases of fixed assets		(465,588)	(44,361)
Purchases of intangible assets		(10,000,000)	–
Loan advance to an associated company		–	(1,850,436)
Interest received		76,116	1,630
<b>Net cash used in investing activities</b>		(10,389,472)	(1,893,167)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		263,000	–
Repurchase of shares		(94,200)	–
Issue of shares on placing		10,257,000	–
Issue of shares on exercise of share options		94,000	–
Issuing expenses paid		(429,582)	–
Proceeds from issuance of convertible bonds		5,000,000	–
<b>Net cash generated from financing activities</b>		15,090,218	–
<b>Net decrease in cash and cash equivalents</b>		(1,833,078)	(4,803,325)
Cash and cash equivalents at beginning of the year		4,683,667	9,486,992
<b>Cash and cash equivalents at end of the year</b>		<u>2,850,589</u>	<u>4,683,667</u>
<b>Analysis of cash and cash equivalents</b>			
Cash and bank balances		<u>2,850,589</u>	<u>4,683,667</u>

**Non-cash transactions**

- During the year, the license was acquired for a consideration of HK\$150,000,000, of which an amount of HK\$116,048,240 was financed by the issue of promissory note and an amount of HK\$23,951,760 was financed by the issue of ordinary shares.

## NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 23 May 2002 with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The shares of the Company were successfully listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 November 2002.

The principal activities of the Company is investment holding. The Group was principally engaged in the licensing of licensed rights, operation of financial website, and the provision of financial information and investor education.

The registered office of the Company is P.O. Box 309GT, Ugland House, South Church Street, Grand Cayman, Cayman Islands and its principal place of business is Units 2115-2116, 21/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 2.1 Basis of preparation

**Adoption of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("New HKFRSs")**

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of New HKFRSs which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the New HKFRSs in the preparation of accounts for the period from 1 April 2005 onward. The comparative financial statements for the year ended 31 March 2005 have been restated in accordance with the relevant requirements of the New HKFRSs, if applicable.

The adoption of New HKFRSs does not result in substantial changes to the Group's accounting policies except for the presentation and disclosure of the financial statements.

At the date of this report, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	(Note a)	Capital disclosures
HKAS 19 (Amendment)	(Note b)	Employee benefits – Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	(Note b)	The effect of changes in foreign exchange rates – Net investment in a foreign operation
HKAS 39 (Amendment)	(Note b)	Cash flow hedges of forecast intragroup transactions
HKAS 39 (Amendment)	(Note b)	The fair value option
HKAS 39 and HKFRS 4 (Amendments)	(Note b)	Financial instruments: Recognition and measurement and insurance contracts – Financial guarantee contracts
HKFRS 6	(Note b)	Exploration for and evaluation of mineral resources
HKFRS 7	(Note a)	Financial Instruments: Disclosures
HKFRS-Int 4	(Note b)	Determining whether an arrangement contains a lease
HKFRS-Int 5	(Note b)	Rights to interests arising from decommissioning, restoration and environment rehabilitation funds
HK (IFRIC)-Int 6	(Note c)	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
HK(IFRIC)-Int 7	(Note d)	Applying the restatement approach under HKAS 29 – Financial reporting in hyperinflationary economies

*Note a:* effective for annual periods beginning on or after 1 January 2007

*Note b:* effective for annual periods beginning on or after 1 January 2006

*Note c:* effective for annual periods beginning on or after 1 December 2005

*Note d:* effective for annual periods beginning on or after 1 March 2006

The Group has commenced considering the potential impact of the above new HKFRS but is not yet in a position to determine whether these HKFRS would have a significant impact on how its result of operations and financial position are prepared and presented. These HKFRS may result in changes in the future as to how the results and financial position are prepared and presented.

## 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March.

### (a) *Subsidiaries*

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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

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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (b) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill net of any accumulated impairment loss identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### 2.4 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (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. Exchange differences arising, if any, are recognized as a separate component of equity (the exchange revaluation reserve). Such exchange differences are recognized in income statement in the period in which the foreign operation is disposed of.

### 2.5 Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any provisions for impairment losses required to reflect recoverable amounts. Cost represents purchase price and any directly attributable costs of bringing the asset to its working condition for its intended use. Subsequent expenditure is capitalised when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure, such as repairs and maintenance and overhaul costs, is recognised as expenses in the period in which it is incurred.

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives, on a straight-line basis, at the following annual rates:

Computer equipment	33 <sup>1</sup> / <sub>3</sub> % – 50%
Leasehold improvements	Shorter of unexpired lease period or useful life
Equipment, furniture and fixtures	25% – 33 <sup>1</sup> / <sub>3</sub> %

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising from the retirement or disposal of fixed assets, representing the difference between the estimated net disposal proceeds and the carrying amount of the asset, is recognised in the income statement.

**2.6 Intangible assets**

Licenses have a definite useful life and are carried at their revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method to allocate the carrying amounts of the licenses over their estimated useful lives.

**2.7 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.8 Accounts receivable**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

**2.9 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**2.10 Financial liabilities**

Financial liabilities are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the financial liabilities using the effective interest method.

*(a) Convertible bonds*

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

(b) *Promissory note*

The note is initially recognized at the fair value of the consideration received less directly attributable costs. After initial recognition, the note is carried at amortized cost using the effective interest method, i.e. by discounting the expected cash flows at prevailing interest rate.

## 2.11 Taxation

The charge for taxation is based on the results for the year as adjusted for items, which are non-assessable or disallowable. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date is used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available offset against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiary companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2.12 Employee benefits

(a) *Employee leave entitlements*

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

(b) *Pension scheme*

The Group contributes to defined contribution retirement schemes. The assets are held separately from those of the Group in an independently administered fund. Contributions to these retirement schemes are charged to the income statement as they become payable in accordance with the rules of these schemes.

(c) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

**2.13 Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with time when the goods are delivered to customers and the title has passed.

Revenue from the provision of services is recognised when the services are rendered.

Interest income is recognized on a time-proportion basis using the effective interest method.

Licensing income is recognized on pro-rata and accruals basis as stipulated in the relevant agreements.

**2.14 Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases, net of incentives received from the leasing company, are charged to the income statement on a straight-line basis over the lease periods.

**2.15 Related parties**

Two parties are considered to be related within the Group if one party has the ability, directly or indirectly, to control the other parties or exercise significant influence over the other parties in making financial and operating decisions. Parties are considered to be related if they are subject to common control or common significant influence.

**3. FINANCIAL RISK MANAGEMENT****3.1 Financial risk factors**

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

*(a) Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products and provision of services are made to customers with an appropriate credit history.

*(b) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

*(c) Fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from promissory note which is interest free, will expose the Group to fair value interest-rate risk. At the year end, 9% of borrowings were at fixed rates.

### 3.2 Fair value estimation

The nominal value less estimated credit adjustments of accounts receivable and accounts payable are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements 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.

The Group 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 mainly share-based payments.

The fair value of option granted is estimated by independent professional valuers based on various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimates of the fair value of the share options at date of grant.

## 5. SEGMENT INFORMATION

The Group is principally engaged in licensing the licensed rights, providing real-time financial news and up-to-date financial market commentaries and recommendations through multimedia and financial seminars and courses. In accordance with the Group's operating activities, the primary segment reporting is by business segments.

## (a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 March 2006 and 31 March 2005:

*Segment Revenue and Results*

	Licensing income		Financial information		Financial seminars and courses		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	<u>4,807,692</u>	<u>-</u>	<u>1,482,712</u>	<u>1,344,068</u>	<u>1,381,392</u>	<u>2,572,493</u>	<u>94,000</u>	<u>653,400</u>	<u>7,765,796</u>	<u>4,569,961</u>
Segment results	<u>1,057,692</u>	<u>-</u>	<u>1,334,792</u>	<u>1,153,408</u>	<u>1,059,742</u>	<u>1,928,693</u>	<u>(8,440)</u>	<u>36,000</u>	3,443,786	3,118,101
Other revenue									396,208	33,481
Unallocated costs									<u>(9,211,697)</u>	<u>(5,869,808)</u>
Operating loss									(5,371,703)	(2,718,226)
Finance costs									(353,524)	-
Share of loss of associated company									<u>(1,650,448)</u>	<u>(551,947)</u>
Loss before taxation									(7,375,675)	(3,270,173)
Taxation									<u>1,115,135</u>	<u>-</u>
Loss attributable to shareholders									<u>(6,260,540)</u>	<u>(3,270,173)</u>

There are no significant sales or other transactions between the business segments.

The licensing income is receivable from the licensee, net of all taxes.

For the year ended 31 March 2006, others mainly comprise the provision of corporate public relations services to independent third parties and production of financial books.

For the year ended 31 March 2005, others mainly comprise the production of financial programme and video.

Unallocated costs represent corporate expenses including selling expenses, administrative expenses and other expenses. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

**APPENDIX I**
**FINANCIAL INFORMATION ON THE GROUP**

Segment assets and liabilities as at 31 March 2006 and 31 March 2005

	Licensing income		Financial information		Financial seminars and courses		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	<u>151,057,692</u>	<u>–</u>	<u>21,360</u>	<u>30,080</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	151,079,052	30,080
Unallocated assets									<u>10,740,899</u>	<u>12,429,022</u>
Total assets									<u>161,819,951</u>	<u>12,459,102</u>
Segment liabilities	<u>69,733,626</u>	<u>–</u>	<u>41,497</u>	<u>69,276</u>	<u>1,800</u>	<u>87,100</u>	<u>–</u>	<u>–</u>	69,776,923	156,376
Unallocated liabilities									<u>4,950,472</u>	<u>213,186</u>
Total liabilities									<u>74,727,395</u>	<u>369,562</u>
Other information:										
Unallocated capital expenditure									465,588	44,361
Depreciation									<u>116,821</u>	<u>191,297</u>

Segment assets consist primarily of intangible assets, amount due from a related party and accounts receivable.

Segment liabilities comprise promissory note, accrued expenses and receipts in advance and other payable.

## (b) Geographical segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's geographical segments for the years ended 31 March 2006 and 31 March 2005:

*Segment Revenue and Results*

	Hong Kong		PRC		Total	
	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	<u>2,958,104</u>	<u>4,569,961</u>	<u>4,807,692</u>	<u>-</u>	<u>7,765,796</u>	<u>4,569,961</u>
Segment results	<u>2,386,094</u>	<u>3,118,101</u>	<u>1,057,692</u>	<u>-</u>	3,443,786	3,118,101
Other revenue					396,208	33,481
Unallocated costs					(9,211,697)	(5,869,808)
Operating loss					(5,371,703)	(2,718,226)
Finance costs					(353,524)	-
Share of loss of associated company					(1,650,448)	(551,947)
Loss before taxation					(7,375,675)	(3,270,173)
Taxation					1,115,135	-
Loss attributable to shareholders					<u>(6,260,540)</u>	<u>(3,270,173)</u>

*Segment assets and liabilities as at 31 March 2006 and 31 March 2005*

	Hong Kong		PRC		Total	
	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	<u>4,650,420</u>	<u>4,838,042</u>	<u>157,169,531</u>	<u>7,621,060</u>	161,819,951	12,459,102
Segment liabilities	<u>4,993,769</u>	<u>369,562</u>	<u>69,733,626</u>	<u>-</u>	74,727,395	369,562
Other information:						
Unallocated capital expenditure					465,588	44,361
Depreciation					<u>116,821</u>	<u>191,297</u>

## 6. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2006 HK\$	2005 HK\$
<b>Crediting:</b>		
Interest income	76,116	1,630
<b>Charging:</b>		
Auditors' remuneration	90,000	100,000
Depreciation (Note 13)	116,821	191,729
Amortization (Note 15)	3,750,000	–
Operating leases in land and buildings	934,297	300,362
Employee benefit expense (Note 12)	4,472,375	3,403,943
	<u>4,472,375</u>	<u>3,403,943</u>

## 7. FINANCE COSTS

	2006 HK\$	2005 HK\$
Interest expense for convertible bonds wholly repayable within five years	353,524	–
	<u>353,524</u>	<u>–</u>

## 8. TAXATION

The Group's business is operated in Hong Kong and is subject to Hong Kong profits tax at the rate of 17.5% (2005: 17.5%).

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated companies as follows:

	2006 HK\$	2005 HK\$
Loss before taxation	(7,375,675)	(3,270,173)
Tax at the domestic tax rate of 17.5%	(1,290,743)	(572,280)
Expenses not deductible for tax purposes	–	34,423
Income not subject to tax	(854,666)	(42)
Utilisation of previously unrecognized tax losses	–	(289,520)
Recognition of previously unrecognized tax losses	(1,305,442)	–
Tax effect of unused tax losses not recognized	2,336,804	837,888
Others	(1,088)	(10,469)
	<u>(1,115,135)</u>	<u>–</u>
Tax (credit)/expense for the year	<u>(1,115,135)</u>	<u>–</u>

## 9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$5,506,368 (2005: HK\$2,567,733).

## 10. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31 March 2006 is based on the consolidated net loss attributable to shareholders of HK\$6,260,540 (2005: HK\$3,270,173) and the weighted average number of 423,933,836 (2005: 400,000,000) ordinary shares in issue during the year.

	2006 HK\$	2005 HK\$
Loss attributable to equity holders of the Company	(6,260,540)	(3,270,173)
Weighted average number of ordinary shares in issue	423,933,836	400,000,000
Basic loss per share (cents per share)	<u>(1.48)</u>	<u>(0.82)</u>

## 11. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2005: Nil).

## 12. EMPLOYEE BENEFIT EXPENSE

	2006 HK\$	2005 HK\$
Wages and salaries	4,041,733	3,299,139
Share options granted	317,241	–
Pension costs – defined contribution plans	113,401	104,804
	<u>4,472,375</u>	<u>3,403,943</u>

## (a) Pensions – defined contribution plans

No forfeited contributions were utilized during the year nor available at year end to reduce future contributions (2005: Nil).

## (b) Directors' emoluments

The remuneration of the director for the year ended 31 March 2006 is set out below:

Name of Director	Fees HK\$	Salary HK\$	Employer's contribution to pension HK\$	Total HK\$
He Chenguang (a)	–	–	–	–
Xiao Haiping (b)	–	198,710	3,000	201,710
Chan Tan Lui, Danielle	–	1,200,000	12,000	1,212,000
Zhang Peng (c)	–	–	–	–
Choo Kwok How	–	342,000	12,000	354,000
Zhang Jialin (d)	–	500,000	10,000	510,000
Yip Tai Him	–	–	–	–
Guo Qi	–	–	–	–
Chiu Kwok Ching	–	–	–	–
	<u>–</u>	<u>2,240,710</u>	<u>37,000</u>	<u>2,277,710</u>

The remuneration of every Director for the year ended 31 March 2005 is set out below:

Name of Director	Fees HK\$	Salary HK\$	Discretionary bonuses HK\$	Employer's contribution to pension scheme	Total HK\$
				HK\$	
Chan Tan Lui, Danielle	–	1,200,000	100,000	12,000	1,312,000
Choo Kwok How	–	240,400	24,000	9,920	274,320
Wu Wing Kin (e)	–	68,000	–	2,400	70,400
Kwok Chi Kin (f)	–	66,000	–	2,000	68,000
Yip Tai Him	–	–	–	–	–
Guo Qi	–	–	–	–	–
Chiu Kwok Ching	–	–	–	–	–
	–	1,574,400	124,000	26,320	1,724,720

- Notes: (a) Appointed on 28 April 2006.  
 (b) Appointed on 17 January 2006.  
 (c) Appointed on 16 June 2006.  
 (d) Appointed on 1 June 2005.  
 (e) Resigned on 8 June 2004.  
 (f) Resigned on 18 May 2004.

During the year, no directors waived any emoluments and no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or joining the Group as compensation for loss of office.

(c) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: three) individual during the year are as follows:

	2006 HK\$	2005 HK\$
Basic salaries, allowances and benefit in kinds	201,290	472,233
Bonuses	–	–
Retirement benefit costs	3,000	21,160
	204,290	493,393

The emoluments of the employee fell within the following bands:

Emolument bands	Number of Individuals	
	2006	2005
HK\$Nil to HK\$1,000,000	1	3

## 13. FIXED ASSETS

	Group			Total HK\$
	Computer equipment HK\$	Leasehold improvements HK\$	Equipment, furniture and fixtures HK\$	
Cost				
At 1 April 2005	1,941,915	250,058	166,500	2,358,473
Additions	45,557	361,271	58,760	465,588
Disposals	(55,930)	(250,059)	(57,053)	(363,042)
<b>At 31 March 2006</b>	<u>1,931,542</u>	<u>361,270</u>	<u>168,207</u>	<u>2,461,019</u>
Accumulated depreciation				
At 1 April 2005	1,868,381	250,058	136,413	2,254,852
Charge for the year	54,541	41,280	21,000	116,821
Disposals	(55,930)	(250,059)	(57,053)	(363,042)
<b>At 31 March 2006</b>	<u>1,866,992</u>	<u>41,279</u>	<u>100,360</u>	<u>2,008,631</u>
Net book value				
<b>At 31 March 2006</b>	<u>64,550</u>	<u>319,991</u>	<u>67,847</u>	<u>452,388</u>
At 31 March 2005	<u>73,534</u>	<u>–</u>	<u>30,087</u>	<u>103,621</u>

## 14. DEFERRED TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The gross movement on the deferred income tax account is as follows:

	Group	
	2006 HK\$	2005 HK\$
Beginning of the year	–	–
Recognised in the income statement ( <i>Note 8</i> )	(1,115,135)	–
End of the year	<u>(1,115,135)</u>	<u>–</u>

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

	Group Accelerated tax HK\$
At 1 April 2005	–
Recognised in the income statement	9,204
<b>At 31 March 2006</b>	<u>9,204</u>

Deferred tax assets:

	<b>Group Tax losses HK\$</b>
At 1 April 2005	–
Recognised in the income statement	<u>(1,124,339)</u>
<b>At 31 March 2006</b>	<b><u>(1,124,339)</u></b>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. In the previous year, no deferred tax is recognized as the Group has not received the confirmation from the Inland Revenue on the exact amount of tax loss. In the current year, the Group has received the assessment for one of the subsidiary from the Inland Revenue that tax loss HK\$7,304,000 can be carried forward to offset the chargeable profits in the future, therefore deferred tax assets of HK\$1,124,000 are recognized.

Apart from the above, the Group did not recognize deferred income tax assets of HK\$2,713,000 (2005: HK\$2,696,000) in respect of losses of the Company and other subsidiaries amounting to HK\$15,505,000 (2005: HK\$15,409,000) that can be carried forward against future taxable income.

#### 15. INTANGIBLE ASSETS

	<b>Licences HK\$</b>
<b>At 1 April 2005</b>	
Revalued amount	–
Accumulated amortization and impairment	<u>–</u>
Net book amount	<b><u>–</u></b>
<b>Year ended 31 March 2006</b>	
Opening net book amount	–
Additions	150,000,000
Amortization expense ( <i>Note 6</i> )	<u>(3,750,000)</u>
Closing net book amount	<b><u>146,250,000</u></b>
<b>At 31 March 2006</b>	
Revalued amount	150,000,000
Accumulated amortization and impairment	<u>(3,750,000)</u>
Net book amount	<b><u>146,250,000</u></b>

Amortization expense of HK\$3,750,000 (2005: Nil) has been expensed in the cost of sales.

The licenses has been revalued by the independent valuer, Grant Sherman Appraisal Limited, as at 31 December 2005.

Details on the licensed right has been included in the circular of the Company dated 15 March 2006.

## 16. INVESTMENTS IN ASSOCIATED COMPANY

## (a) Interests in associated company

	Group	
	2006 HK\$	2005 HK\$
At 1 April	5,569,353	4,622,641
Share of capital surplus	–	1,498,659
Share of associate's results		
– loss before taxation	(1,650,448)	(551,947)
Exchange difference	107,103	–
	<u>4,026,008</u>	<u>5,569,353</u>
At 31 March	<u>4,026,008</u>	<u>5,569,353</u>

Details of the Group's associated company are as follows:

Name	Percentage of equity interest	Principal activities	Place of operation
神州速達導航通信資訊 (北京)有限公司	49%	Provision of various value-added services, including financial information relating to Hong Kong, to telecommunication users through the media channels in the PRC	People's Republic of China

## (b) Loan receivable from associated company

The balance is unsecured, bearing interest at the rate of 5% per annum. During the year, a supplemental agreement was signed on 4 November 2005 pursuant to which the repayment date of the loan and the interests incurred therein has been extended to 4 November 2006.

## 17. INVESTMENTS IN SUBSIDIARY COMPANIES

	Company	
	2006 HK\$	2005 HK\$
Unlisted shares, at cost	3,293,008	3,293,008
Amounts due from subsidiary companies	45,019,015	8,157,816
Amounts due to subsidiary companies	(177,794)	(865,030)
	<u>48,134,229</u>	<u>10,585,794</u>

Amounts due from/(to) subsidiary companies are unsecured, interest-free and have no fixed terms of repayment.

Details of the Company's subsidiary companies at 31 March 2006 are as follows:

Name	Place of incorporation and type of legal entity	Issued and fully paid up share capital	Percentage of equity interest	Principal activities and place of operation
* HK6 Investment Limited	British Virgin Islands, limited liability company	US\$2,614.00	100%	Investment holding in British Virgin Islands
Hong Kong Financial Institute Limited	Hong Kong, limited liability company	HK\$1,307.00	100%	Production of financial programmes and videos and provision of investor education in Hong Kong
hk6.com Limited	Hong Kong, limited liability company	HK\$2.00	100%	Operation of financial websites and provision of financial information in Hong Kong
HK6 Media Limited	Hong Kong, limited liability company	HK\$2.00	100%	Development of business alliances with media channels in Hong Kong
* HK6 Investment China (BVI) Limited	British Virgin Islands, limited liability company	US\$1.00	100%	Investment holding in British Virgin Islands
Sino Key International Ltd.	British Virgin Islands, limited liability company	US\$1.00	100%	Investment holding in British Virgin Islands
Pro-Concept Development Ltd.	British Virgin Islands, limited liability company	US\$1.00	100%	Investment holding in British Virgin Islands
神州資訊(深圳)有限公司	People's Republic of China, limited liability company	HK\$1,000,000.00	100%	Business has not yet been commenced

\* *shares held directly by the Company*

#### 18. ACCOUNTS RECEIVABLE

The balances at year ends are all aged less than 30 days.

The Group generally granted its customers credit period ranging between 7 days and 30 days.

#### 19. AMOUNT DUE FROM A RELATED COMPANY

The balance relates to the outstanding of the licensing fee receivable, and is unsecured, interest free and is repayable by 31 December 2006.

#### 20. ACCOUNTS PAYABLE

The balances at year ends are all aged less than 30 days.

#### 21. CONVERTIBLE BONDS

In May 2005, the Company issued convertible bonds with a nominal value of HK\$5 million bearing an interest at a rate of 4.0% per annum and mature in May 2007.

The bondholder has the right to convert the whole or part of the nominal value of the convertible bonds into the shares of the Company before maturity at the conversion price of HK\$0.42 per share.

The fair values of the liability component and the equity conversion component were determined at the date of issuance of the convertible bonds based on the discounted rate of 9% per annum.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in other reserves in shareholder' equity.

The convertible bonds recognised in the balance sheet is calculated as follows:

	Group	
	2006 HK\$	2005 HK\$
Nominal value of convertible bonds issued in May 2005	5,000,000	–
Equity component upon initial recognition	(448,441)	–
Liability component upon initial recognition	4,551,559	–
Interest expense ( <i>Note 7</i> )	353,524	–
Interest repaid	(100,000)	–
Liability component, at fair value, at the end of the year	<u>4,805,083</u>	<u>–</u>

## 22. SHARE CAPITAL

### (a) Share capital

	Company	
	2006 HK\$	2005 HK\$
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.01 each	<u>10,000,000</u>	<u>10,000,000</u>
<i>Issued and fully paid:</i>		
513,552,000 ordinary shares of HK\$0.01 each	<u>5,135,520</u>	<u>4,000,000</u>

### (b) Share option scheme

The fair value of the share option granted during the year was calculated based on the Black-Scholes option pricing model.

## 23. PROMISSORY NOTES

	Group	
	2006 HK\$	2005 HK\$
Promissory note, nominal amount	116,048,240	–
Designated as fair value through assets revaluation reserve	46,314,614	–
	<u>69,733,626</u>	<u>–</u>

The note is interest free, unsecured and mature on 30 June 2016.

The carrying amount of the note approximate to its fair value. The fair value of the note is calculated by discounting the expected future cash flows at the company's borrowing rate of 5% per annum.

## 24. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	2006 HK\$	2005 HK\$
Amounts due from a related company	4,807,692	–
Loan receivable from associated company (Note 16 (b))	1,884,615	1,850,436
Promissory note payable to a shareholder (Note 23)	69,733,626	–
Licensing income from a related company (Note 5)	4,807,692	–
	<u>4,807,692</u>	<u>–</u>

The Directors are of the opinion that the above transactions were conducted at arm's length in the ordinary course of business and on normal commercial terms or on terms that are fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole.

## 25. CASH GENERATED FROM OPERATIONS

	2006 HK\$	2005 HK\$
Loss before taxation	(7,375,675)	(3,270,173)
Adjustments for:		
Depreciation (Note 13)	116,821	191,729
Amortization (Note 15)	3,750,000	–
Fair value for share options granted	317,241	–
Interest income (Note 6)	(76,116)	(1,630)
Interest expense (Note 7)	353,524	–
Share of loss from associates (Note 16(a))	1,650,448	551,947
	<u>(1,263,757)</u>	<u>(2,528,127)</u>
Changes in working capital:		
Accounts receivable	8,720	(11,640)
Amount due from a related company	(4,807,692)	–
Deposits and prepayments	(190,219)	524,649
Accounts payable	(5,370)	(1,496)
Accrued expenses	(92,098)	95,100
Receipts in advance and other payables	(83,408)	(988,644)
	<u>(6,433,824)</u>	<u>(2,910,158)</u>

## 26. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make rental payments in respect of land and buildings after the balance sheet date under operating leases falling due as follows:

	Group	
	2006 HK\$	2005 HK\$
Within one year	806,598	551,845
In the second to fifth year inclusive	288,552	–
	<u>1,095,150</u>	<u>551,845</u>

**27. CAPITAL COMMITMENTS**

As at 31 March 2006, the Group has a capital commitment to contribute remaining amount of HK\$800,000 for the capital of its wholly owned subsidiary, 神州資訊(深圳)有限公司.

**28. POST BALANCE SHEET EVENTS**

- (a) On 13 April 2006, the registered holder of the convertible bonds has elected to exercise the conversion rights attached to the convertible bonds to convert the whole principal amount of HK\$5,000,000 into the shares of the Company at the conversion price of HK\$0.42 per share. 11,904,761 shares of the Company were therefore issued and allotted to the holder of the convertible bonds.
- (b) On 15 May 2006, China Communication Investment Limited (“CCI”) and Superhero Limited (“Superhero”) entered into a placing and subscription agreement with VC Brokerage Limited (the “Placing Agent”) pursuant to which the Placing Agent agreed with CCI and Superhero to place up to a total of 100,000,000 existing shares, out of which 85,540,000 existing shares beneficially owned by CCI to be placed to the exclusion and before 14,460,000 existing shares beneficially owned by Superhero, at the placing price of HK\$1.50 per existing share to not less than six placees who will be third parties independent of the Group and its connected persons on a best effort basis (the “Placing and Subscription Agreement”).

Under the Placing and Subscription Agreement, CCI and Superhero agreed to subscribe for the subscription shares, which are equal to the number of the placing shares that they placed respectively under the placing.

The Placing Agent has successfully placed a total of 97,230,000 existing shares on behalf of CCI and Superhero to sixteen placees, comprising institutional and individual investors who are independent of and not connected with any of the Directors, chief executives, substantial shareholders or management shareholders of the Company or an associate of any of them, at the placing price of HK\$1.50 per existing share. Completion of the placing took place on 19 May 2006.

The Company has obtained approval from the GEM Listing Committee for the listing of, and permission to deal in, the 97,230,000 subscription shares.

The subscription was completed on 26 May 2006.

**29. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Board on 16 June 2006.

### 3. UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

Set out below is the unaudited financial statements of the Group for the six months ended 30 September 2006 together with the comparative figures for the corresponding period in 2005, which is extracted from the interim report of the Group for the six months ended 30 September 2006.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 September 2006*

The unaudited consolidated results of the Group for the six months ended 30 September 2006, together with the comparative unaudited figures for the corresponding period in 2005 are as follows:

	Notes	Six months ended	
		2006 (Unaudited) HK\$	2005 (Unaudited) HK\$
Turnover	3	10,411,138	1,286,907
Cost of sales		<u>(7,541,790)</u>	<u>(226,500)</u>
Gross profit		2,869,348	1,060,407
Gain on derecognition of an financial liabilities		693,818	–
Other revenue	3	1,020,855	158,674
Selling expenses		–	(154,348)
Administrative expenses		(5,773,781)	(2,279,851)
Other operating expenses		<u>(3,361,540)</u>	<u>(632,855)</u>
Operating loss	4	(4,551,300)	(1,847,973)
Finance costs	5	(880,261)	(70,968)
Share of loss of associated company		<u>(496,846)</u>	<u>(838,364)</u>
Loss before income tax		(5,928,407)	(2,757,305)
Income tax	6	<u>–</u>	<u>–</u>
Loss attributable to shareholders		<u><u>(5,928,407)</u></u>	<u><u>(2,757,305)</u></u>
Loss per share			
– basic	7	<u>(HK0.99 cent)</u>	<u>(HK0.66 cent)</u>
– diluted	7	<u>N/A</u>	<u>N/A</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006

	<i>Notes</i>	<b>30 September 2006 (Unaudited) HK\$</b>	<b>31 March 2006 (Audited) HK\$</b>
<b>Non-current assets</b>			
Fixed assets	9	277,623	452,388
Deferred tax assets		1,115,135	1,115,135
Intangible assets	10	138,750,000	146,250,000
Investment in an associated company	11(a)	3,529,162	4,026,008
		<hr/>	<hr/>
		143,671,920	151,843,531
<b>Current assets</b>			
Loan receivable from an associated company	11(b)	1,884,615	1,884,615
Accounts receivable	12	29,760	21,360
Amounts due from a related company		14,423,077	4,807,692
Deposits and prepayments		2,543,594	412,164
Cash and bank balances		72,803,677	2,850,589
		<hr/>	<hr/>
		91,684,723	9,976,420
<b>Current liabilities</b>			
Accrued expenses		160,221	147,189
Convertible bonds	13	–	4,805,083
Receipts in advance and other payables		41,497	41,497
		<hr/>	<hr/>
		201,718	4,993,769
<b>Net current assets</b>		<hr/>	<hr/>
		91,483,005	4,982,651
<b>Total assets less current liabilities</b>		<hr/>	<hr/>
		235,154,925	156,826,182
<b>Promissory note</b>	14	<hr/>	<hr/>
		–	69,733,626
<b>Total net assets</b>		<hr/>	<hr/>
		235,154,925	87,092,556
<b>Capital and reserves</b>			
Share capital	15	6,350,868	5,135,520
Reserves		228,804,057	81,957,036
		<hr/>	<hr/>
<b>Total equity</b>		<hr/>	<hr/>
		235,154,925	87,092,556

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 September 2006*

	Six months ended 30 September	
	2006 (Unaudited) HK\$	2005 (Unaudited) HK\$
Net cash used in operating activities	(6,850,721)	(12,969,240)
Net cash generated from investing activities	1,020,827	814,297
Net cash generated from financing activities	75,782,982	15,076,118
Increase in cash and cash equivalents	69,953,088	2,921,175
Cash and cash equivalents at beginning of the period	2,850,589	4,683,667
Cash and cash equivalents at end of the period	<u>72,803,677</u>	<u>7,604,842</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u>72,803,677</u>	<u>7,604,842</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	Share capital (Unaudited) HK\$	Share premium (Unaudited) HK\$	Merger reserve (Unaudited) HK\$	Capital surplus (Unaudited) HK\$	Asset revaluation reserve (Unaudited) HK\$	Exchange revaluation reserve (Unaudited) HK\$	Convertible bond reserve (Unaudited) HK\$	Share-based compensation reserve (Unaudited) HK\$	Accumulated losses (Unaudited) HK\$	Total (Unaudited) HK\$
Balance as at										
1 April 2005	4,000,000	15,195,487	8,320,333	1,498,659	-	-	-	-	(16,924,939)	12,089,540
Loss for the period	-	-	-	-	-	-	-	-	(2,757,305)	(2,757,305)
Issue of shares	263,000	10,257,000	-	-	-	-	-	-	-	10,520,000
Employees share option scheme - proceeds from share issue	17,000	62,900	-	-	-	-	-	-	-	79,900
Convertible bond issuing expenses	-	-	-	-	-	-	(100,000)	-	-	(100,000)
Share issue expenses	-	(329,582)	-	-	-	-	-	-	-	(329,582)
Repurchase of shares	(2,900)	(91,300)	-	-	-	-	-	-	-	(94,200)
Equity component of convertible bonds issued during the period	-	-	-	-	-	-	448,441	-	-	448,441
Balance as at 30 September 2005	<u>4,277,100</u>	<u>25,094,505</u>	<u>8,320,333</u>	<u>1,498,659</u>	<u>-</u>	<u>-</u>	<u>348,441</u>	<u>-</u>	<u>(19,682,244)</u>	<u>19,856,794</u>
Balance as at										
1 April 2006	5,135,520	48,201,945	8,320,333	1,498,659	46,314,614	141,282	348,441	317,241	(23,185,479)	87,092,556
Loss for the period	-	-	-	-	-	-	-	-	(5,928,407)	(5,928,407)
Conversion of convertible bonds (Note 13)	119,048	4,963,509	-	-	-	-	(348,441)	-	-	4,734,116
Issue of shares	972,300	144,872,700	-	-	-	-	-	-	-	145,845,000
Share issue expenses	-	(3,077,340)	-	-	-	-	-	-	-	(3,077,340)
Share option scheme - recognition of share-based payment - proceeds from share issue	124,000	4,071,763	-	-	-	-	-	(1,268,963)	-	2,926,800
Balance as at 30 September 2006	<u>6,350,868</u>	<u>199,032,577</u>	<u>8,320,333</u>	<u>1,498,659</u>	<u>46,314,614</u>	<u>141,282</u>	<u>-</u>	<u>2,610,478</u>	<u>(29,113,886)</u>	<u>235,154,925</u>

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT

## 1. GENERAL

Chinainfo Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 23 May 2002 with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The shares of the Company were successfully listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 November 2002.

The principal activity of the Company is investment holding. The Group was principally engaged in the licensing of licensed rights, the operation of a financial website, and the provision of financial information and investor education.

The registered office of the Company is P.O. Box 309GT, Uglan House, South Church Street, Grand Cayman, Cayman Islands and its principal place of business is Units 2115-2116, 21/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

## 2. BASIS OF PRESENTATION

The unaudited condensed financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Hong Kong Stock Exchange.

This condensed consolidated financial information should be read in conjunction with the 2006 annual financial statements. The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 March 2006. This condensed consolidated financial information has been prepared under the historical cost convention. The condensed consolidated financial information are unaudited but have been reviewed by the Company’s audit committee.

During the period, the Group adopted the following new Hong Kong Financial Reporting Standards (the “New HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretation (“HK (SIC)-Ints”) (collectively the “new HKFRSs”) issued by the HKICPA, which are effective for accounting periods commencing on or after 1 December 2005/1 January 2006/1 March 2006:

HKAS 19 (Amendment)	Employee benefits – Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	The effect of changes in foreign exchange rates – Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedges of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendments)	Financial instruments: Recognition and measurement and insurance contracts – Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS-Int 4	Determining whether an arrangement contains a lease
HKFRS-Int 5	Rights to interests arising from decommissioning, restoration and environment rehabilitation funds
HK(IFRIC)-Int 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 – Financial reporting in hyperinflationary economies

The adoption of these New HKFRSs did not result in substantial changes to the accounting policies and the methods of computation used in the condensed consolidated financial information. As there is no material effect on the results for the current or prior accounting periods, no prior period adjustment is required.

As at the date of this announcement, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Note a	Capital disclosures
HKFRS 7	Note a	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Note b	Scope of HKFRS 2
HK(IFRIC)-Int 9	Note c	Reassessment of embedded derivatives
HK(IFRIC)-Int 10	Note c	Interim Financial Reporting and Impairment

Note a: effective for annual periods beginning on or after 1 January 2007

Note b: effective for annual periods beginning on or after 1 May 2006

Note c: effective for annual periods beginning on or after 1 November 2006

The Group has commenced considering the potential impact of the above new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how results of operations and the financial position are prepared and presented. These HKFRSs may result in future changes as to how the results and financial position are prepared and presented.

The condensed consolidated financial information is presented in Hong Kong dollars ("HKD") unless otherwise stated.

### 3. SEGMENT INFORMATION

The Group is principally engaged in licensing the licensed rights and providing real-time financial news and up-to-date financial market commentaries and recommendations through multimedia.

#### (a) Primary reporting format – business segments

The following tables present revenue and operating results for the Group's business segments for the six months period ended 30 September 2006 and 30 September 2005:

	Licensing income		Financial information		Financial seminars and courses		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD
Turnover	9,615,385	-	766,581	725,947	-	560,960	29,172	-	10,411,138	1,286,907
Segment results	2,115,385	-	724,791	631,747	-	428,660	29,172	-	2,869,348	1,060,407
Gain on recognition of promissory note									693,818	-
Other revenue									1,020,855	158,674
Unallocated costs									(9,135,321)	(3,067,054)
Operating loss									(4,551,300)	(1,847,973)
Finance costs									(880,261)	(70,968)
Share of loss of associated company									(496,846)	(838,364)
Loss before income tax									(5,928,407)	(2,757,305)
Income tax									-	-
Loss attributable to shareholders									(5,928,407)	(2,757,305)

There are no significant sales or other transactions between the business segments.

## (b) Secondary reporting format – geographical segments

The following tables present revenue and operating results for the Group's geographical segments for the six months period ended 30 September 2006 and 30 September 2005:

	Hong Kong		PRC		Total	
	2006	2005	2006	2005	2006	2005
	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD
Turnover	795,753	1,286,907	9,615,385	-	10,411,138	1,286,907
Segment results	753,963	1,060,407	2,115,385	-	2,869,348	1,060,407
Gain on derecognition of promissory note					693,818	-
Other revenue					1,020,855	158,674
Unallocated costs					(9,135,321)	(3,067,054)
Operating loss					(4,551,300)	(1,847,973)
Finance costs					(880,261)	(70,968)
Share of loss of associated company					(496,846)	(838,364)
Loss before income tax					(5,928,407)	(2,757,305)
Income tax					-	-
Loss attributable to shareholders					(5,928,407)	(2,757,305)

## 4. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	Three months ended 30 September		Six months ended 30 September	
	2006	2005	2006	2005
	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD	(Unaudited) HKD
Crediting:				
Interest income	558,810	25,971	1,020,827	34,174
Gain on derecognition of promissory note	-	-	693,818	-
Management fees	-	66,500	-	124,500
Charging:				
Amortisation of intangible assets	3,750,000	-	7,500,000	-
Auditors' remuneration	30,000	22,500	60,000	45,000
Depreciation of fixed assets	86,027	17,161	174,765	34,055
Directors' remuneration	2,137,203	535,000	4,168,002	972,000
Operating leases in buildings	196,728	142,560	373,770	285,120
Staff costs	336,102	382,679	913,655	824,812

## 5. FINANCE COSTS

	Three months		Six months	
	ended 30 September		ended 30 September	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HKD	HKD	HKD	HKD
Fair value changes on promissory note	-	-	871,671	-
Interest expense for convertible bonds wholly repayable within five years	-	50,000	8,590	70,968
	-	50,000	880,261	70,968

## 6. INCOME TAX

The Group business operations are in Hong Kong and subject to Hong Kong profits tax at the rate of 17.5%. No provision for Hong Kong profits tax has been made, as the Group had an estimated loss for the three months (2005: Nil) and six months (2005: Nil) ended 30 September 2006.

There is no significant unprovided deferred taxation for the three months (2005: Nil) and six months (2005: Nil) ended 30 September 2006.

## 7. LOSS PER SHARE

The calculation of the basic loss per share for the three months and six months ended 30 September 2006 is based on the unaudited consolidated net loss attributable to shareholders of HK\$4,020,480 (2005: HK\$1,348,549) and HK\$5,928,407 (2005: HK\$2,757,305) respectively and on the weighted average number of 629,865,022 (2005: 427,885,109) and 597,073,417 (2005: 420,148,798) issued ordinary shares for the three months and six months ended 30 September 2006 respectively.

No diluted loss per share for the three months (2005: Nil) and six months (2005: Nil) ended 30 September 2006 has been presented as any exercise of the Company's share options would have had an anti-dilutive effect on the loss per share during the three months and six months ended 30 September 2006.

## 8. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months (2005: Nil) and six months (2005: Nil) ended 30 September 2006.

## 9. FIXED ASSETS

	30 September 2006	31 March 2006
	(Unaudited)	(Audited)
	HKD	HKD
Net book amount, beginning of the period/year	452,388	103,621
Additions	-	465,588
Depreciation charge	(174,765)	(116,821)
Net book amount, end of the period/year	277,623	452,388

## 10. INTANGIBLE ASSETS

	30 September 2006 (Unaudited) HKD	31 March 2006 (Audited) HKD
Net book amount, beginning of the period/year	146,250,000	–
Additions	–	150,000,000
Amortisation	(7,500,000)	(3,750,000)
	<u>138,750,000</u>	<u>146,250,000</u>
Net book amount, end of the period/year	<u>138,750,000</u>	<u>146,250,000</u>

## 11. INVESTMENT IN AN ASSOCIATED COMPANY

## (a) Interest in an associated company

This represents the share of net assets of the unlisted associated company. Details of the Group's associated company are as follows: –

Name	Percentage of equity interest	Principal activities	Place of operation
神州速達導航 通信資訊(北京) 有限公司	49%	Provision of various value-added services, including financial information relating to Hong Kong, to telecommunication users through the media channels in the PRC	People's Republic of China

## (b) Loan receivable from an associated company

The loan receivable is unsecured and bears interest at the rate of 5% per annum. On 4 November 2006, a supplemental agreement was signed pursuant to which the repayment date of the loan, and the interest accrued thereon, has been extended to 4 May 2007.

## 12. ACCOUNTS RECEIVABLE

The balances at 30 September 2006 are all aged less than 30 days (31 March 2006: less than 30 days).

The Group generally grants credit periods to customers range from 7 to 30 days (31 March 2006: 7 days to 30 days).

## 13. CONVERTIBLE BONDS

In May 2005, the Company issued convertible bonds with a value of HK\$5,000,000 bearing interest at a rate of 4.0% per annum, and which mature in May 2007.

The fair values of the liability component and the equity conversion component were determined at the date of issuance of the convertible bonds based on the discounted rate of 9% per annum.

The movement of the liabilities component of the convertible bond for the period/year is set out below:

	30 September 2006 (Unaudited) HKD	31 March 2006 (Audited) HKD
At the beginning of the period/year	4,805,083	–
New convertible bonds issued	–	4,551,559
Interest	–	353,524
Interest repaid	(70,967)	(100,000)
Conversion	(4,734,116)	–
	<u>–</u>	<u>4,805,083</u>
At the end of the period/year	<u>–</u>	<u>4,805,083</u>

On 13 April 2006, the convertible bonds, with a principal amount of HK\$5,000,000, were converted into 11,904,761 shares at the conversion price of HK\$0.42 per share.

#### 14. PROMISSORY NOTE

	30 September 2006 (Unaudited) HKD	31 March 2006 (Audited) HKD
At the beginning of the period/year	69,733,626	–
New promissory note issued, nominal amount	–	116,048,240
Changes in fair value	871,671	(46,314,614)
Repayments	(69,911,479)	–
Gain on derecognition	(693,818)	–
	<u>–</u>	<u>69,733,626</u>
At the end of the period/year	<u>–</u>	<u>69,733,626</u>

The promissory note was interest free, unsecured and matured on 30 June 2016. The fair value of the note is calculated by discounting the expected future cash flows at the Company's borrowing rate of 5% per annum.

On 22 June 2006, a wholly owned subsidiary of the Company entered into an agreement with China Communication Investment Limited ("CCI") to terminate the promissory note with a cash repayment amounting to HK\$69,911,479. The repayment amount was determined by discounting the expected future cash flows at the agreed borrowing rate with CCI.

#### 15. SHARE CAPITAL

	30 September 2006 (Unaudited)		31 March 2006 (Audited)	
	Number of Shares	Nominal value HKD	Number of Shares	Nominal value HKD
Authorised:				
Ordinary shares of HK\$0.01 each	<u>1,000,000,000</u>	<u>10,000,000</u>	<u>1,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.01 each	<u>635,086,761</u>	<u>6,350,868</u>	<u>513,552,000</u>	<u>5,135,520</u>

## 16. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Three months		Six months	
	ended 30 September		ended 30 September	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HKD	HKD	HKD	HKD
License income received from a related company	4,807,692	–	9,615,385	–

The Directors are of the opinion that the above transactions were conducted at arm's length in the ordinary course of business and on normal commercial terms or on terms that are fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole.

## 17. POST BALANCE SHEET EVENTS

On 26 October 2006, Success Advantage Investments Limited ("Success Advantage"), a wholly-owned subsidiary of the Company, entered into the SA Agreement with CCI and China Communication Co., Ltd ("CCC") pursuant to which Success Advantage has conditionally agreed to acquire, at a consideration of HK\$620,000,000, the right to receive the net revenue from CCI for the period between 1 January 2007 and 10 August 2009.

**MANAGEMENT DISCUSSION AND ANALYSIS**

The following is the management and discussion analysis extracted from the annual report of the Company for the year ended 31 March 2004, 2005 and 2006 and the interim report of the Company for the six months ended 30 September 2006.

**For the year ended 31 March 2004***Revenue and profitability*

The Group recorded turnover of approximately HK\$2,693,000 (2003: approximately HK\$5,383,000) for the year ended 31 March 2004, representing a decrease of approximately 50.0%, compared to last year. Approximately 7.0%, 53.0% and 40.0% (2003: approximately 62.2%, 26.4% and 11.4%) of turnover for the year ended 31 March 2004 were attributable to income for the production of financial programmes and videos, provision of real-time financial information services and investor education on financial market respectively.

The Group's gross profit for the year ended 31 March 2004 amounted to approximately HK\$2,206,000 (2003: approximately HK\$2,982,000), representing a decrease of 26.0% compared to last year whilst the Group's gross profit margin rose to 81.9% (2003: 55.4%), representing an increase of 26.5% compared to that in last year. The higher gross profit margin of the Group for the year ended 31 March 2004 was mainly attributable to the increase in the proportion for the revenue derived from the provision of real-time financial information services, the gross profit margin was approximately 95.3% for the year ended 31 March 2004.

Selling, administrative and other operating expenses for the year ended 31 March 2004 increased by approximately 33.1% to approximately HK\$5,607,000 (2003: approximately HK\$4,212,000) from the last year. The increase was mainly attributable to increase in staff costs for the year.

*Net loss attributable to shareholders*

The Group's net loss for the year ended 31 March 2004 increased to approximately HK\$3,339,000 (2003: approximately HK\$1,203,000) compared to last year. The increase in net loss was attributable to the decrease in turnover and the increase in administrative expenses and other operating expenses.

*Liquidity, financial resources and capital structure*

As at 31 March 2004, the Group did not have any borrowings outstanding (as at 31 March 2003: nil) and did not have any committed borrowing facilities and any significant capital commitments (as at 31 March 2003: nil).

As at 31 March 2004, the Group has net current assets approximately HK\$8,987,000 (as at 31 March 2003: approximately HK\$17,056,000). The Group's current assets consisted of cash and cash equivalents of approximately HK\$9,487,000 (as at 31 March 2003: approximately HK\$16,713,000), accounts receivable of approximately HK\$18,000 (as at 31 March 2003: approximately HK\$228,000) and deposits and prepayment of approximately HK\$747,000 (as at 31 March 2003: approximately HK\$557,000). The Group's current liabilities consisted of accounts payable of approximately HK\$7,000 (as at 31 March 2003: approximately HK\$31,000), accrued expenses of approximately HK\$144,000 (as at 31 March 2003: approximately HK\$174,000), receipts in advance and other payables of approximately HK\$1,114,000 (as at 31 March 2003: approximately HK\$237,000).

The gearing ratio, defined as the ratio of total liabilities to total assets, was 8.4% as at 31 March 2004, compared to 2.5% as at 31 March 2003.

At present, the Group generally finances its operations and investing activities with internally generated cash flows. Excess cash held by the Group is generally placed in licensed banks in Hong Kong.

The shares of the Company was successfully listed on GEM on 15 November 2002. There has been no change in the capital structure of the Company since that date.

#### *Charge on group assets*

The Group did not have any charge on its assets during the years ended 31 March 2004 and 2003.

#### *Material acquisitions and disposals*

There were no material acquisitions or disposals of subsidiary companies and affiliated companies during the year ended 31 March 2004.

#### *Employees*

As at 31 March 2004, the Group had 17 employees (as at 31 March 2003: 20). The staff costs for the year ended 31 March 2004 was approximately HK\$2,900,000 (for the year ended 31 March 2003: approximately HK\$2,159,000). The Group's remuneration, bonus and share option scheme policies are granted based on the performance and experience of individual employees.

#### *Material investment or capital assets*

Save as disclosed in the section "Statement of Business Objectives" of the prospectus of the Company dated 31 October 2002, the Group has no plans for material investments or capital assets.

*Foreign currency risk*

The income and expenditure of the Group are mainly in Hong Kong dollars and the assets and liabilities of the Group were denominated in Hong Kong dollars. The Group has no significant exposure to foreign exchange fluctuations.

*Contingent liabilities*

The Group did not have any significant contingent liabilities as at 31 March 2004.

**For the year ended 31 March 2005***Revenue and profitability*

The Group recorded turnover of approximately HK\$4,570,000 (2004: approximately HK\$2,693,000) for the year ended 31 March 2005, representing an increase of approximately 69.7%, compared to last year. Approximately 14.3%, 29.4% and 56.3% (2004: approximately 7.0%, 53.0% and 40.0%) of turnover for the year ended 31 March 2005 were attributable to income from the production of financial programmes and videos, provision of real-time financial information services and investor education on financial market respectively.

The Group's gross profit for the year ended 31 March 2005 amounted to approximately HK\$3,118,000 (2004: approximately HK\$2,206,000), representing an increase of 41.3% compared to last year whilst the Group's gross profit margin dropped to 68.2% (2004: 81.9%), representing a decrease of 13.7% compared to that of last year. The lower gross profit margin of the Group for the year ended 31 March 2005 was mainly attributable to the decrease in gross profit margin from the provision of real-time financial information services and the production of financial programmes and videos.

Sales, administrative and other operating expenses for the year ended 31 March 2005 was approximately HK\$5,870,000 compared to approximately HK\$5,607,000 in the last year is relatively stable.

*Net loss attributable to shareholders*

The Group incurred a net loss attributable to shareholders of approximately HK\$3,270,000 for the year ended 31 March 2005 as compared to approximately HK\$3,339,000 for the year ended 31 March 2004. No material change in net loss was noted when compared with last year.

*Liquidity and financial resources*

As at 31 March 2005, the Group did not have any borrowings outstanding (2004: Nil) and did not have any committed borrowing facilities (2004: Nil). However, the Group has a capital commitment of approximately HK\$800,000 (2004: Nil) which relates to the capital contribution to the wholly-foreign owned enterprise in the PRC in the coming year.

As at 31 March 2005, the Group had net current assets of approximately HK\$6,417,000 (2004: approximately HK\$8,987,000). The Group's current assets consisted of cash and cash equivalents of approximately HK\$4,684,000 (2004: approximately HK\$9,487,000), loan receivable from an associated company of approximately HK\$1,850,000 (2004: Nil), accounts receivable of approximately HK\$30,000 (2004: approximately HK\$18,000) and deposits and prepayments of approximately HK\$222,000 (2004: approximately HK\$747,000). The Group's current liabilities consisted of accounts payable of approximately HK\$5,000 (2004: approximately HK\$7,000), accrued expenses of approximately HK\$239,000 (2004: approximately HK\$144,000), receipts in advance and other payables of approximately HK\$125,000 (2004: approximately HK\$1,114,000).

The gearing ratio, defined as the ratio of total liabilities to total assets, was 3.0% as at 31 March 2005, compared to 8.4% as at 31 March 2004.

At present, the Group generally finances its operations and investing activities with internally generated cash flows. Excess cash held by the Group is generally placed in licensed banks in Hong Kong.

*Capital structure*

The shares of the Company was successfully listed on GEM on 15 November 2002. There has been no change in the capital structure of the Company during the year ended 31 March 2005.

Subsequent to 31 March 2005 up to the date of approval of the financial statements by the board of directors of the Company, the Company entered into convertible bonds placing agreement, placing of existing shares agreement and subscription for new shares agreement (the "Transactions") with a placing agent and the independent third parties. Details of the Transactions are set out in note 23 to the financial statements.

*Charge on group assets*

The Group did not have any charge on its assets during the years ended 31 March 2005 and 2004.

*Material acquisitions and disposals*

Except for the establishment of a subsidiary company in the PRC, there were no material acquisitions or disposals of subsidiary companies and affiliated companies during the year ended 31 March 2005.

*Employees*

As at 31 March 2005, the Group had 17 employees (2004: 17). The staff costs for the year ended 31 March 2005 was approximately HK\$3,404,000 (2004: approximately HK\$2,900,000). The Group's remuneration, bonus and share option scheme policies are granted based on the performance and experience of individual employees.

*Material investment or capital assets*

Save as disclosed in the section "Statement of Business Objectives" of the prospectus of the Company dated 31 October 2002, the Group has no plans for material investments or capital assets.

*Foreign currency risk*

The income and expenditure of the Group are mainly in Hong Kong dollars and the assets and liabilities of the Group were denominated in Hong Kong dollars. The Group has no significant exposure to foreign exchange fluctuations.

*Contingent liabilities*

The Group did not have any significant contingent liabilities as at 31 March 2005 and 2004.

**For the year ended 31 March 2006***Revenue and profitability*

The Group recorded a turnover of approximately HK\$7,766,000 (2005: approximately HK\$4,570,000) for the year ended 31 March 2006, representing an increase of approximately 69.9% as compared with 2004/05. Approximately 61.9%, 19.1% and 17.8% (2005: approximately 0%, 29.4% and 56.3%) of the turnover for the year ended 31 March 2006 were attributable to licensing income for license of the Licensed Rights, provision of real-time financial information services and investor education on financial market respectively.

The Group's gross profit for the year ended 31 March 2006 amounted to approximately HK\$3,444,000 (2005: approximately HK\$3,118,000), representing an increase of 10.5% as compared to the previous year whilst the Group's gross profit margin dropped to 44.3% (2005: 68.2%), representing a decrease of 35.0% as compared with 2004/05. The lower gross profit margin of the Group for the year ended 31 March 2006 was mainly attributable to the relatively low profit margin from licensing income.

Selling, administrative and other operating expenses for the year ended 31 March 2006 was approximately HK\$9,212,000 compared to approximately HK\$5,870,000 in previous year. The increase of the expenses was mainly attributable to the increase in administrative expenses and other operating expenses.

*Net loss attributable to shareholders*

The Group incurred a net loss attributable to shareholders of approximately HK\$6,261,000 for the year ended 31 March 2006 as compared to approximately HK\$3,270,000 of last year. The increase of the net loss was mainly attributable to the increases in administrative and other operating expenses and share of loss of the associated company.

*Liquidity and financial resources*

As at 31 March 2006, the Group had outstanding convertible bonds at a nominal value of HK\$5 million (2005: Nil) with a discounted value of approximately HK\$4.8 million (2005: Nil) and promissory note at a nominal value of approximately HK\$116 million (2005: Nil) with a discount value of approximately HK\$69.7 million (2005: Nil). The convertible bonds bear interest at a rate of 4% per annum and mature in May 2007. The promissory note is non-interest bearing and matures in June 2016. Other than these, the Group did not have any other committed borrowing facilities as at 31 March 2006 (2005: Nil).

As at 31 March 2006, the Group had net current assets of approximately HK\$4,983,000 (2005: approximately HK\$6,417,000). The Group's current assets consisted of an amount due from a related company of approximately HK\$4,808,000 (2005: Nil), cash and cash equivalents of approximately HK\$2,851,000 (2005: approximately HK\$4,684,000), a loan receivable from the associated company of approximately HK\$1,885,000 (2005: approximately HK\$1,850,000), accounts receivable of approximately HK\$21,000 (2005: approximately HK\$30,000) and deposits and prepayments of approximately HK\$412,000 (2005: approximately HK\$222,000). The Group's current liabilities consisted of accrued expenses of approximately HK\$147,000 (2005: approximately HK\$239,000), receipts in advance and other payables of approximately HK\$41,000 (2005: approximately HK\$125,000) and convertible bonds of approximately HK\$4,805,000 (2005: Nil).

The gearing ratio, defined as the ratio of total liabilities to total assets, was 46.2% as at 31 March 2006, compared to 3.0% as at 31 March 2005. Such increase was mainly due to the issue of a promissory note at a nominal value of approximately HK\$116 million during the financial year 2006.

At present, the Group generally finances its operations and investing activities with internally generated cash flows and the convertible bonds and the promissory note. Excess cash held by the Group is generally placed in licensed banks in Hong Kong.

*Capital structure*

During the year, 113,842,000 new ordinary Shares were issued and allotted by the Company, among which 26,300,000 new ordinary Shares were issued and allotted by a top-up placing in May 2005, 85,542,000 new ordinary Shares were issued as part of the consideration for the acquisition of certain licensed rights to distribute and sell computer games in the PRC ("Licensed Rights") in March 2006, and 2,000,000 new ordinary Shares were issued upon the exercise of share options. During the year, 290,000 ordinary Shares were repurchased and cancelled by the Company.

In May 2005, the Company placed convertible bonds, with a nominal value of HK\$5,000,000 to an independent third party, bearing an interest of 4.0% per annum (the "Convertible Bonds"). The Company shall repay, unless previously converted or repaid, the outstanding principal amount under the Convertible Bonds in May 2007. On 13 April 2006, the registered holder of the Convertible Bonds has elected to exercise the conversion rights attached to the Convertible Bonds to convert the whole principal amount of HK\$5,000,000 into shares of the Company at the conversion price of HK\$0.42 per share. 11,904,761 new ordinary Shares were therefore issued and allotted to the Convertible Bonds holder.

#### *Charge on assets*

The Group did not have any charge on its assets during the years ended 31 March 2006 and 2005.

#### *Material acquisitions of capital assets*

Other than the acquisition of the Licensed Rights, there were no material acquisitions or disposals of subsidiaries and affiliated companies for the year ended 31 March 2006.

Details of the acquisition have been set out in the Company's circular dated 15 March 2006.

#### *Employees*

As at 31 March 2006, the Group had 17 employees (2005: 17). The staff costs for the year ended 31 March 2006 were approximately HK\$4,472,000 (2005: approximately HK\$3,404,000). The Group's remuneration, bonus and share option scheme policies are granted based on the performance and experience of individual employees.

#### *Material investment or capital assets*

As at 31 March 2006, the Group did not have any plan for material investments or capital assets. Nevertheless, the Group is constantly looking for opportunities for investments or capital assets to enhance the shareholders' value.

#### *Foreign currency risk*

The income and expenditure of the Group are mainly carried out in Hong Kong dollars and the assets and liabilities of the Group were denominated in Hong Kong dollars. The Group does not expect significant exposure to foreign exchange fluctuations.

#### *Contingent liabilities*

The Group did not have any significant contingent liabilities as at 31 March 2006 and 2005.

**For the six months ended 30 September 2006***Revenue and profitability*

The Group recorded a turnover of approximately HK\$10,411,000 for the six months ended 30 September 2006 (for the six months ended 30 September 2005: approximately HK\$1,287,000), representing an increase of approximately 709% as compared to the corresponding period in 2005. Approximately 92.4% and 7.4% (for the six months ended 30 September 2005: approximately 0% and 56.4%) of turnover for the six months ended 30 September 2006 were attributable to licensing income for the license of the licensed rights and provision of real-time financial information services respectively.

The Group's gross profit for the six months ended 30 September 2006 amounted to approximately HK\$2,869,000 (for the six months ended 30 September 2005: approximately HK\$1,060,000), representing an increase of approximately 171% as compared to the corresponding period in 2005 whilst the Group's gross profit margin decreased to 27.6% (for the six months ended 30 September 2005: 82.4%), representing a decrease of approximately 54.8% as compared to the corresponding period in 2005. The lower gross profit margin of the Group for the six months ended 30 September 2006 was mainly attributable to the relatively low profit margin from licensing income.

Selling, administrative and other operating expenses for the six months ended 30 September 2006 was approximately HK\$9,135,000 as compared to approximately HK\$3,067,000 for the corresponding period in 2005. The increase of the expenses was mainly attributable to the increase in administrative expenses and other operating expenses.

*Net loss attributable to shareholders*

The Group incurred a net loss attributable to shareholders of approximately HK\$5,928,000 for the six months ended 30 September 2006 as compared to approximately HK\$2,757,000 for the six months ended 30 September 2005. The increase of the net loss was mainly attributable to the increase in administrative and other operating expenses.

*Liquidity and financial resources*

As at 30 September 2006, the Group did not have any borrowings outstanding (as at 31 March 2006: the Group had outstanding convertible bonds at a nominal value of HK\$5 million with a discount value of approximately HK\$4.8 million and promissory note at a nominal value of approximately HK\$116 million with a discount value of approximately HK\$69.7 million). The Group did not have any committed borrowing facilities as at 30 September 2006 (as at 31 March 2006: Nil).

### Repayment of promissory note

Reference is made to the circular issued by the Company on 15 March 2006. Pursuant to the conditional agreement dated 1 February 2006 entered into between CCI and Pro-Concept Development Limited (“Pro-concept”) for the assignment of the Licensed Rights by CCI to Pro-Concept, part of the consideration for the Licensed Rights was satisfied by Pro-Concept issuing a promissory note (the “Promissory Note”) in the principal sum of approximately HK\$116.05 million to CCI.

On 22 June 2006, the Board and CCI agreed to terminate the Promissory Note with effect upon payment to CCI in cash a sum of HK\$69,911,478. Such amount was paid by the Company on that same date from the net proceeds of the top-up placing which was sufficient for the said purpose. Such sum of HK\$69,911,478 was determined with reference to the carrying value of the Promissory Note which is estimated to be about HK\$69.73 million as at 31 March 2006 and calculated by discounting the expected future cash flows at the agreed borrowing rate of 5.1% per annum with CCI.

As at 30 September 2006, the Group had net current assets of approximately HK\$91,483,000 (as at 31 March 2006: approximately HK\$4,983,000). The Group’s current assets consisted of cash and cash equivalents of approximately HK\$72,804,000 (as at 31 March 2006: approximately HK\$2,851,000), amount due from a related company of approximately HK\$14,423,000 (as at 31 March 2006: approximately HK\$4,808,000), loan receivables from an associated company of approximately HK\$1,884,000 (as at 31 March 2006: approximately HK\$1,884,000), deposits and prepayments of approximately HK\$2,544,000 (as at 31 March 2006: approximately HK\$412,000) and accounts receivable of approximately HK\$30,000 (as at 31 March 2006: approximately HK\$21,000). The Group’s current liabilities consisted of accrued expenses of approximately HK\$160,000 (as at 31 March 2006: approximately HK\$147,000) and receipts in advance and other payables of approximately HK\$41,000 (as at 31 March 2006: approximately HK\$41,000).

The gearing ratio, defined as the ratio of total liabilities to total assets, was 0.086% as at 30 September 2006 as compared to 46.2% as at 31 March 2006.

At present, the Group generally finances its operations and investment activities with internally generated cash flows. Excess cash held by the Group is generally placed in licensed banks in Hong Kong.

### *Capital structure*

During the period, 121,534,761 new ordinary Shares were issued and allotted by the Company, among which 97,230,000 new ordinary Shares were issued and allotted by a top-up placing in May 2006, 12,400,000 new ordinary Shares were issued upon the exercise of share options and 11,904,761 new ordinary Shares were issued upon the conversion of convertible bonds in April 2006.

On 15 May 2006, CCI and Superhero Limited (“Superhero”) entered into a placing and subscription agreement with VC Brokerage Limited (the “Placing Agent”) pursuant to which the Placing Agent agreed with CCI and Superhero to place up to a total of 100,000,000 existing Shares, at the placing price of HK\$1.50 per existing Share to not less than six placees who will be third parties independent of the Group and its connected persons on a best effort basis (the “Placing and Subscription Agreement”). Under the Placing and Subscription Agreement, CCI and Superhero agreed to subscribe for the subscription shares, which are equal to the number of the placing shares that they placed respectively under the placing. The Placing Agent has successfully placed a total of 97,230,000 existing Shares on behalf of CCI and Superhero to sixteen placees, comprising institutional and individual investors who are independent of and not connected with any of the Directors, chief executives, substantial shareholders or management shareholders of the Company or an associate of any of them, at the placing price of HK\$1.50 per existing share. The net proceeds of the top-up placing amounts to approximately HK\$142.8 million and was used by the Group to repay the outstanding of the promissory note.

On 13 April 2006, the registered holder of the convertible bonds has elected to exercise the conversion rights attached to the convertible bonds to convert the whole principal amount of HK\$5,000,000 into the shares of the Company at the conversion price of HK\$0.42 per share. 11,904,761 shares of the Company were therefore issued and allotted to the holder of the convertible bonds.

#### *Charge on assets*

The Group did not have any charge on its assets as at 30 September 2006 and 31 March 2006.

#### *Employees*

As at 30 September 2006, the Group had 17 employees (as at 30 September 2005: 19). The staff costs for the six months ended 30 September 2006 was approximately HK\$5,082,000 (for the six months ended 30 September 2005: approximately HK\$1,834,000). The Group’s remuneration, bonus and share option scheme policies are granted based on the performance and experience of individual employees.

#### *Material investment or capital assets*

Reference is made to the Announcement issued by the Company on 26 October 2006. Success Advantage, a wholly-owned subsidiary of the Company, entered into the SA Agreement with CCI and CCC pursuant to which Success Advantage has conditionally agreed to acquire, at a consideration of HK\$620,000,000, the right to receive the net revenue from CCI for the period between 1 January 2007 and 10 August 2009.

The Board considers that the terms and conditions of the SA Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Details of the Acquisition have been set out in the announcement issued by the Company dated 26 October 2006.

Save as disclosed above, the Group did not have any plan for material investments or capital assets as at 30 September 2006.

*Foreign currency risk*

The income and expenditure of the Group are mainly carried in Hong Kong dollars and Renminbi and the assets and liabilities of the Group were mainly denominated in Hong Kong dollars. The Group does not expect significant exposure to foreign exchange fluctuations.

*Contingent liabilities*

The Group did not have any significant contingent liabilities as at 30 September 2006 and 31 March 2006.

## **STATEMENT OF INDEBTEDNESS**

### **Borrowings**

As at the close of business on 31 October 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had no borrowings.

### **Security**

As at 31 October 2006, the Group do not have any banking facilities and charge on its assets.

## **DISCLAIMER**

The Company did not have, at the close of business on 31 October 2006, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance (other than normal trade payables), acceptance credits or any guarantees or other material contingent liabilities.

**MATERIAL CHANGES**

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 October 2006.

**WORKING CAPITAL**

As at the Latest Practicable Date, the Directors were of the opinion that, after taking into account the Group's internal resources, the Group has sufficient working capital for its present requirements in the next 12 months from the date of this circular.

**MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006, being the date to which the latest published audited financial statements of Group were made up.

*The following is the text of the letter and valuation report received from Grant Sherman and addressed to Success Advantage in connection with its valuation as at 30 September 2006 of the right to received the Net Revenue, which has been prepared for the purpose of incorporation in this circular.*



**GRANT SHERMAN APPRAISAL LIMITED**

Room 904  
9th Floor, Harbour Centre  
25 Harbour Road  
Wanchai  
Hong Kong

30 November 2006

Success Advantage Investments Limited  
Unit 2115 – 2116, 21/F  
China Merchants Tower  
Shun Tak Centre  
168 – 200 Connaught Road  
Central, Hong Kong

Dear Sirs/Madams,

In accordance with your instructions, we have made an appraisal of the fair market value of a right to receive certain benefits (“the Right”) linked to the operation of the online game “Sudden Attack” (“the 突襲OL” or “the Game”) in the PRC, Hong Kong and Macao (“the Territories”) in which a wholly owned subsidiary of Chinainfo Holdings Limited (“Chinainfo” or “the Company”) is considering to acquire as of 30 September 2006 (“the Appraisal Date”). The Right would entitle the Company to receive from China Communication Investment Limited (“CCI”) a prescribed cashflow equivalent to 40% of the net sales revenue to be generated from operating the Game in the Territory by China Cyber Port Limited (“CCP”) between the period of 1 January 2007 and 10 August 2009.

This letter identifies the property appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. It is our understanding that the appraisal results will be used for acquisition purposes.

## **BACKGROUND**

On 10 August 2006, CCP entered into a License Agreement (the “GH Agreement”) with the Game’s Korean developer, GameHi Inc. (“GameHi”) whereby CCP obtained the exclusive licensing rights of the Game from GameHi including the rights to operate, replicate, reproduce, manufacture, distribute and sell the Game Products (the machine readable object code version of the Game), in the Territory and all the rights and benefits in relation to the organization of electronic sports tournaments in respect of the Game in the Territory. The GH Agreement’s initial term of 3 years is automatically renewable for one year thereafter unless terminated by GameHi or CCP serving the other party written notice of its intention not to renew the GH Agreement.

## Chinainfo

Chinainfo is a company listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong. It primarily engages in the provision of (1) real-time financial news and up-to-date financial market commentaries and recommendations through multimedia; (2) financial programs and video production services; (3) investor education on financial market in Hong Kong and (4) computer game business in which the Company entered into in early 2006.

## CCP

CCP is established in the PRC. Currently, its shares are owned as to 25% by China Communication Co., Ltd. ("CCC") and 75% by CCI. CCP's core business includes the development, operation, and distribution of computer games. According to the management of CCP, CCP has a significant market share of the entire PC game market in PRC. CCP currently operates nationwide game platforms such as battle net platform, online game platform, mobile game platform, and casual game platform. CCP operates most of the well known PC games in the PRC market, including "Counter Strike", "Warcraft", "Starcraft", "Half Life", "Diablo", etc. They are all among the most popular computer games worldwide in recent years.

On 10 August 2006, CCP has entered into the GH Agreement with GameHi to acquire the licensing right of "Sudden Attack". After signing of the GH Agreement, CCP has worked out a marketing plan for the Game with GameHi in which the close and open beta tests would be completed by the end of 2006 and commercial launch of the Game is scheduled for January 2007. CCP will also be responsible for the preparation, installation, implementation, and maintenance of hardware, software and facilities for the Chinese version of the Game. In addition, CCP will develop an official website for the Game in Chinese as well as internet sales channel for peripheral products.

More importantly, CCP will launch a real-name and time-counting smart IC card ("Shentong Card") system as the only settlement tool for the Game, the first of this kind in the PRC. All the "突襲OL" game accounts will be carried out attestation through binding with the Shentong Card in order to truly put the real-name system into effect and smoothly promote electronic trading of the peripheral products of the Game.

## Relationship Among CCC, CCI, CCP and Chinainfo

CCC is a nationwide telecom operator and internet network operator in China. It is one of the three state-owned telecom operators, who owns a public telecommunication network (DWDM/SDH) that covers a wide range of areas and offers communication and value-added telecom services. Currently, CCC is launching an electronic wallet called "Shentong Card", which is approved by the Industrial and Commercial Bank of China to be transferable from bank accounts and to be distributed through all bank branches. As an electronic wallet, Shentong card is designed to pay transportation fee, bank charges, IP phone fee, online trading fee and home utilities fee etc.

CCI, a wholly-owned subsidiary of CCC, is interested in 75% shareholding interest in CCP and approximately 13.34% shareholding interest in Chinainfo as of the Appraisal Date.

CCP, an indirect wholly-owned subsidiary of CCC, is principally engaged in the development, operation, and distribution of computer games in the PRC.

### **GameHi and the Game's Korean Operator**

GameHi is a game developer company established in 2002 with an initial capital of US\$1.5 million. GameHi is specializing in Massively-Multiplayer Online Role-Playing Games ("MMORPG") and First Person Shooting ("FPS"), and casual games like "Dekeron", "Sudden Attack", and "Paran Game".

After the development of "Sudden Attack", GameHi licensed the Game to CJ Internet to operate in the Korean market. CJ Internet is a leading game portal in Korea and services various digital contents in its various platforms. CJ Internet is the internet business division of CJ Group. Its services include various online games for all age groups, online game publishing and entertainment, online search portal, e-commerce, etc. In Korea, the Game is operated through CJ Internet's online game portal Netmarble. Netmarble offers about 60 games to approximately 22 million users. Their search portal, MYM, provides search, community, and email services to internet users. CJ Internet has generated 93.3 percent of its revenue from its online game business in 2005. It penetrated overseas online game markets via partnerships with China's Sina Corp. and a joint venture with Japan's Softbank.

### **CHINA'S GAME INDUSTRY**

For the past years the most popular serious games that accounts for most of China's game revenue are massively MMORPG, in which game developers and operators often extend the map, create new weapons and run special virtual events. However, there is rapid growth in China's causal game market with market penetration of 62 percent, more than that of MMORPG's 55 percent in recent according to the iResearch.<sup>1</sup>

Currently, the leading game developers whose games are operated in China include Shanda, NetEase, Webzen, and NCSoft. Shanda has already developed and operated three of the major online games in China—"Legend of MirII", "World of Legend" and "BnB"—in 2005. NCSoft is a Korean software developer that develops utilities software and single PC games.

Many internet companies in China purchase games from the developers and made profits from operating the games. They provide services such as distributing pre-paid point cards, running advertisements, maintaining servers and networks, providing regular game upgrades, responding to hacking issues, patrolling the game space and running customer services center.

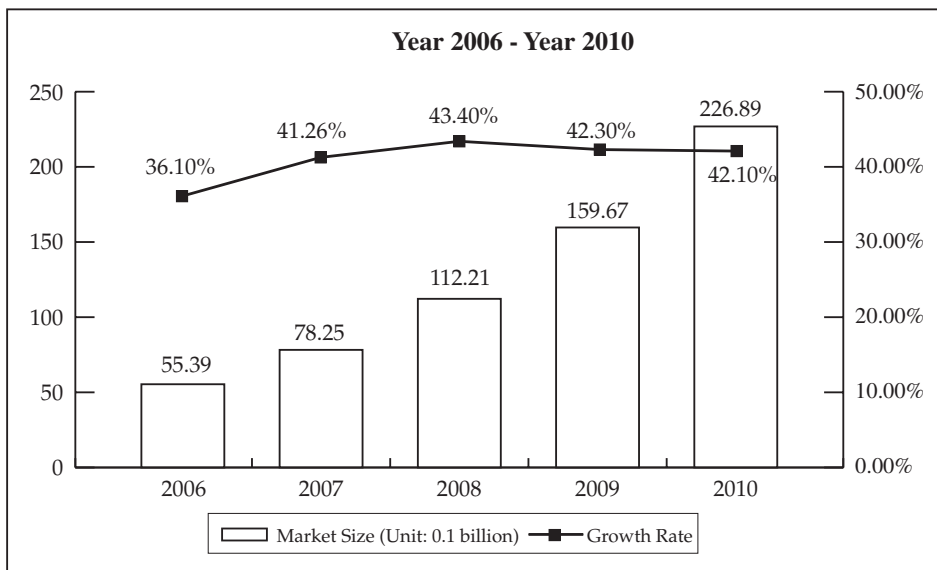
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<sup>1</sup> iResearch Consulting Group, *China Online Game Research Report 2005*, p.13

With the success stories of game developers and operators in China market, more and more investments have been made in the industry. As a result, investing in China's Game business becomes a capital intensive venture, with high risk, but possibly high returns. Typical development cost for an MMORPG game is at least US\$2 to 5 million, and could go up to US\$10 million. It can also take anywhere from one to two years to develop a game. The pure game operating business also requires heavy investments. In addition to the licensing fee and running royalty fee, the operator has to invest in marketing and promotional campaigns in order to differentiate the game from the rest of the pack. There are also costs related to servers and customer services.

On the other hand, online games seems have been well accepted by China's internet users. Though the online game industry came into full existence in China only 3 to 4 years ago, it now ranks No. 2 in terms of industry revenue among all online business. According to CCID Consulting's online game report, online game market will grow at a rate of about 40 percent every year, and by 2010, the market size will reach RMB22.7 billion<sup>2</sup>. It is believed that online games will continue to gain popularity in China in the future.

**Exhibit 1**  
**Growth Forecast for Online Game Industry in China**



Source: CCID Consulting, 2005 – 2006, *The Annual Report of China Online Game Market and Its Investment Opportunity*, p.44

The China government's support on game industry is obvious. The General Administration of Press and Publication ("GAPP"), the key online game governing body, has developed policies to support the domestic development of online games. For instance, GAPP has issued licenses to domestic companies to operate online games only, protecting domestic players from excessive competition. In addition, the government also offers tax holidays and other support to manufacturers.

<sup>2</sup> CCID Consulting, 2005 – 2006 *The Annual Report of China Online Game Market and Its Investment Opportunity*, p.44

However, in mid-2005, the government took a much more forceful stance on preventing under-aged kids from getting addicted to online games. The government implemented a “fatigue system” designed to limit the amount of continuous time that players could spend within game worlds. The “real-name system” will also be implemented by the end of 2006 requiring online players to register with their real names. Moreover, new internet cafes were banned from 200 meter radius of schools and apartment buildings; registration of new internet cafes was suspended for time being; cafe curfews for under-age kids were introduced in July 2006.

## THE GAME AND GAME PRODUCTS

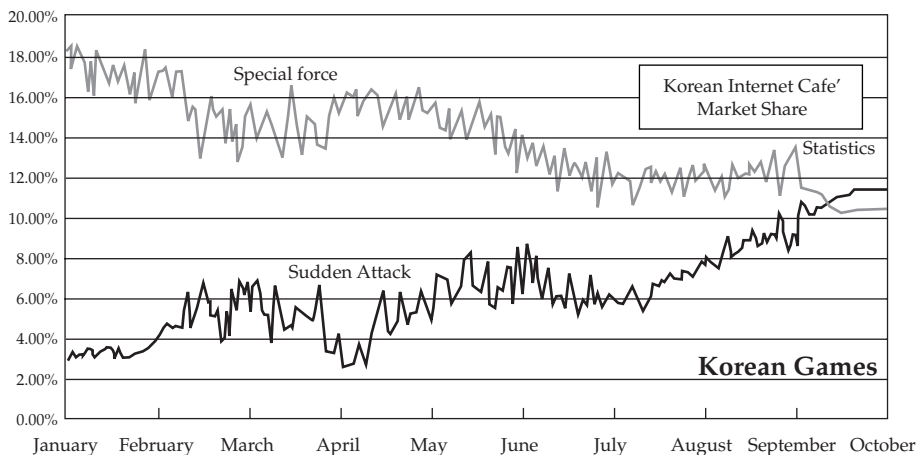
The Game is a FPS game based on a storyline of counter-terrorism operations. Launched in August 2005 in Korea, it is developed by GameHi and has been operated by CJ Internet in the Korean market. In the game, players choose to become a special-forces soldier from a list of countries, like British SAS, US Delta Force, Republic of Korea Marine Force, etc. Players can also choose from a wide range of weapons for their virtual soldiers.

The Game is also a causal game in term of its content and design. In the casual game market, FPS game always undergoes a great popularity. In China’s game market, only a pc game “Counter-Strike” (“反恐精英”) gained huge popularity, with more than 12 million players during its peak according to the management of CCP. The “Sudden Attack” is so similar to the “Counter-Strike” in term of contents and designs that it is called an online version of the “Counter-Strike”. The success of “Counter-Strike” in China hints a big possibility for the Game to gain popularity as well.

The Game targets online game and casual game players of about 20 to 40 year old male who are FPS pc game players but also interested in playing casual games. The Game is different from “Counter-Strike” as in its characteristics of its easiness to play and minimal waiting time. Once logged on, players can start playing within 20 seconds by selecting a game room and join the ongoing battle without interrupting other players already in the game. Players keep playing as long as they are online and game characters never die, that they are sent back to the battle within 5 seconds after being shot. The plot is simple, user interface is easy, and it doesn’t require an expensive PC system to play.

Currently, there are 6.5 million registered players of the Game in Korea. Since the launch of its open beta version earlier this year, it has gained enormous popularity from 70,000 concurrent users to more than 160,000 concurrent users in September 2006 in term of the information of CJ Internet website. GameHi ascribed the sudden rise of users is due to the newly released map and a voice chatting system in the Game as well as growing recognition and popularity of the company. CJ Internet also holds tournaments for the Game with total winning prize money of 20 million WON to attract more players. Comparing to the “Special Forces” the Game is more newly developed and released, therefore will better suits the preference of today’s online and casual game players. The Game’s market share is increasing, and as of October 9, 2006, the Game already excess “Special Force”, ranks number one among the most popular games in Korea’s internet cafes and has market share of more than 11 percent.

**Exhibit 2**  
**The Game's Daily Internet Café Market Share**



Source: Gametrics.com & game.sina.com.cn

## VALUATION BASIS AND ASSUMPTIONS

We have appraised the value of the Right on the basis of fair market value. Fair market value is defined as the estimated amount at which the underlying assets might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts.

Our investigation included discussions with members of Chinainfo's and CCI's managements in relation to the history and nature of the business, members of CCP's management in relation to the operations and prospects of CCP, and other information of the online game industry. We have assumed that such information and representation provided to us are true and accurate. Before arriving at our opinion of value, we have considered the following principal factors:

- contents and designs of "Sudden Attack" from its development and the nature of the business of the Game operation as presented by CCP's management;
- the Game's marketing plan and financial projections prepared by CCP's management;
- the regional economic outlook in general and specific economic and competitive elements affecting the Game's operation business, its industry and its markets;
- the market prices of shares of companies engaged in the same or similar lines of business as operating the Game and whose shares are actively traded in a free and open market on a stock exchange;
- CCP's past operating results and future plans; and

- present worth of future monetary benefits to be generated by the Right which is equivalent to 40% of the net sales revenue to be generated from operating the Game based upon appropriate rates of return as indicated by alternative investment opportunities of comparable magnitude, character and risk.

Due to the changing environment in which the Game is operated, a number of assumptions have to be established in order to sufficiently support our concluded value of the Game. The major assumptions adopted in this appraisal are:

- there will be no major changes in the existing political, legal, and economic conditions in the PRC;
- the economic benefit to be generated by the Right will cover only three years from year of 2007 to year of 2009 according to the GH Agreement;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- the availability of finance will not be a constraint for CCI to procure the due and punctual performance of all the obligations under the SA Agreement;
- CCP will not make any material breach pursuant to the GH Agreement that could cause a termination of the GH Agreement by GameHi and CCP will not terminate the GH Agreement for any reason during the GH Agreement's initial three years from 2007 to 2009;
- competent management, key personnel, and technical staff will be recruited to support the ongoing operating of the Game; and
- industry trends and market conditions for related industries in the PRC and around the world will not deviate significantly from forecasts.

## VALUATION METHODOLOGY

We have considered the following approaches in determining the fair market value of the Game:

- Market approach
- Income approach
- Cost approach

### **Selection of Valuation Method**

After a review of the above approaches, it is our opinion that the most appropriate approach for appraising the fair market value of the Game is the income approach. The simple rationale behind is that income approach relies on data from a forecast of future economic benefits of ownership which can be achieved by the financial projections prepared by the management of CCP. On the contrary, the market approach and cost approach rely on data from public trading markets or game developers which are rarely available in most of valuation of games. More importantly, it is not generally appropriate to apply the cost or market approach to value a game business due to the uniqueness of the game asset and when there is a reasonable base to estimate the future income to be generated by the Game.

The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the business enterprise that an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent business enterprise with similar risk.

The income approach explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as cost savings, periodic income, or sale proceeds. We have applied the discounted cash flow method (“DCF”) in appraising the economic benefits of the Game. In practice, the discounted cash flow approach consists of estimating future annual cash flows and individually discounting them to present value with discount rate.

### **Discount Rate Development**

A discount rate is the expected rate of return (or yield) that an investor would have to give up by investing in the subject investment instead of available alternative investments that are comparable in terms of risk and other investment characteristics. When developing the discount rate to apply to the future economic income streams attributable to shareholders, the discount rate is the cost of equity. The cost of equity was developed using Capital Asset Pricing Model (“CAPM”) with reference to the required rates of return demanded by investors for similar projects.

The cost of equity was developed through the application of the CAPM. The CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated to the risk in the return from the stock market as a whole are referred to as systematic and measured by a parameter called beta, whereas other risks are referred to as nonsystematic. Under the CAPM, the appropriate rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the systematic risk assumed with adjustment for increments for risk differentials of the Game being valued versus those of the comparative companies, which include risk adjustments for size (the “Small Capitalization Risk Premium”) and other risk factors in relation to start-up of a new business (the “Start-up Risk Premium”) and intangible asset (the “Intangible Asset risk premium”). Our analysis suggested that a discount rate of 20.71 percent was appropriate for valuing the Game.

### Small Capitalization Risk Premium

Small capitalization risk premium is the excess return that an investor would demand in order to compensate for the additional risk over that of the entire stock market when investing in a small capitalization company. This premium reflects the fact that the cost of capital increases with decreasing size of CCP. A number of studies were conducted in the U.S., which concludes that the risk premium associated with a small company is over and above the amount that would be warranted just as a result of CCP's systematic risk derived from the CAPM model. The small capitalization risk premium is based on the recommendation provided by SBBI Valuation Edition 2006 Yearbook by Ibbotson Associates. Ibbotson has developed its reference of small capitalization risk premium based on its extensive studies on a large number of companies. CCP's market value falls into the micro-cap category according to Ibbotson, therefore, it is given a size premium of 3.95%.

### Start-up Risk Premium

The risks associated with the Right are typically associated with a start-up business, mainly related to the successful establishment and implementation of the CCP's operating plan on the Game. Uncertainty results from the business of the Game from CCP of not having long historical financial records. Therefore, the readers of this report should carefully consider the start-up nature of the business and the risks associated. We have used our professional judgement here. This judgement is referring to the Game as a newly developed game, and it has not been launched in China. It is different from the traditional context referring to a company as its initial stage with only an idea and not much else. To reflect the start-up risk associated with the Game, we have added an additional risk premium of 3% after consideration of the fact that CCP is a well established company and the Game is a new game in China.

### Intangible Asset Risk Premium

The intangible asset risk premium is to reflect that the intangible asset appraised is the riskiest asset of a business. Since the Right that links to the operation of the Game is an intangible asset and CCP operation is relying heavily on its intangible assets rather than tangible assets, we added another additional risk premium of 3 percent to arrive at our discount rate.

### Weighted Average Cost of Capital

In order to perform the assets allocation, the aggregated weighted rate of return for each asset class must equal to the weighted rate of return of the enterprise, which is equivalent to the Weighted Average Cost of Capital ("WACC") developed through the application of CAPM. In determining an appropriate discount rate utilizing WACC, we need to study the corporate lending rate and its capital structure. WACC can be calculated as follow:

$$WACC = \frac{E}{E + D} k_e + \frac{D}{E + D} k_d (1 - T_c),$$

where      E = market value of equity       $k_e$  = cost of equity  
               D = market value of debt         $k_d$  = cost of debt  
                $T_c$  = corporate tax rate

<sup>3</sup> Ibbotson Associates, SBBI Valuation Edition 2006 Yearbook, p.284

Considering the fact that CCP's corporate structure is 100 percent equity, we concluded that a WACC of 20.71 percent is deemed to be reasonable for valuation of the Right.

We were furnished for the purpose of this appraisal with records (such as emails), documents (such as the Game's marketing plan and financial projection) and CCID Consulting's online game market research report ("2005 – 2006 The Annual Report of China Online Game Market and Its Investment Opportunity"). We have relied on such records, documents and reports in arriving at our opinion of value of the Right.

## CONCLUSION

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that as of September 30, 2006, the fair market value of the Right is reasonably stated by the amount of **RMB SEVEN HUNDRED THIRTY SIX MILLION SEVEN HUNDRED THOUSAND (RMB 736,700,000) ONLY**.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the Group, the Right or the value reported.

Respectfully submitted,  
For and on behalf of  
**GRANT SHERMAN APPRAISAL LIMITED**  
**Keith C.C. Yan, ASA**  
*Managing Director*

*Note:* Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation) and he has been conducting business and intangible assets valuation in the Greater China region for various purposes since 1988.

Analyze and report by:

**Keith C.C. Yan, ASA**

**Jacqueline W. Huang, Ph.D.**

**Helena M.C. Lee, MA**

**A. REPORT FROM RSM NELSON WHEELER**

*The Company has received from its reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong, and its financial adviser, CCB International Capital Limited, the following letters prepared for the inclusions of in this circular in respect of the appraisal valuation on the fair market value of the right to receive the Net Revenue prepared by Grant Sherman.*

**RSM Nelson Wheeler**

羅申美會計師行

Certified Public Accountants

30 November 2006

The Board of Directors  
Chinainfo Holdings Limited  
Units 2115-2116, 21/F  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs,

**REPORT OF FACTUAL FINDINGS**

In accordance with our engagement letter dated 20 October 2006, we have performed the procedures agreed with you which are set out below with respect to the appraisal valuation ("Valuation Report") of right to receive the Net Revenue linked to the operation of the online game "Sudden Attack" in the People's Republic of China ("the Right") as at 30 September 2006 prepared by Grant Sherman Appraisal Limited dated the same in connection with Success Advantage's entering into SA Agreement with CCI and CCC dated 20 October 2006. Capitalised terms used in this letter shall have the same meanings as defined in the circular ("Circular") of Chinainfo Holdings Limited (the "Company") dated 30 November, 2006 unless the context requires otherwise.

Our engagement was conducted in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" ("HKISRS 4400") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The procedures were performed solely to assist you in complying with Rule 19.62(2) of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

For the purpose of this report, we have:

1. obtained the supporting worksheets of the Valuation Report provided by the Company;
2. checked the arithmetic accuracy of the calculations of the value of the Right contained in the supporting worksheets of the Valuation Report;
3. made inquiry of Grant Sherman Appraisal Limited whether the accounting policies of the Company have been adopted in the preparation of the Valuation Report.

Based on the information and documents made available to us, we report our findings below:

- a. With respect to item 1, we obtained the supporting worksheets of the Valuation Report provided by the Company;
- b. With respect to item 2, we found that the calculations of the value of the Right contained in the supporting worksheets of the Valuation Report are arithmetically accurate;
- c. We were informed by Grant Sherman Appraisal Limited that as this is a discounted cash flow model, no accounting policies of the Company have been adopted in the preparation of the supporting worksheets of the Valuation Report.

Because the above procedures did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA (collectively referred to as Hong Kong Assurance Standards), we do not express any assurance on the Valuation Report.

Had we performed additional procedures or had we performed an assurance engagement in respect of the Valuation Report in accordance with Hong Kong Assurance Standards, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and is for your information only, and is not to be used for any other purpose or to be distributed to any other parties, without our prior written consent, except that we understand a copy of this report will be distributed to the Stock Exchange. We expressly disclaim any liability or duty to any other party (including the Stock Exchange) in this respect. This report relates only to the items specified above and does not extend to the Valuation Report or any financial statements of the Company taken as a whole.

Yours faithfully  
**RSM Nelson Wheeler**  
*Certified Public Accountants*  
Hong Kong

## B. REPORT FROM CCB INTERNATIONAL CAPITAL LIMITED



30 November 2006

The Directors  
Chinainfo Holdings Limited  
Units 2115-2116, 21/F  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs

We refer to the valuation prepared by Grant Sherman Appraisal Limited (“Grant Sherman”) in relation to the appraisal of the fair market value of a right to receive from 神州通信投资有限公司 (China Communication Investment Limited) a prescribed cashflow equivalent to 40% of the net sales revenue to be generated from operating the online game “Sudden Attack” in the PRC, Hong Kong and Macau by 神州奥美网络有限公司 (China Cyber Port Co., Ltd.) (“CCP”) for the period between 1 January 2007 and 10 August 2009 (the “Valuation”) as set out in Appendix II to the circular issued by Chinainfo Holdings Limited (the “Company”) dated 30 November 2006 and the requirements under the Rules 19.62(3) and 19.64(3) of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

We note that the Valuation has been developed by Grant Sherman through the application of the income approach known as the discounted cash flow method.

We also note that Grant Sherman, in preparing the Valuation, took account of financial projections (the “Projections”) prepared by the management of CCP and the Company. We have discussed with Grant Sherman, management of CCP and the Company the bases and assumptions upon which the Projections have been made. The preparation of the Projections is the responsibility of, and has been approved by, the directors of the Company. We have also considered the letter dated 30 November 2006 addressed to you from RSM Nelson Wheeler regarding the calculations upon which the Projections have been made.

On the basis above, we are of the opinion that the Projections, for which you are solely responsible, have been made after your due and careful enquiry.

Yours faithfully  
For and on behalf of  
**CCB International Capital Limited**  
**Eric Lee**  
*Executive Director*

**A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

The accompanying unaudited pro forma consolidated net assets statement and income statement of the Enlarged Group (the "Unaudited Pro Forma Financial Information") have been prepared to illustrate the effect of the Acquisition might have affected the financial information of the Group.

The unaudited pro forma consolidated net assets statement of the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 September 2006 as extracted from the interim report of the Company for the six months ended 30 September 2006 as if the Acquisition had been completed on 30 September 2006.

The unaudited pro forma consolidated income statement of the Enlarged Group are prepared based on the audited consolidated income statement of the Group for the year ended 31 March 2006 as extracted from the annual report of the Company for the year ended 31 March 2006 as if the Acquisition had been completed on 1 April 2005.

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

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I of the Circular and other financial information included elsewhere in the Circular.

## B. UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE ENLARGED GROUP

	The Group as at 30 September 2006 HK\$	Note	Pro forma adjustments HK\$	Pro forma Enlarged Group HK\$
<b>Non-current assets</b>				
Fixed assets	277,623			277,623
Deferred tax assets	1,115,135			1,115,135
Intangible assets	138,750,000			138,750,000
Investments in an associated company	3,529,162			3,529,162
Available-for-sale financial asset	-	(a)	60,000,000	553,529,000
		(b)	135,000,000	
		(c)	358,529,000	
	<u>143,671,920</u>			<u>697,200,920</u>
<b>Current assets</b>				
Loan receivable from associated company	1,884,615			1,884,615
Accounts receivable	29,760			29,760
Amount due from a related company	14,423,077			14,423,077
Deposits and prepayment	2,543,594			2,543,594
Cash and bank balances	72,803,677	(a)	(20,000,000)	52,803,677
	<u>91,684,723</u>			<u>71,684,723</u>
<b>Current liabilities</b>				
Accrued expenses	160,221	(d)	1,970,000	2,167,721
		(e)	37,500	
Receipts in advance and other payables	41,497	(a)	40,000,000	40,041,497
	<u>201,718</u>			<u>42,209,218</u>
<b>Net current assets</b>	<u>91,483,005</u>			<u>29,475,505</u>
<b>Total assets less current liabilities</b>	<u>235,154,925</u>			<u>726,676,425</u>
<b>Non-current liabilities</b>				
Promissory note	-	(c)	358,529,000	358,529,000
<b>NET ASSETS</b>	<u><u>235,154,925</u></u>			<u><u>368,147,425</u></u>
<b>CAPITAL AND RESERVES</b>				
Share capital	6,350,868	(b)	300,000	6,650,868
Reserves	228,804,057	(b)	134,700,000	361,496,557
		(d)	(1,970,000)	
		(e)	(37,500)	
	<u>235,154,925</u>			<u>368,147,425</u>

*Notes:*

According to the SA Agreement entered into between a wholly-owned subsidiary of the Group (“Success Advantage”), CCI and CCC, Success Advantage has conditionally agreed to acquire, at a consideration of HK\$620,000,000, the right to receive the Net Revenue from CCI for the period between 1 January 2007 and 10 August 2009.

Upon Completion, the Group will account for the right to receive the Net Revenue as available-for-sale financial asset in accordance with the Group’s accounting policies. It will be initially recognised and subsequently measured at fair value. The Consideration will be settled by a refundable deposit, cash, Consideration Shares issued by the Company and issuance of Promissory Note by Success Advantage. Details of the Consideration are set out in Letter from the Board in this circular.

The following pro forma adjustments are made to reflect the fair value of the available-for-sale financial asset and the Consideration paid:

- (a) This adjustment is made to reflect the refundable deposit in the sum of HK\$20,000,000 in cash that would have been paid to CCI within three Business Days upon signing of the SA Agreement, and HK\$40,000,000 in cash that would be paid to CCI within three Business Days upon Completion.
- (b) This adjustment is made to reflect the Consideration Shares to be issued upon Completion. 30,000,000 new ordinary Shares will be issued at premium and credited as fully paid.
- (c) This adjustment is made to reflect the fair value of the Promissory Note on the date of Completion. For the purpose of this pro forma financial information, it is assumed that the promissory note has a duration of approximately 2.6 years and the applicable market interest rate is 9% per annum. The applicable market interest rate is based on the advice from Grant Sherman.
- (d) This adjustment is made to reflect the professional fee incurred directly for the Acquisition.
- (e) This adjustment is made to reflect the share issuance cost associated with the Consideration Shares.

Available-for-sale financial asset is initially and subsequently measured at fair value. Gains or losses arising from changes in fair value are recognised directly in equity, until the financial asset is determined to be impaired, at which time the cumulative gains or losses previously recognised in equity will be recognized in the income statement. Impairment losses recognised in the income statement are not subsequently reversed through the income statement.

For the purpose of this pro forma financial information, it is assumed that all the conditions of SA Agreement are fulfilled and the SA Agreement had been completed on 30 September 2006. The adjustment is made to illustrate the above assumption.

## C. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

	The Group for the year ended 31 March 2006 HK\$	Note	Pro forma adjustments HK\$	Pro forma Enlarged Group HK\$
<b>Turnover</b>	7,765,796			7,765,796
Cost of sales	<u>(4,322,010)</u>			<u>(4,322,010)</u>
Gross profit	3,443,786			3,443,786
Other revenue	396,208	(a)	156,863,000	157,259,208
Selling expenses	(263,100)			(263,100)
Administrative expenses	(5,881,756)			(5,881,756)
Other operating expenses	<u>(3,066,841)</u>	(b)	(1,970,000)	<u>(5,036,841)</u>
				149,521,297
<b>Operating loss</b>	(5,371,703)			
Finance costs	(353,524)	(c)	(32,140,000)	(32,493,524)
Share of loss of associated company	<u>(1,650,448)</u>			<u>(1,650,448)</u>
<b>Profit/(loss) before income tax</b>	(7,375,675)			115,377,325
Income tax	<u>1,115,135</u>			<u>1,115,135</u>
<b>Profit/(loss) attributable to shareholders</b>	<u>(6,260,540)</u>			<u>116,492,460</u>

Note:

- (a) This adjustment is made to reflect the Guaranteed Net Revenue undertaken by CCI for the first year after the Acquisition.
- (b) This adjustment is made to reflect the professional fee incurred directly for the Acquisition.
- (c) This adjustment is made to reflect the finance cost arising from the Promissory Note, assuming the Promissory Note has a duration of approximately 2.6 years and the applicable market interest rate is 9% per annum. The applicable market interest rate is based on the advice from Grant Sherman. The adjustment is expected to have a continuing effect on the Group
- (d) The directors, as advised by Grant Sherman, are of the opinion that there would be no impairment of available-for-sale financial assets related with the "SA Agreement" after the first year of operation of the "Sudden Attack", therefore, no impairment loss is recognised in the pro forma income statement.

For the purpose of this pro forma financial information, it is assumed that all the conditions of SA Agreement are fulfilled and the SA Agreement had been completed on 1 April 2005, also, CCP is assumed to start the operation of "Sudden Attack" on the same date. The adjustment is made to illustrate the above assumption.

**D. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.*

**RSM Nelson Wheeler**

羅申美會計師行

Certified Public Accountants

7th Floor  
Allied Kajima Building  
138 Gloucester Road  
Hong Kong

30 November 2006

The Board of Directors  
Chinainfo Holdings Limited  
Units 2115-2116, 21/F  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Chinainfo Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of Net Revenue might have affected the financial information of the Group presented, for inclusion in Appendix IV to the circular of the Company dated 30 November 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 93 to 96 to the Circular.

**Respective Responsibilities of Directors of the Company and Reporting Accountants**

It is the responsibilities solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 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 31(7) of Chapter 7 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 September 2006 or any future date; or
- the results of the Group for the year ended 31 March 2006 or any future periods.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,  
**RSM Nelson Wheeler**  
*Certified Public Accountants*  
Hong Kong

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (1) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (2) there are no other matters the omission of which would make any statement in this circular misleading; and
- (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**SHARE CAPITAL**

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>1,000,000,000</u>	Shares	<u>10,000,000</u>
<i>Issued, fully paid or credited as fully paid:</i>		
641,086,761	Shares in issue as at the Latest Practicable Date	6,410,867.61
<u>30,000,000</u>	Consideration Shares to be allotted and issued pursuant to the SA Agreement	<u>300,000.00</u>
<u>671,086,761</u>	total number of Shares upon Completion	<u>6,710,867.61</u>

All the Shares currently in issue rank *pari passu* in all respects with each other, including in particular, as to dividends, voting rights and capital. No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange.

The Company has on 17 March 2004, 14 February 2006, 3 April 2006, 28 June 2006, 13 July 2006 and 17 August 2006 respectively granted options to certain Directors, full-time employees of the Group and other eligible participants entitling them the right to subscribe for a total of 40,900,000 Shares under the share option scheme adopted by the Company on 28 October 2002. As at the Latest Practicable Date, a total of 11,500,000 options were in issue.

Save as disclosed above, the Company has no other options, warrants and conversion or exchange rights convertible or exchangeable into Shares. No share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

## DISCLOSURE OF INTERESTS

### (a) Director's and chief executive's interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

#### *Long positions in the Shares and share options:*

Name of Directors	Number of Shares, held, capacity and nature of interest			Total	Approximate percentage of the Company's issued share capital (%)	Date of grant of share option	Exercise Period	Exercise price per share HK\$	Number of share option	Approximate percentage of the Company's issued share capital (%)
	Personal	Family	Corporate							
Xiao Haiping	-	-	-	-	-	3 April 2006	3 October 2006 to 2 April 2009	1.09	2,000,000	0.31
Zhang Jialin	-	-	-	-	-	3 April 2006	3 October 2006 to 2 April 2009	1.09	2,000,000	0.31
Yip Tai Him	-	-	-	-	-	17 March 2004	17 September 2004 to 16 March 2014	0.047	400,000	0.06

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

**(b) Substantial shareholders**

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

*(i) Long positions in the Shares:*

Name of Shareholder	Capacity and nature of interest	Number of Shares held	Approximate percentage of the Company's issued share capital (%)
CCC (Note 1)	Interest of a controlled corporation	85,542,000	13.34%
CCI	Beneficial owner	85,542,000	13.34%
He Jianren (Note 2)	Beneficial owner & interest of a controlled corporation	80,661,144	12.58%
Supreme System Investments Limited	Beneficial owner	79,001,144	12.32%
Mi Hui Ying (Note 3)	Interest of a controlled corporation	74,979,195	11.70%
Superhero Limited	Beneficial owner	74,979,195	11.70%
Chan Wong Kam Fung, Cecilia	Beneficial owner	68,905,798	10.75%

Notes:

- (1) CCC is deemed to be a substantial shareholder as defined in the GEM Listing Rules. CCI is a wholly-owned subsidiary of CCC.
- (2) Supreme System Investments Limited is a company wholly and beneficially owned by Mr. He Jianren. By virtue of the SFO, Mr. He Jianren is deemed to have interest of 79,001,144 Shares held by Supreme System Investments Limited in addition to 1,660,000 Shares held by himself.
- (3) Ms. Mi Hui Ying is deemed to be a substantial Shareholder as defined in the GEM Listing Rules by virtue of her 100% beneficial interest in Superhero Limited.

Save as the above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange 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 of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

#### QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualification of the experts who have given opinion or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
CCB International Capital Limited	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Grant Sherman	Independent Valuer
Nuada Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
RSM Nelson Wheeler	Certified Public Accountants

Each of CCB International Capital Limited, Grant Sherman, Nuada Limited and RSM Nelson Wheeler has given and has not withdrawn its written consent to the issue of this circular with the expert's statement included in the form and context in which it is included and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of CCB International Capital Limited, Grant Sherman, Nuada Limited and RSM Nelson Wheeler did not have any shareholding, direct or indirect, in any member of the 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 Group.

## LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## MANAGEMENT

As at the Latest Practicable Date, the executive Directors were Mr. He Chenguang, Mr. Xiao Haiping, Mr. Zhang Peng and Ms. Zhang Jialin, and the independent non-executive Directors are Mr. Yip Tai Him and Dr. Lam Lee G.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**Mr. He Chenguang**, aged 46, joined the Group and was elected as the Chairman of the Group in June 2006. He holds a professional qualification in business administration and has extensive experience in management of major enterprises, in particular, management, operation and strategic development of telecommunication industry in the PRC. Mr. He is responsible for formulating the Group's strategy of overall business development. Mr. He had been president of 中國海外投資公司 (China Overseas Investment Limited). Currently, he is also the Chairman of the board of CCC a nationwide telecommunication operator in the PRC and the Chairman of CCP, which is a subsidiary of CCC.

**Mr. Xiao Haiping**, aged 55, joined the Group in January 2006. He is responsible for the Group's overall business development in China. Mr. Xiao holds a professional tertiary qualification from Hunan Normal University, China, majoring in Chinese language. Prior to joining the Group in January 2006, he had been president of major customer division, merchant banking division and corporate banking division of the headquarters of Shenzhen Development Bank Co., Limited, executive vice president of the Nanjing Branch of Shenzhen Development Bank Co., Limited and branch manager of the Changchen sub-branch of Shenzhen Development Bank Co., Limited. Before working at Shenzhen Development Bank Co., Limited, Mr. Xiao had been manager of the assessment department of Shenzhen Credit Rating Co., Limited. Prior to that, he had been the officer-in-charge of the Shenzhen representative office of Hunan Branch of China and the department head of the credit department of the Hunan Branch of Bank of China.

**Mr. Zhang Peng**, aged 42, joined the Group in June 2006. He is responsible for formulating the group's strategy of overall business development. Mr. Zhang holds a Master of Business Administration Degree from the Graduate School of Management of Rutgers, the State University of New Jersey, U.S.A.. Prior to joining the Group in June 2006, he had been the Managing Director of RBC Capital Markets, the Executive Vice President of RBC Capital Markets Pacific Group and the Deputy Chief Executive Officer of RBC Hong Kong Branch. Before working for the RBC Group, Mr. Zhang had been the Managing Director and the Head of Bond Trading and Treasury Department of Mitsubishi

UFJ Securities (HK) Limited. Prior to that, he had been working for two major state-owned Chinese banks for over 18 years, including working in one of their overseas branch in New York for over 8 years.

**Ms. Zhang Jialin**, aged 31, joined the Group in January 2005. She is responsible for overall business development in China. Ms. Zhang holds a Master of Business Administration from University of Liverpool, England and a Master of Arts in International Business from University of Central Lancashire, England. Prior to joining the Group in January 2005, she worked for two Hong Kong listed companies and has various experience in corporate finance area and business development in China.

#### **Independent Non-executive Directors**

**Mr. Yip Tai Him**, aged 36, was appointed as an independent non-executive Director on 15 October 2002. Mr. Yip is a member of the Hong Kong Institute of Certified Public Accountants. He is currently an independent non-executive director of Wing Lee Holdings Limited in Hong Kong, which is listed on the Stock Exchange.

**Dr. Lam Lee G**, aged 47, holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Laws (Hons.) from Manchester Metropolitan University in the U.K., a Post-graduate Diploma in Public Administration from Carlton University in Canada, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 24 years of multinational operations and general management, strategy consulting, corporate governance, investment banking, and direct investment experience. He is Chairman of Monte Jade Science and Technology Association of Hong Kong and serves on the board of a number of listed companies in the Asia Pacific region. He is a Member of the Hong Kong Institute of Bankers, a Member of the General Committee of the Chamber of Hong Kong Listed Companies, a Fellow of the Hong Kong Institute of Directors and a Member of its Corporate Governance Policies Committee, and an Economics Course Registered Professor of the China Institute of Directors.

There is no service contract entered into between the Company and Dr. Lam's appointment is initially for one year and can be terminated by one month's prior notice in writing served by either party. His appointment is also subject to retirement by rotation and/or re-election at the annual general meeting of the Company according to the Articles of Association of the Company. The director's emoluments, which are determined based on the estimated time to be spent by him on the Company's matters, are HK\$100,000 per annum. The emoluments will be reviewed on an annual basis. Directorships previously held by Dr. Lam include Chia Tai Enterprises International Limited (as executive director, chief executive office, and vice chairman; resigned on 15 September 2006), Asia TeleMedia Limited (as independent non-executive director; resigned on 8 September 2004), and Capital Prosper Limited (as independent non-executive director; resigned on 19 July 2004). Dr. Lam is a non-executive director or independent non-executive director of Hong Kong-listed Glorious Sun Enterprises Limited, Capital Strategic Investment Limited, Far East Technology International Limited, Finet Group Limited, Hutchison Harbour Ring Limited,

Mingyuan Medicare Development Company Limited, Pearl Oriental Innovation Limited, Vongroup Limited, Thailand-listed True Corporation Public Company Limited, Singapore-listed Rowsley Limited, and Pakistan-listed TeleCard Limited. Save as disclosed herein, Dr. Lam had not held any other directorship in any listed public company in the last three years. He did not hold any position in the Company or any subsidiary of the Company.

Dr. Lam has no interest in the Shares within the meaning of Part XV of the SFO. Save for his appointment as the independent non-executive Director as set out herein, Dr. Lam does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company within the meaning of the GEM Listing Rules. Dr. Lam was a non-executive director of a Singapore incorporated private company with limited liability, Pandora Interactive Studio Pte. Ltd. ("Pandora") between 1 August 2001 and 21 December 2001, and a director of a Hong Kong incorporated private company with limited liability, i-STT Hong Kong Limited ("i-STT") between 15 December 1999 and 27 October 2004. Pandora was involved in digital animation support services and i-STT was involved in Internet related services. As far as the Company is aware of, Pandora was voluntarily wound up by its shareholders on 14 June 2002 and was subsequently completed, the amount involved being about S\$1.25 million, and i-STT was in creditors' voluntary liquidation on 12 September 2001 and was subsequently completed, the amount involved being about HK\$100 million. Save for disclosed herein, the Board is not aware of any other matters which need to be brought to the attention of the Shareholders and there is no information which is discloseable pursuant to any of the requirements set out in rule 17.50(2)(h)-(v) of the GEM Listing Rules.

#### AUDIT COMMITTEE

An audit committee has been established on 28 October 2002. Currently the audit committee comprising independent non-executive Directors Mr. Yip Tai Him and Dr. Lam Lee G.

The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. In addition, the audit committee considers any significant and unusual items that are, or may need to be, reflected in such reports and accounts and gives due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer and auditors. The audit committee is also responsible for reviewing and supervising the financial reporting process and the Group's internal control system.

#### COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors and employees of the Group or their respective associates had any interests in a business which competes or may compete with the business of the Group or any other conflicts of interests with the Group.

## DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contracts with the Company or any member of the Group which is not determinable by the Group within one year without payment of compensation, other than the statutory compensation.

## INTERESTS IN ASSETS

The Directors confirm that none of the Directors, CCB International Capital Limited, Grant Sherman, Nuada Limited and RSM Nelson Wheeler has any interest, direct or indirect, in any assets which had been, since 31 March 2006, being the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

## DIRECTORS' INTEREST IN CONTRACTS

The Directors confirm that there is no contract or arrangement subsisting at the Latest Practicable Date in which a Director was materially interested and which was significant in relation to the business of the Group.

## MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) have been entered into by any member of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

- (a) the agreement dated 1 February 2006 and entered into between CCI and Pro-Concept Development Limited ("**Pro-Concept**"), a wholly owned subsidiary of the Company, for the assignment of the license of the rights to publish, replicate, reproduce, manufacture, distribute and sell the thirty-four computer game softwares and computer game guide books modified into Chinese language in the retail stores, cyber cafes and on-line servers located in the PRC and the use of the trade marks pertaining to such products and all the rights and benefits in relation to the organisation of electronic sports tournaments in respect of such products;
- (b) the license agreement dated 1 February 2006 and entered into between Pro-Concept, CCP and CCI for the license of the license of the rights to publish, replicate, reproduce, manufacture, distribute and sell the thirty-four computer game softwares and computer game guide books modified into Chinese language in the retail stores, cyber cafes and on-line servers located in the PRC and the use of the trade marks pertaining to such products and all the rights and benefits in relation to the organization of electronic sports tournaments in respect of such products by Pro-Concept to CCP;

- (c) the convertible bond placing agreement dated 10 May 2005 entered into between the Company and Tai Fook Securities Company Limited for placing of the convertible bonds, on a best effort basis, up to a maximum of HK\$5,000,000, which have been successfully placed and completed on 23 May 2005;
- (d) the subscription agreement dated 10 May 2005 entered into between Superhero Limited (“Superhero”) and the Company pursuant to which Superhero agreed to subscribe for Shares, the number of which is equal to the number of the Shares placed successfully by Tai Fook Securities Company Limited (“Tai Fook”) under the placing agreement dated 10 May 2005 entered into between Superhero and Tai Fook for the placing of up to a maximum of 50 million shares owned by the Vendor at a price of HK\$0.40 per placing share on a best effort basis. Completion took place on 17 May 2005 and a total of 26,300,000 Shares were successfully placed by Tai Fook to six places;
- (e) the placing and subscription agreement dated 15 May 2006 and entered into between CCI, Superhero, the Company and VC Brokerage Limited as placing agent relating to a top-up and placing of up to a total of 100,000,000 Shares at HK\$1.50 per Share on a best effort basis. Completion took place on 26 May 2006 and a total of 97,230,000 Shares were successfully placed and topped up; and
- (f) the SA Agreement.

#### CORPORATE INFORMATION

- (a) The registered office of the Company is located at P.O. Box 309 GT, Ugland House, South Church Street, Grand Cayman, Cayman Islands;
- (b) The head office and principal place of business in Hong Kong is located at Units 2115-2116, 21/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong;
- (c) The principal share registrar and transfer office of the Company is Bank of Butterfield International (Cayman) Limited at Butterfield House, 68 Fort Street P.O. Box 705, George Town, Grand Cayman, Cayman Islands;
- (d) The branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong;
- (e) The secretary and qualified accountant of the Company is Ms. Chan Mei Yee, CPA; and
- (f) The compliance officer of the Company is Ms. Zhang Jialin appointed pursuant to Rule 5.19 of the GEM Listing Rules.

**GENERAL**

The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts for the purpose of interpretation.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Units 2115-2116, 21/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, during 10:00 a.m. to 4:00 p.m. on any Business Day, from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 18 of this circular;
- (c) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 19 to 28 of this circular;
- (d) the valuation report prepared by Grant Sherman in connection with the valuation of the right to receive the Net Revenue, the text of which is set out in Appendix II to this circular;
- (e) the reports from RSM Nelson Wheeler and CCB International Capital Limited in connection with the valuation of the right to receive the Net Revenue, the texts of which are set out in Appendix III to this circular;
- (f) the letter from RSM Nelson Wheeler in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (g) the annual reports of the Company for the three financial years ended 31 March 2004, 2005 and 2006;
- (h) the first quarterly report of the Company for the three months ended 30 June 2006;
- (i) the interim report of the Company for the six months ended 30 September 2006;
- (j) the consent letters from CCB International Capital Limited, Grant Sherman, Nuada Limited and RSM Nelson Wheeler referred to in the paragraph headed "Qualification and consent of experts" in this appendix;
- (k) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and
- (l) this circular.

## NOTICE OF EGM



### CHINAINFO HOLDINGS LIMITED

### 神州資訊控股有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8206)**

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (the “EGM”) of Chinainfo Holdings Limited (the “Company”) will be held at 10:30 a.m. on Monday, 18 December 2006 at the Meeting Room, Units 2115–2116, 21/F, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. “THAT

- (a) the conditional agreement (the “SA Agreement”) dated 20 October 2006 and entered into among Success Advantage Investments Limited, an indirect wholly-owned subsidiary of the Company (“Success Advantage”) as purchaser, 神州通信投資有限公司 (China Communication Investment Ltd.) (“CCI”) as vendor and 神州通信有限公司 (China Communication Co., Ltd.) as guarantor pursuant to which Success Advantage has conditionally agreed to acquire, at a consideration of HK\$620,000,000, the right to receive the net revenue payable by CCI to Success Advantage which is equivalent to 40% of the net sales revenue derived from operating “Sudden Attack” in the People’s Republic of China by 神州奧美網絡有限公司 (China Cyber Port Co., Ltd.) for the period between 1 January 2007 and 10 August 2009 (a copy of the SA Agreement has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the allotment and issue of a total of 30,000,000 shares (each a “Consideration Share”) of HK\$0.01 each in the capital of the Company to satisfy HK\$135,000,000 of the consideration referred to in paragraph (a) above, at an issue price of HK\$4.5 per Consideration Share, credited as fully paid, to CCI, be and is hereby approved; and

\* for identification purpose only

## NOTICE OF EGM

- (c) any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which they consider necessary or expedient for the implementation of and giving effect to the SA Agreement and the transactions contemplated thereunder.”

2. To re-elect Dr. Lam Lee G as independent non-executive Director.

By order of the Board  
**Chinainfo Holdings Limited**  
**He Chenguang**  
*Chairman*

Hong Kong, 30 November 2006

*Registered office:*

P.O. Box 309 GT  
Ugland House  
South Church Street  
Grand Cayman  
Cayman Islands

*Head office and principal place of business in Hong Kong:*

Units 2115–2116  
21/F, China Merchants Tower  
Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

*Notes:*

1. Subject to the provisions of the articles of association of the Company, any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to represent and vote on his behalf at the EGM. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. On a poll, votes may be given either personally or by proxy.
2. A form of proxy for use at the EGM is enclosed. Such form of proxy is also published on the website of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) at [www.hkgem.com](http://www.hkgem.com). In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and returned, together with the power of attorney or other authority (if any) under which it is signed (or a copy which has been certified by a notary) to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting.
3. In the case of joint holders of Shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
4. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the EGM and in such event, the form of proxy shall be deemed to be revoked.
5. Pursuant to the Rules Governing the Listing of Securities on GEM of the Stock Exchange, the voting on ordinary resolution no. 1 at the EGM will be conducted by way of poll.