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

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

**If you have sold or transferred** all your shares in Lo's Enviro-Pro Holdings Limited, you should at once hand this circular, together with the enclosed proxy form to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any shares or securities of the Company.

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**LO'S ENVIRO-PRO HOLDINGS LIMITED**

**勞氏環保控股有限公司**

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

**(Stock Code: 309)**

**VERY SUBSTANTIAL ACQUISITION  
IN RELATION TO THE ENTERING INTO OF THE COOPERATION AGREEMENT  
FOR THE DEVELOPMENT OF  
THE TELEVISION SCREEN BROADCAST BUSINESS AND  
PROPOSED CHANGE OF THE COMPANY'S NAMES THEREUNDER AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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A letter from the Board is set out on pages 5 to 41 of this circular.

A notice convening the EGM to be held at 11:00 a.m. on Friday, 8 April 2011 at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong is set out on pages 105 to 107 of this circular. A proxy form for the EGM is also enclosed with this circular.

Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions set out therein to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, 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 adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

11 March 2011

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context does not permit or requires otherwise:*

“Asia-Pacific Regional Bureau”	Xinhua News Agency Asia-Pacific Regional Bureau Limited, a company incorporated under the laws of Hong Kong with limited liability and established by Xinhua News Agency Asia-Pacific Regional Bureau, the Asia-Pacific regional branch office of Xinhua News Agency
“Board”	the board of Directors
“Business Day”	a day (other than Saturdays, Sundays and statutory holidays in Hong Kong and China) on which commercial banks in Hong Kong and China open for business
“Clarification Memorandum”	the memorandum dated 28 January 2011 entered into between Asia-Pacific Regional Bureau and the Company to clarify certain implementation details of the Principal Agreement
“Company”	Lo’s Enviro-Pro Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion under the Cooperation Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules and the word “connected” shall be construed accordingly
“Consideration Shares”	214,681,040 new Shares to be allotted and issued to Asia-Pacific Regional Bureau upon Completion pursuant to the Cooperation Agreement
“Cooperation”	the cooperation between Asia-Pacific Regional Bureau and the Company under the Cooperation Agreement to develop the Television Screen Broadcast Business of the Company
“Cooperation Agreement”	the Principal Agreement, the Supplemental Agreement and the Clarification Memorandum collectively

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## DEFINITIONS

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“Designated Account”	a bank account to be opened by the Media Subsidiary with a bank in Hong Kong specifically for the purpose of development of the Television Screen Broadcast Business, which shall be jointly operated by two signatories designated by Asia-Pacific Regional Bureau and one signatory designated by the Company
“Development Region”	(a) Hong Kong; (b) Macau; (c) Taiwan; (d) Asia-Pacific countries (excluding China) and/or regions, including Japan, South Korea, North Korea, East Asia, South East Asia, Australia, New Zealand and the nearby island countries, etc.; and (e) other regions (including China) as may be jointly confirmed by the Parties from time to time
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company convened and to be held for the purpose of considering and, if thought fit, approving the Cooperation Agreement and the transactions contemplated thereunder including the issue of the Consideration Shares and the proposed change of names of the Company
“Enlarged Group”	the Group after the Completion
“Extra Capital Fund”	a sum of no less than HK\$200,000,000
“Free Right”	the right granted by Asia-Pacific Regional Bureau to the Company for a term of 10 years (which is extendable subject to future negotiation between the Parties) commencing from the date of Completion to broadcast the Media Information to public entities or individuals in the Development Region
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Initial Capital Fund”	a sum of no less than HK\$100,000,000 for the sole purpose of the development of the Television Screen Broadcast Business of the Company

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## DEFINITIONS

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“Latest Practicable Date”	8 March 2011, being the latest practicable date for ascertaining certain information as contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Media Information”	information collected or obtained by Asia-Pacific Regional Bureau in the course of development of the Television Screen Broadcast Business and other information mutually agreed by the Parties, including the name of Asia-Pacific Regional Bureau as well as other information and advertisement content over which Asia-Pacific Regional Bureau acquires or owns copyright from time to time
“Media Subsidiary”	a wholly-owned subsidiary of the Company which pursuant to the Cooperation Agreement is to be set up by the Company for conducting the Television Screen Broadcast Business
“Parties”	Asia-Pacific Regional Bureau and the Company, each a “Party”
“PRC” or “China”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
“Principal Agreement”	the cooperation agreement dated 22 November 2010 entered into between Asia-Pacific Regional Bureau and the Company relating to development of the business of broadcasting advertisements and information on television screens (發展電視屏幕廣告和資訊播放業務合作協議)
“SFC”	Securities and Futures Commission in Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of the Company

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## DEFINITIONS

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“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning as ascribed to it under the Listing Rules
“Supplemental Agreement”	the letter dated 27 November 2010 supplementing the Principal Agreement issued by the Company to and countersigned by Asia-Pacific Regional Bureau
“Takeovers Codes”	The Codes on Takeovers and Mergers and Share Repurchases issued by the SFC
“Television Screen Broadcast Business”	the business of publicly broadcasting information and advertisements on television screens (whether indoors or outdoors)
“Valuation Report”	the valuation report on the Television Screen Broadcast Business prepared by the Valuer as contained in appendix III to this circular
“Valuer”	Greater China Appraisal Limited, an independent valuer engaged by the Company to prepare the valuation report on the Television Screen Broadcast Business
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent.

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

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LETTER FROM THE BOARD

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**LO'S ENVIRO-PRO HOLDINGS LIMITED**

**勞氏環保控股有限公司**

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

**(Stock Code: 309)**

*Executive Directors:*

Dr. Lo Kou Hong

*(Chairman and Managing Director)*

Ms. Ko Lok Ping, Maria Genoveffa

Mr. Leung Tai Tsan, Charles

Mr. Cheung Pui Keung, James

*Registered Office:*

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

*Non-executive Director:*

Mr. Xu Rong

*Head Office and Principal Place  
of Business in Hong Kong:*

3/F., Caltex House

258 Hennessy Road

Wanchai

Hong Kong

*Independent Non-executive Directors:*

Mr. Cheng Kai Tai, Allen

Mr. Chiu Wai Piu

Mr. Wang Qi

11 March 2011

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION  
IN RELATION TO THE ENTERING INTO OF THE COOPERATION AGREEMENT  
FOR THE DEVELOPMENT OF  
THE TELEVISION SCREEN BROADCAST BUSINESS AND  
PROPOSED CHANGE OF THE COMPANY'S NAMES THEREUNDER AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Reference is made to the announcements of the Company dated 29 November and 6 December 2010 in relation to the Company's entering into of a cooperation agreement with Asia-Pacific Regional Bureau for the development of the Television Screen Broadcast Business. Upon Completion, the Company will allot and issue a total of 214,681,040 Consideration Shares at the issue price of HK\$0.7047 per Consideration Share to Asia-Pacific Regional Bureau and Asia-Pacific Regional Bureau will grant the Free Right to the Company for a term of 10 years for developing the Television Screen Broadcast Business. The Company and Asia-Pacific Regional Bureau also entered into the Clarification Memorandum to

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## LETTER FROM THE BOARD

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confirm/clarify that (i) the 10-year term of the Free Right will commence from the date of Completion; (ii) the signing and implementation of advertising contracts with advertisers shall be done by the Media Subsidiary; (iii) the candidates to be nominated by Asia-Pacific Regional Bureau as Directors will be executive Directors (their relevant terms of employment to be agreed between the relevant parties); (iv) the appointment of Directors pursuant to the Cooperation Agreement is not subject to the Stock Exchange's approval; and (v) the Company will be responsible for the cost in connection with getting provinces, municipalities and autonomous regions in China becoming part of the Development Region for the Enlarged Group's Television Screen Broadcast Business.

Pursuant to the Cooperation Agreement, the Chinese name of the Company shall be changed to “新華通訊頻媒控股有限公司” upon Completion. The Parties have also agreed that the corresponding new English name of the Company to be adopted with effect from Completion shall be “Xinhua News Media Holdings Limited”.

The purpose of this circular is to provide the Shareholders with, among other things, (i) details regarding the Cooperation Agreement; (ii) information about the change of names of the Company; (iii) the unaudited pro forma financial information of the Enlarged Group; (iv) the Valuation Report; (v) the notice of the EGM; and (vi) other information as required under the Listing Rules.

### THE COOPERATION AGREEMENT

#### Date

The Principal Agreement, the Supplemental Agreement and the Clarification Memorandum, which together constitute the Cooperation Agreement, were entered into between the Company and Asia-Pacific Regional Bureau on 22 and 27 November 2010 and 28 January 2011, respectively.

#### Parties

- (i) Asia-Pacific Regional Bureau; and
- (ii) the Company

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Asia-Pacific Regional Bureau and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

#### Duties of the Parties under the Cooperation Agreement

Under the Cooperation Agreement, Asia-Pacific Regional Bureau and the Company shall closely cooperate to develop the Company's Television Screen Broadcast Business, including but not limited to, identifying suitable locations for installing the television screens that broadcast the Media Information and advertisements and entering into the relevant leasing agreements in respect of such locations.

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## LETTER FROM THE BOARD

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Asia-Pacific Regional Bureau is also responsible for, *inter alia*, the followings:

- (i) diligently identifying advertising customers;
- (ii) granting the Company the Free Right for a term of 10 years commencing from the date of Completion (extension of the term and terms of the extension may be negotiated by the Parties six months before the expiration of the original term);
- (iii) arranging for publicity and market promotion for the broadcast of the Media Information;
- (iv) assisting the Company in developing the Television Screen Broadcast Business in all respects and in getting provinces, municipalities and autonomous regions in China becoming part of the Development Region for the Company's Television Screen Broadcast Business and the Company will be responsible for the relevant cost in this connection (however, the exact timing for expanding the Company's Television Screen Broadcast Business into different locations in China will be subject to agreement by both Parties from time to time); and
- (v) shooting and producing or providing assistance in the shooting and production of flashes of the Media Information for broadcast by both Parties.

The signing of the advertising contracts with advertisers and implementation of the advertising contracts shall be done by the Media Subsidiary, which, according to the Cooperation Agreement, shall be set up by the Company for the running of the Company's Television Screen Broadcast Business.

### **Free Right**

The Free Right is the right granted by Asia-Pacific Regional Bureau to the Company to broadcast the Media Information to public entities or individuals on television screens that are installed outdoors (such as external walls of buildings and plazas) and indoors (such as shopping malls and office building lobby) in the Development Region. The Media Information includes information collected or obtained by Asia-Pacific Regional Bureau in the course of the development of the Television Screen Broadcast Business and other information mutually agreed by the Parties, including the name of Asia-Pacific Regional Bureau as well as other information and advertisement content which Asia-Pacific Regional Bureau acquires or owns copyright from time to time. It is expected that the Media Information that may be covered in the Television Screen Broadcast Business will include news, news related programmes, information programmes and other information and advertisement content which Asia-Pacific Regional Bureau from time to time acquires or owns copyright, whether or not registered or registrable.

In connection with the right to use Asia-Pacific Regional Bureau's name for the purpose of the Company's Television Screen Broadcast Business, Asia-Pacific Regional Bureau has confirmed to the Company that unless Completion cannot take place, Asia-Pacific Regional

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## LETTER FROM THE BOARD

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Bureau will not change its names (whether English or Chinese) for so long as the cooperation between Asia-Pacific Regional Bureau and the Company in relation to the Company's Television Screen Broadcast Business is subsisting and Xinhua News Agency Asia-Pacific Regional Bureau has confirmed its agreement to this.

The Company has also received written confirmation from Xinhua News Agency Asia Pacific Regional Bureau of the following:

- (a) Xinhua News Agency Asia Pacific Regional Bureau has all the news and information use right of Xinhua News Agency (the "News & Information Right") and allows Asia-Pacific Regional Bureau to use the same free of charge; and
- (b) Xinhua News Agency Asia Pacific Regional Bureau also agrees that Asia-Pacific Regional Bureau may permit the Company to use the News & Information Right free of charge for a period of 10 years in accordance with the Cooperation Agreement.

The Directors are not aware and the legal adviser of the Company as to Hong Kong law has issued a legal opinion confirming that it is not aware that Asia-Pacific Regional Bureau does not have the right to grant the Free Right in respect of the places that fall within the Development Region as at the Latest Practicable Date. The aforesaid legal opinion has also confirmed that the Cooperation Agreement is legally enforceable in accordance with its terms.

Asia-Pacific Regional Bureau has confirmed to the Company and Xinhua News Agency Asia Pacific Regional Bureau has agreed that (i) Asia-Pacific Regional Bureau has not granted and will not grant the Free Right and to other persons, companies or institutions and has never and will not in respect of the Development Region granted/grant rights similar to the Free Right to other persons, companies or institutions; (ii) no other institution, company or unit can, in respect of the Development Region, grant right which is the same as or similar to the Free Right to other persons, companies or institutions; and (iii) to Asia-Pacific Regional Bureau's knowledge, Xinhua News Agency and Xinhua News Agency Asia-Pacific Regional Bureau have not in respect of the Development Region granted the Free Right and rights similar to the Free Right to other persons, companies or institutions.

### **The Consideration, the Initial Capital Fund and the Extra Capital Fund**

After arm's length negotiation between the Company and Asia-Pacific Regional Bureau on normal commercial terms, it has been agreed by the Parties that upon Completion, the Company shall allot and issue to Asia-Pacific Regional Bureau the 214,681,040 Consideration Shares at the issue price (the "Issue Price") of HK\$0.7047 per Consideration Share (the "Share Consideration") to be satisfied by the granting of the Free Right by Asia-Pacific Regional Bureau to the Company for a term of 10 years with power to the Media Subsidiary to use the same for the running of the Company's Television Screen Broadcast Business, and Asia-Pacific Regional Bureau shall not be required to make any expenditure for paying the Company the nominal value and premium (if any) of the Consideration Shares or any expenses arising from the allotment and issue of the Consideration Shares.

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## LETTER FROM THE BOARD

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The Company shall deposit the Initial Capital Fund of HK\$100,000,000 into the Designated Account for the Media Subsidiary's development of the Television Screen Broadcast Business. Of the Initial Capital Fund, a sum of no less than HK\$50,000,000 shall be made available to the Media Subsidiary within two weeks after the granting of the approval by the Stock Exchange for the listing of and permission to deal in the Consideration Shares and the approval by the Shareholders in respect of (i) the Cooperation Agreement and the transactions contemplated thereunder (including the commencement of the Television Screen Broadcast Business and the issue of the Consideration Shares); and (ii) the proposed change of names of the Company. The remaining sum of the Initial Capital Fund shall be made available to the Media Subsidiary within two weeks after the aforesaid first instalment is made available to the Media Subsidiary.

In addition, if the audited operating revenue of the Television Screen Broadcast Business for the year ending 31 December 2012 is no less than HK\$100,000,000, the Company will make the Extra Capital Fund of HK\$200,000,000 available to the Media Subsidiary for the continuous development of the Television Screen Broadcast Business (please refer to the paragraph "Post-Completion Undertakings and Obligations" under the section headed "Other major terms of the Cooperation Agreement" of this letter for further details).

Since the Initial Capital Fund and the Extra Capital Fund will be used for the continuous development of the Television Screen Broadcast Business by the Media Subsidiary, the management of the Company considers that the Share Consideration in the amount of HK\$151,285,729 essentially represents the consideration paid by the Company in exchange for the Free Right (which has a term of 10 years and is extendable subject to future negotiation between the Parties). The consideration for the transaction under the Cooperation Agreement has been determined based on normal commercial terms after arm's length negotiations between the Company and Asia-Pacific Regional Bureau with reference to a number of factors including (i) the development potential and potential profitability of the Television Screen Broadcast Business; (ii) the background, business strength, experience and networking of Asia-Pacific Regional Bureau; (iii) the term of the Free Right; (iv) the Company's future cooperation with Asia-Pacific Regional Bureau in developing the Television Screen Broadcast Business in Development Region; (v) the post-completion undertaking given by Asia-Pacific Regional Bureau that the audited revenue of the Television Screen Broadcast Business for the two years ending 31 December 2011 and 2012 will be no less than HK\$30 million and HK\$100 million, respectively and (vi) the non-competition and exclusivity undertakings of Asia-Pacific Regional Bureau. In addition, the Share Consideration also represents a discount of approximately 21.2% to the valuation of the Television Screen Broadcast Business of approximately HK\$192 million as stated in the Valuation Report. Having considered the above, the Directors are of the view that the Share Consideration is fair and reasonable.

### **The Consideration Shares**

The Consideration Shares represent (i) 28% of the issued share capital of the Company as at the date of the Principal Agreement; (ii) approximately 24.51% of the issued share capital of the Company as at the Latest Practicable Date; and (iii) approximately 19.7% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The issue of the Consideration Shares will not result in any change of control of the Company.

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## LETTER FROM THE BOARD

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The Consideration Shares will rank *pari passu* in all respects among themselves and with all the Shares in issue as at the date of allotment and issue of the Consideration Shares, including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Consideration Shares.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares. The Cooperation Agreement has not imposed any restrictions on the subsequent sale of the Consideration Shares.

### **The Issue Price**

The Issue Price of HK\$0.7047 per Consideration Share was determined after arm's length negotiation between the Company and Asia-Pacific Regional Bureau and represents:

- (i) a discount of 19% to the closing price of HK\$0.87 per Share as quoted on the Stock Exchange on the last trading day of the Shares on the Stock Exchange prior to the publication of the Company's announcement dated 29 November 2010 in relation to the transaction under the Cooperation Agreement;
- (ii) a discount of approximately 10% to the average of the closing prices of HK\$0.783 per Share for the 10 consecutive trading days prior to the date of the Principal Agreement;
- (iii) a premium of approximately 332% to the net assets value per Share of approximately HK\$0.163 (based on the unaudited consolidated equity attributable to the equity holders of the parent of the Company of approximately HK\$143.15 million as at 30 September 2010 and 875,718,000 issued Shares as at the Latest Practicable Date); and
- (iv) a discount of approximately 6% to the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Directors consider that the Issue Price is fair and reasonable.

### **Conditions Precedent**

Completion shall be subject to the satisfaction of the following conditions precedent:

- (i) the deposit of no less than HK\$100 million into the Designated Account;
- (ii) the development of the Television Screen Broadcast Business and the establishment of the Media Subsidiary having been approved by the Board;
- (iii) the entering into of the Cooperation Agreement and the transactions contemplated thereunder having been approved by the board of directors of Asia-Pacific Regional Bureau;

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## LETTER FROM THE BOARD

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- (iv) development of the Television Screen Broadcast Business (if this constitutes major transaction or very substantial acquisition under Chapter 14 of the Listing Rules), the issue of the Consideration Shares and the change of the Company's names having been approved by the Shareholders;
- (v) the development of the Television Screen Broadcast Business is in compliance with the Listing Rules, the requirements and provisions of the Stock Exchange and the SFC;
- (vi) the development of the Television Screen Broadcast Business does not constitute reverse takeover under Rule 14.06 of the Listing Rules and will not result in the Company being required to make an application for a new listing under the Listing Rules;
- (vii) the development of the Television Screen Broadcast Business will not result in Asia-Pacific Regional Bureau or the parties acting in concert with it being required to make a mandatory general offer to the Shareholders pursuant to the Takeovers Code; and
- (viii) the Stock Exchange having granted the approval for the listing of and the permission to deal in the Consideration Shares.

The conditions precedent set out above have to be satisfied on or before 30 June 2011 (or such other date as mutually agreed by the Parties in writing), failing which, the Cooperation Agreement shall on demand by either Party be automatically terminated.

As at the Latest Practicable Date, conditions numbered (ii) and (iii) have been fulfilled.

### **Completion**

Completion shall take place on the fifth Business Day (or on such other date as the Parties may agree) after all the conditions precedent to Completion have been satisfied.

At Completion,

- (i) the Consideration Shares shall be allotted and issued to Asia-Pacific Regional Bureau;
- (ii) the Free Right granted by Asia-Pacific Regional Bureau to the Company (which may be used by the Media Subsidiary for running the Company's Television Screen Broadcast Business) shall take immediate effect;
- (iii) the appointment of not more than three executive Directors as nominated by Asia-Pacific Regional Bureau shall take effect; and
- (iv) both the English and Chinese names of the Company shall be changed to specific names agreed by the Parties (details of which are described under the section headed "PROPOSED CHANGE OF THE COMPANY'S NAMES" of this letter).

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## LETTER FROM THE BOARD

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### **Other major terms of the Cooperation Agreement**

#### *Nomination Right with regard to Appointment of Directors*

Asia-Pacific Regional Bureau has the right to nominate persons for appointment as Directors to be effective as from Completion and the number of Directors to be so appointed and coming from candidates nominated by Asia-Pacific Regional Bureau shall be no more than three and such Directors shall be executive Directors with their salary, benefits, responsibilities and terms of engagement shall be agreed by the relevant parties. The appointment shall be made through the Company's normal procedures, including the consideration of, among others, the background, experience, qualification and skills of the candidates by the Board.

It is intended that the candidates to be nominated by Asia-Pacific Regional Bureau for appointment as Directors will have substantial experience in news and media business. The Directors believe that drawing on the experience of Asia-Pacific Regional Bureau, its networking and the skills and experience of its personnel, the potential candidates will help the Company to be better equipped for the development of the Television Screen Broadcast Business.

The appointment of the candidates nominated by Asia-Pacific Regional Bureau as Directors will be subject to fiduciary duty of the Board and their appointment will be made in compliance with the relevant requirements under the Listing Rules. The Board will not approve appointment of a nominee to be Director in case it is known that such nominee is disqualified under applicable law to be Director. Information required under Rule 13.51(2) of the Listing Rules and Form B to Appendix 5 to the Listing Rules (i.e. Declaration and Undertaking with regard to Directors) for the nominees will be collected before consideration by the Board of their appointment as Directors. Arrangements will also be made for, *inter alia*, induction to be received by the new Directors in manner as required by Provisions A.5.1 of Appendix 14 to the Listing Rules.

As at the Latest Practicable Date, no candidates have been nominated by Asia-Pacific Regional Bureau for appointment as Directors for the Board's consideration.

#### *Post-Completion Undertakings and Obligations*

Asia-Pacific Regional Bureau has undertaken that the audited operating revenue derived from the Company's Television Screen Broadcast Business for the year ending 31 December 2011 and 2012 will be no less than HK\$30,000,000 and HK\$100,000,000, respectively and if any part of this undertaking cannot be fulfilled, Asia-Pacific Regional Bureau has to pay appropriate compensation to the Company as liquidated damages.

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## LETTER FROM THE BOARD

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If Asia-Pacific Regional Bureau's undertaking with respect to the Enlarged Group's operating revenue from the Television Screen Broadcast Business for the year ending 31 December 2012 is fulfilled,

- (i) the Company shall make available the Extra Capital Fund to the Media Subsidiary for the continuous development of the Television Screen Broadcast Business within three months of the issue of the Company's audited consolidated group accounts for the year ending 31 December 2012 showing that the revenue from the Television Screen Broadcast Business is no less than HK\$100,000,000; and
- (ii) Asia-Pacific Regional Bureau shall be entitled to recommend person for appointment as chairman of the Board.

In case the Company fails to make available the Extra Capital Fund on time when it has the obligation to do so, there is no automatic right of revocation of the Free Right conferred on Asia-Pacific Regional Bureau.

With respect to compensation, the Cooperation Agreement has not provided for any specific figure or formula regarding the compensation that the Company has to pay to Asia-Pacific Regional Bureau in the event of the Company's failure to fulfill its obligation to make available the Initial Capital Fund or the Extra Capital Fund under the Cooperation Agreement. Since it is difficult to assess the damages (hence the compensation that needs to be paid) in the event the Company fails to fulfill the relevant contractual obligations under the Cooperation Agreement upon its signing, the Cooperation Agreement has not provided for any specific figure or formula in this regard.

### *Non-Competition*

Asia-Pacific Regional Bureau shall not during the validity period of the Cooperation Agreement, directly or through any third party, undertake the Television Screen Broadcast Business in the Development Region, whether alone or in cooperation with any third party.

### *Exclusivity*

For a period of six months commencing from the date of the Principal Agreement, Asia-Pacific Regional Bureau shall not, with respect to the development of the Television Screen Broadcast Business, contact, discuss and/or negotiate with any third party regarding the mode of cooperation, scope of the Development Region, content, conditions, provision of the Media Information, etc.

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## LETTER FROM THE BOARD

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### Shareholding Structure

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) as enlarged by the issue of the Consideration Shares.

	As at the Latest Practicable Date		Immediately after Completion	
	Number of Shares	Approximately %	Number of Shares	Approximately %
Asia-Pacific Regional Bureau	–	–	214,681,040	19.69%
The Lo's Family (PTC) Limited (Note 1)	80,000,000	9.14%	80,000,000	7.34%
Ms. Ko Lok Ping, Maria Genoveffa (Note 2)	1,700,000	0.19%	1,700,000	0.16%
Mr. Leung Tai Tsan, Charles	1,900,000	0.22%	1,900,000	0.17%
Mr. Cheung Pui Keung, James	1,480,000	0.17%	1,480,000	0.14%
<b>Subtotal</b>	85,080,000	9.72%	299,761,040	27.50%
Public Shareholders	790,638,000	90.28%	790,638,000	72.50%
<b>Total</b>	<u>875,718,000</u>	<u>100.00%</u>	<u>1,090,399,040</u>	<u>100.00%</u>

Notes:

1. These Shares were owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust, a unit trust of which all the units in issue were owned by Equity Trustee Limited as the trustee of The Lo's Family Trust, a discretionary trust of which the objects include Dr. Lo Kou Hong's family members. Accordingly, Dr. Lo Kou Hong, as the founder of The Lo's Family Trust, and Ms. Ko Lok Ping, Maria Genoveffa, as one of the beneficiaries of The Lo's Family Trust, were deemed to be interested in the Shares owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust under Part XV of the SFO.
2. These Shares were beneficially owned by Ms. Ko Lok Ping, Maria Genoveffa. Dr. Lo Kou Hong, as the spouse of Ms. Ko, was deemed to be interested in the 1,700,000 Shares pursuant to Part XV of the SFO.

### THE TELEVISION SCREEN BROADCAST BUSINESS

#### Asia-Pacific Regional Bureau

Asia-Pacific Regional Bureau is a company established with limited liability under the laws of Hong Kong by Xinhua News Agency Asia-Pacific Regional Bureau, the Asia-Pacific regional branch of Xinhua News Agency established in January 1984. Asia-Pacific Regional Bureau is principally engaged in news reporting, editing, press release and other related business.

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## LETTER FROM THE BOARD

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Xinhua News Agency, headquartered in Beijing, PRC, is the state-owned news agency of the PRC and the major news and information collection and distribution centre in the PRC founded in 1931. Xinhua News Agency has branches located in over 30 provinces, autonomous regions and centrally administered municipalities in the PRC as well as Hong Kong and Macau and bureaus in more than 100 countries and regions. In addition, Xinhua News Agency has five regional offices that can release news directly, including, Xinhua News Agency Asia-Pacific Regional Bureau in Hong Kong, the Latin American Regional Office in Mexico City, the African Regional Office in Nairobi, the Middle-East Regional Office in Cairo and the European Regional Office in Brussels. Xinhua News Agency has a multi-channel, multi-function and multi-level news release system and broadcasts news to PRC domestic newspapers, radio and television stations through dedicated lines and release news to the world in a number of languages, including Chinese, English, French, Spanish, Russian, Arabic and Portuguese. Xinhua News Agency also publishes a number of publications in the PRC including “Reference News” and “Fortnightly Chat”, which are one of the largest daily newspapers and magazines in the PRC in terms of circulation, respectively. Xinhua News Agency has also established its audio-video news centre which provides programmes on current events and special topics to television stations and its subscribers, and has set up a news, information and subscribers network both domestically and overseas and signed news exchange and cooperation agreements with news agencies and other journalistic organizations of about 100 countries and regions.

### **Media Subsidiary**

The Media Subsidiary shall be established as a wholly-owned subsidiary of the Company to carry out the Television Screen Broadcast Business and the financial results of the Media Subsidiary will be consolidated into the consolidated financial statements of the Company. Economic benefits from the Media Subsidiary will flow to the Company by virtue of its 100% shareholding in the Media Subsidiary. As at the Latest Practicable Date, it is intended that the board of directors of the Media Subsidiary will comprise five members, of whom three will be nominated by the Company (namely, Dr. Lo Kou Hong, Mr. Leung Tai Tsan, Charles and Mr. Cheung Pui Keung, James, all being Directors) and two will be nominated by Asia-Pacific Regional Bureau. As advised by Asia-Pacific Regional Bureau, the potential candidates to be nominated as directors of the Media Subsidiary have yet to be determined. It is also estimated that the three aforesaid Directors will allocate approximately 50% of their time to manage the business development of the Media Subsidiary. As the Designated Account can only be operated jointly by two signatories designated by Asia-Pacific Regional Bureau and one signatory designated by the Company, withdrawal or transfer from the Designated Account would not be possible if such withdrawal or transfer is not consented by the authorised signatory designated by the Company, and hence the Company is in a position to have scrutiny and negative control over withdrawal and transfer from the Designated Account. Under the Cooperation, there is no profit sharing arrangement between Asia-Pacific Regional Bureau and the Group and no assets will be split between the Company and Asia-Pacific Regional Bureau if the Media Subsidiary is liquidated.

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## LETTER FROM THE BOARD

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It is initially planned that the Television Screen Broadcast Business will be operated as a separate business segment of the Company and with the assistance of Asia-Pacific Regional Bureau, the Enlarged Group will lease all of its required space for installation of television screens in Hong Kong and Macau and recruit the relevant experienced production and marketing personnel to operate the Television Screen Broadcast Business and control the quality of the advertisements. After the Group's preliminary studies and discussion with Asia-Pacific Regional Bureau on the Television Screen Broadcast Business, including, the current market airtime charges, the business model and size, the operating cost (such as staff cost and rental expenses for offices and spaces for the installation of television screens) and the capital expenditure (such as purchases of television screens) involved, it is planned that the Media Subsidiary will, (i) during the first two years of its business operation, establish 1 office in Hong Kong and 1 office in Shenzhen, China and recruit up to 40 and to 70 employees comprising general manager, sales managers and staff, production manager and staff, accountants and other administrative and supportive staff, of which approximately 15 to 30 of these employees will be located in the Media Subsidiary's office in Shenzhen, China to attract those Chinese companies who wish to enhance the presence of their business or products in Hong Kong and Macau, respectively; (ii) have a total of 2 outdoor television screens (1 in Hong Kong and 1 in Macau) and 12 indoor television screens (10 in Hong Kong and 2 in Macau) by 2011, a total of 5 outdoor television screens (3 in Hong Kong and 2 in Macau) and 15 indoor television screens (11 in Hong Kong and 4 in Macau) by 2012; and a total of 8 outdoor television screens (4 in Hong Kong, 2 in Macau and 2 in South Korea) and 25 indoor television screens (18 in Hong Kong, 5 in Macau and 2 in South Korea) by 2013; and (iii) have 2 additional outdoor television screens being installed during the remaining 10-year period of the Free Right and (iv) an average of approximately 10 additional indoor television screens per annum being installed during the remaining 10-year period of the Free Right. As at the Latest Practicable Date, no specific suppliers for the Company's Television Screen Broadcast Business have been identified by the Company yet.

### **Overview of the Television Screen Broadcast Business**

The Media Subsidiary will be the key operating subsidiary of the Enlarged Group to carry out Television Screen Broadcast Business. The Television Screen Broadcast Business will involve the broadcast of the Media Information on television screens that are installed outdoors (such as external walls of buildings and plazas) and indoors (such as shopping malls and office building lobby) and the production of advertisements. The timeslots during which the Media Information will be broadcasted and the particular type of Media Information to be broadcasted in a particular timeslot would be determined by the Media Subsidiary taking into account factors such as local legal and regulatory requirements, physical environment where the television screens are situated, the feedback of the targeted audience, market demands, market competition, requests or suggestions of the advertisers (i.e. customers and potential customers of the Media Subsidiary). Revenue derived from the Television Screen Broadcast Business will comprise the sale of air time for the display of the customers' advertisements and advertisement production income.

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## LETTER FROM THE BOARD

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The management of the Company and Asia-Pacific Regional Bureau have discussed details relating to the future cooperation between the Company and Asia-Pacific Regional Bureau, including the operating locations of the Television Screen Broadcast Business, the market conditions and the contributions from each Party to the development of the Television Screen Broadcast Business, etc.. It is intended that whilst Asia-Pacific Regional Bureau will contribute its management experience and the Free Right, the Group will assist the development of the Television Screen Broadcast Business by contributing its expertise and network in the equity market to facilitate future fund raising activities for the development of the Television Screen Broadcast Business. Furthermore, given that Hong Kong has been the operating base of Xinhua News Agency Asia-Pacific Regional Bureau since its establishment, the Company and Asia-Pacific Regional Bureau have considered it commercially prudent to have the Television Screen Broadcast Business commenced in Hong Kong and Macau first and will, depending on the then economic conditions, business and financial performances of the Media Subsidiary, progressively expand the geographic coverage of the Television Screen Broadcast Business to South Korea from the third year of its business. While the Company has entered into the Share Placing Agreement and the Warrant Placing Agreement II as referred to in Appendix IV on 7 December 2010, the Company does not have any proposed plan in relation to future fund raising after Completion relating to the development of the Television Screen Broadcast Business as at the Latest Practicable Date.

It is expected that the vast network of business connections with companies operating in Hong Kong, Macau and China of Asia-Pacific Regional Bureau will assist the Media Subsidiary in promoting the Television Screen Broadcast Business and attracting potential customers. During the initial development stage of the Media Subsidiary, the target customers of the Media Subsidiary will mainly focus on companies in Hong Kong and Macau (particularly those with operations in China) as well as those Chinese enterprises which wish to enhance their presence in or advertise their business or products in both Hong Kong and Macau. In addition, leveraged on Asia-Pacific Regional Bureau's prior experience in the areas relating to advertisement production and media business operations similar to the Television Screen Broadcast Business, Asia-Pacific Regional Bureau will further assist the Media Subsidiary in developing the Television Screen Broadcast Business by, among others (i) recruiting an experienced management team for the Media Subsidiary; (ii) establishing a sales team for advertising clients; (iii) establishing of a media production team; and (iv) providing staff trainings.

### **Overview of market competition**

Advertising is a highly competitive industry and is crowded by many local and international advertising agencies and production companies and advertising customers may choose to advertise through a number of media. As such, the Directors consider that the Television Screen Broadcast Business will face direct and indirect competitions from other advertising media players in areas ranging from traditional radio, newspaper, magazines, television, posters and billboards to light emitting diode ("LED")/liquid crystal display ("LCD") display screens installed in transit and subways and to internet based media. The Directors have considered that direct competitors to the Enlarged Group's Television Screen

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## LETTER FROM THE BOARD

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Broadcast Business would include (i) operators of commercial properties (such as shopping malls and hotel operators) who install their own television screens and promote their advertising services to potential customers; (ii) public transport operators which have installed television screens to display advertisements; and (iii) outdoor broadcasting companies which operate and invest in advertising display network using LED video displays in Hong Kong and Macau. In addition, the Directors have also considered that the Television Screen Broadcast Business will be subject to a number of competitive factors such as (i) the locations of the television screens installed by the Media Subsidiary; (ii) the attractiveness of the Media Information to be displayed; (iii) the pricing policy; (iv) the brandname of the advertising customers and their relationship with the Media Subsidiary; and (v) other advertising media developed that may become more attractive to the potential advertising customers.

### **The competitive strengths of the Media Subsidiary**

The management of the Company considers that the Media Subsidiary has a number of competitive strengths in developing the Television Screen Broadcast Business, including:

*(i) The Free Right*

Unlike many other players in the media industry which are required to incur substantial cost to produce their own programmes or acquire the right to broadcast programmes produced by the relevant content suppliers to attract potential advertising customers, the Media Information provided by Asia-Pacific Regional Bureau to the Company will be on a free of charge basis under the Cooperation Agreement. As such, the Media Subsidiary will have significant cost advantages over other media players. In addition, leveraged on the resourceful media and news content that can be accessed by the Media Subsidiary under the Free Right, it is considered that the Media Subsidiary will be able to differentiate from other media players and allow it to gain a solid foothold in the media industry.

*(ii) Extensive business network of Asia-Pacific Regional Bureau*

Under the Cooperation Agreement, Asia-Pacific Regional Bureau will assist the Company in developing the Television Screen Broadcast Business and the Media Subsidiary will therefore be able to leverage on the extensive business network of Asia-Pacific Regional Bureau and gain access to a vast potential clientele (particularly the PRC enterprises) and thus enabling it to ramp up the scale of the Television Screen Broadcast Business in a relatively short period of time (as evidenced by the post-completion undertaking of Asia-Pacific Regional Bureau under the Cooperation Agreement in respect of the Media Subsidiary's operating revenue for the years ending 31 December 2011 and 2012).

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## LETTER FROM THE BOARD

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### Usage of the Initial Capital Fund and the Extra Capital Fund

The Initial Capital Fund of no less than HK\$100 million and the Extra Capital Fund of no less than HK\$200 million (subject to the achievement of certain revenue targets, details of which are set out under the paragraph “Post-Completion Undertakings and Obligations” of this section) will be made available to the Media Subsidiary by the Company for the development of the Television Screen Broadcast Business. The management of the Company intends to use the Initial Capital Fund as the working capital to fund the initial capital expenditure and operating expenses of the Media Subsidiary and the uses can be generally categorised as follows:

- (i) approximately HK\$32 million for the purchases of television screens and the relevant installation cost;
- (ii) approximately HK\$58 million for the leasing of the required space for installation of the television screen;
- (iii) approximately HK\$4 million for the setting up of the offices (approximately HK\$3 million and HK\$1 million for the offices in Hong Kong and Shenzhen, respectively; and
- (iv) the remaining HK\$6 million will be used as the general working capital to finance the Media Subsidiary’s daily operations such as staff salary and other administrative cost, etc.

The management of the Company intends to use the Extra Capital Fund, when available, to further develop the Television Screen Broadcast Business in other countries/regions in the Development Region when the opportunities are favourable so as to broaden the base of the Media Subsidiary’s source of income.

### OVERVIEW OF THE OUTDOOR ADVERTISING INDUSTRY

Outdoor advertising refers to the various types of advertising means that reach the potential consumers when they are outside home and mainly focus on marketing to consumers when they are “on-the-go” in public areas, in transit, waiting and/or in specific commercial locations (e.g. the display of advertisements on television screens installed in shopping malls/plazas or on the exterior wall of buildings are some common types of outdoor advertising).

The conditions of advertising market is dependent on a number of factors, including the general economic conditions, industry and market trends and the overall business environment (i.e. enterprises are more willing to incur advertising expenses to promote their products during economic booms than recessions).

## LETTER FROM THE BOARD

Set out below are certain information relating to the advertising expenditure of Hong Kong, China and South Korea:

	Advertising expenditure (US\$ million)										
	Historical					CAGR (2005 –	Forecast				CAGR (2010 –
	2005	2006	2007	2008	2009	2009)	2010	2011	2012	2013	2013)
Hong Kong	2,536	2,862	3,182	3,299	2,689	1.48%	2,777	2,839	2,915	2,988	2.47%
China	12,344	14,842	16,929	18,966	19,826	12.58%	22,606	25,636	30,182	34,236	14.84%
South Korea	6,279	6,753	7,254	6,905	6,149	(0.52%)	6,665	7,383	7,765	8,023	6.38%

Source: ZenithOptimedia

	Newspaper and magazine advertising expenditure (US\$ million)										
	Historical					CAGR (2005 –	Forecast				CAGR (2010 –
	2005	2006	2007	2008	2009	2009)	2010	2011	2012	2013	2013)
Hong Kong	1,309	1,494	1,617	1,660	1,311	0.04%	1,347	1,362	1,399	1,437	2.18%
China	4,112	4,929	5,104	5,471	5,055	5.30%	4,829	4,575	4,516	4,459	(2.62%)
South Korea	2,941	3,028	3,306	3,005	2,566	(3.35%)	2,700	2,817	2,882	2,772	0.88%

	Television advertising expenditure (US\$ million)										
	Historical					CAGR (2005 –	Forecast				CAGR (2010 –
	2005	2006	2007	2008	2009	2009)	2010	2011	2012	2013	2013)
Hong Kong	960	1,042	1,053	1,094	862	(2.66%)	894	916	938	966	2.62%
China	5,201	5,915	6,221	7,342	7,849	10.84%	9,419	10,926	13,002	14,668	15.91%
South Korea	2,068	2,240	2,273	2,252	2,027	(0.50%)	2,230	2,676	2,836	3,035	10.82%

	Radio and cinema advertising expenditure (US\$ million)										
	Historical					CAGR (2005 –	Forecast				CAGR (2010 –
	2005	2006	2007	2008	2009	2009)	2010	2011	2012	2013	2013)
Hong Kong	102	108	146	162	128	5.84%	131	134	130	117	(3.70%)
China	592	862	949	1,035	1,091	16.51%	1,200	1,333	1,507	1,667	11.58%
South Korea	215	239	242	239	209	(0.71%)	222	241	251	262	5.68%

## LETTER FROM THE BOARD

### Internet advertising expenditure (US\$ million)

	Historical					CAGR	Forecast					CAGR
	2005	2006	2007	2008	2009	(2005 – 2009)	2010	2011	2012	2013	(2010 – 2013)	
Hong Kong	–	–	103	110	136	14.91%	145	155	167	172	5.86%	
China	596	1,032	1,789	2,489	3,017	50.00%	3,922	5,177	6,989	8,710	30.47%	
South Korea	519	698	993	1,036	1,067	19.74%	1,205	1,326	1,459	1,604	10.00%	

Source: ZenithOptimedia

Note 1: As at the Latest Practicable Date, the Company had not been able to identify the relevant information relating to Macau's advertising industry.

Note 2: As mentioned above, the Media Subsidiary's target customers will comprise companies in Hong Kong and Macau (particularly those with operations in China) as well as those Chinese enterprises which wish to enhance their presence or advertise their business or products in Hong Kong and Macau. Since the inclusion of China in the Development Region has yet to be confirmed by the Parties, the above information relating to China's advertising industry is for illustration purpose only.

With the rapid development of technology in the past decade, outdoor advertising has evolved from the traditional billboard to multimedia such as using LED screen to broadcast programmes/advertisements that are more appealing to the potential audience. During the recent years, outdoor advertising has been gaining a greater weight in the advertising industry in Hong Kong and China and has recorded significant growth as illustrated below:

### Outdoor advertising expenditure (US\$ million)

	Historical					CAGR	Forecast					CAGR
	2005	2006	2007	2008	2009	(2005 – 2009)	2010	2011	2012	2013	(2010 – 2013)	
Hong Kong	165	219	264	273	252	11.17%	260	273	281	295	4.30%	
China	1,843	2,105	2,867	2,630	2,814	11.16%	3,236	3,624	4,168	4,731	13.50%	
South Korea	537	549	440	374	280	(15.02%)	308	324	337	350	4.35%	

### % of outdoor advertising expenditure to total advertising expenditure

	Historical					Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	
	%	%	%	%	%	%	%	%	%	
Hong Kong	6.5	7.6	8.3	8.3	9.4	9.4	9.6	9.6	9.9	
China	14.9	14.2	16.9	13.9	14.2	14.3	14.1	13.8	13.8	
South Korea	8.6	8.1	6.1	5.4	4.6	4.6	4.4	4.3	4.4	

Source: ZenithOptimedia

Note 1: As at the Latest Practicable Date, the Company had not been able to identify the relevant information relating to Macau's advertising industry.

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## LETTER FROM THE BOARD

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*Note 2: As mentioned above, the Media Subsidiary's target customers will comprise companies in Hong Kong and Macau (particularly those with operations in China) as well as those Chinese enterprises which wish to enhance their presence or advertise their business or products in Hong Kong and Macau. Since the inclusion of China in the Development Region has yet to be confirmed by the Parties, the above information relating to China's advertising industry is for illustration purpose only.*

### OVERVIEW OF THE LEGAL AND REGULATORY REQUIREMENTS

It is the intention of the Company to place the initial focus of the Television Screen Broadcast Business in Hong Kong and Macau and depending on the then financial conditions of the Enlarged Group and opportunities available, to progressively expand the geographic coverage of the Television Screen Broadcast Business to other places in the Development Region. Prior to expanding the Television Screen Broadcast Business to other countries, the management of the Company will take into account a number of factors including, local legal and regulatory requirements and market demands and competitions.

Television Screen Broadcast Business is not a restricted business (i.e. only open to particular class of business operators irrespective of whether other business operators can obtain the relevant approvals, permits and consent etc. required for the actual operation of the business) in Hong Kong and Macau. However, the running of such business in these two cities is subject to certain local legislative and regulatory requirements.

Before commencing the Television Screen Broadcast Business in any place in the Development Region other than Hong Kong and Macau, the Company will seek legal advice from lawyers practising the local law on the then local legal and regulatory requirements for running such business (including but without limitation licensing requirements and the restrictions, if any, in running such business). The Directors believe that given the possibility of change in laws and regulations of any jurisdiction, the possible fine-tuning of the mode of operation of the Company's Television Screen Broadcast Business after its commencement and the substantial legal cost that may be involved in obtaining legal advice for any particular jurisdiction, it would be in the best interest of the Company only to seek such legal advice for a particular jurisdiction when more concrete plan for expanding the Company's Television Screen Broadcast Business to that jurisdiction is in place.

Set out below is a brief discussion on the legislative and regulatory requirements in Hong Kong and Macau that may be applicable or relevant to the conduct of Television Screen Broadcast Business:

#### **Hong Kong**

#### **No Licence Required under Broadcasting Ordinance (Chapter 562 of the Laws of Hong Kong)**

Considering that the advertisements and information involved in the Television Screen Broadcast Business are not intended or available for receipt by audience of domestic premises and rooms in hotels for lodging and the programmes and advertisements to be shown on the

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## LETTER FROM THE BOARD

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television screens installed by the Enlarged Group will be made solely for performance or display in public places, the licensing requirements under the Broadcasting Ordinance are not applicable to the Television Screen Broadcast Business and no licence under the said ordinance needs to be obtained. Given this, the Television Screen Broadcast Business intended to be run by the Company is not and need not be subject to the regulatory requirements under the Broadcasting Ordinance and the codes of practice and guidelines issued thereunder.

### **No Legislation Specifically Requiring the Carrying on of Advertising Business to be Licensed**

There is no legislation or regulation in Hong Kong specifically requiring participants in the advertising industry to obtain licence for carrying on advertising business. Therefore the Media Subsidiary will not be required to obtain such licence for showing on television screens advertisements.

### **No Specific Legislative and Regulatory Requirement Regarding the Legal Form and Place of Establishment of the Media Subsidiary**

There is no specific legal and regulatory requirement in relation to the legal form or place of incorporation or establishment of the party in Hong Kong conducting the Television Screen Broadcast Business in manner as planned by the Company. So it is permissible for the Media Subsidiary to be in the form of a company with limited liability as commonly used by many business operations and whether such company is a Hong Kong company or not does not matter so long as the company obtains Hong Kong business registration certificate.

### **Operational Control**

#### *Buildings Ordinance (Chapter 123 of the Laws of Hong Kong)*

The Television Screen Broadcast Business to be conducted by the Company through the Media Subsidiary involves installation of television screens on the external wall of buildings. Prior approval of building plans and consent to commence the installation works are required under the Buildings Ordinance from the Building Authority for the installation of television displays on external walls of buildings. In this connection, the relevant design and constructions standards under the Buildings Ordinance have to be met for the Enlarged Group's installation of television screens on external walls of buildings.

#### *Road Traffic Ordinance (Chapter 374 of the Laws of Hong Kong)*

The mode in which the Television Screen Broadcast Business is intended to be conducted in Hong Kong, which involves showing of, inter alia, advertisements on television screens to be installed outdoors, including for example on exterior walls of buildings, would require the obtaining of written permission from the Transport Department pursuant to the Road Traffic Ordinance and/or its related regulations.

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## LETTER FROM THE BOARD

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### *Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong)*

The Public Health and Municipal Services Ordinance requires the Food and Environmental Hygiene Department to serve a notice on the owner of any structure erected solely for the purpose of exhibiting advertisements to remove the structure or do such work as may be specified in the notice to render the same safe if in the opinion of the Food and Environmental Hygiene Department such structure is dangerous or is likely to become dangerous by reason of its construction, wind, rain, dilapidation, its age or other cause. Failure to comply with any of the requirements of the said notice is an offence.

### *Advertisements Regulations (Chapter 132B of the Laws of Hong Kong)*

There may possibly be the argument that the television screens to be set up in Hong Kong for the running of the Television Screen Broadcast Business by the Company constitute at the time when they show programmes or advertisements, electric or other similar light sign regulated by the Advertisements Regulations. Pursuant to the Advertisements Regulations, the Fire Services Department has the authority to issue a notice requiring the removal of any electric or other similar light sign if it appears to the Fire Services Department that the same is for any reason, including inefficient maintenance, a source of serious risk of fire. If such a notice is issued, within 7 days of the service of such notice, the person by or for whom such sign was erected and is maintained shall cause the sign to be removed unless within such period of 7 days he satisfies the Fire Services Department, by remedying any defect or otherwise, that the notice can safely be withdrawn.

### *Summary Offences Ordinance (Chapter 228 of the Laws of Hong Kong)*

Under the Summary Offences Ordinance, any person who without lawful authority or excuse sets out or leaves, or causes to be set out or left, any matter or thing which obstructs, inconveniences or endangers, or may obstruct, inconvenience or endanger, any person or vehicle in a public place shall be liable to a fine or to imprisonment.

### *Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong)*

Under the Noise Control Ordinance, an offence would be committed if a person at any time in any public place plays or operates any television apparatus or uses any megaphone or other device or instrument for magnifying sound and the noise of so doing is a source of annoyance (i.e. annoyance that would not be tolerated by a reasonable person) to any person.

### *Country Parks and Special Areas Regulations (Chapter 208A of the Laws of Hong Kong)*

Pursuant to the Country Parks and Special Areas Regulation, displaying any advertisement within a country park or special area designated as such under the Country Parks Ordinance (Chapter 208 of the Laws of Hong Kong) requires a permit in writing granted by the Agriculture, Fisheries and Conservation Department.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Company has no plan to install the television screens for showing, *inter alia*, advertisements in the said country parks and special areas and as such there is no need to obtain written permit from the Agriculture, Fisheries and Conservation Department for the Television Screen Broadcast Business the Company intends to conduct.

### **Content Control**

#### *Broadcasting Ordinance (Chapter 562 of the Laws of Hong Kong)*

As mentioned above, the regulatory requirements under, *inter alia*, the Broadcasting Ordinance and the codes of practice issued thereunder, which apply to licensees under the Broadcasting Ordinance, are not applicable to the running of Television Screen Broadcast Business as planned by the Company. As such, it is not mandatory for the Company or the Media Subsidiary to observe the Generic Code of Practice on Television Programme Standards and the Generic Code of Practice on Television Advertising Standards both issued pursuant to the Broadcasting Ordinance and the content control related statutory provisions in the Broadcasting Ordinance in the conduct of Television Screen Broadcast Business as planned by the Company. However, it is intended that to the extent practicable and relevant, the requirements in the aforesaid codes of practice and the Broadcasting Ordinance be complied with as far as possible.

#### *Film Censorship Ordinance (Chapter 392 of the Laws of Hong Kong)*

For each programme and advertisement to be shown on television screens installed at public places for the purpose of Television Screen Broadcast Business to be conducted by the Company after Completion, a certificate of exemption or a certificate of approval in respect thereof issued by the Television and Entertainment Licensing Authority under the Film Censorship Ordinance has to be obtained.

The certificate of approval or the certificate of exemption (as the case may be) or a legible photocopy thereof shall be displayed and kept displayed in a conspicuous position in or about the entrance to the part of the place intended to be occupied by persons viewing the exhibition of the programme or advertisement (as the case may be) during the period of the exhibition of the same.

Unless a certificate of exemption is obtained, the programme or the advertisement (as the case may be) has to go through classification procedures of the Television and Entertainment Licensing Authority. There are four categories in the classification system, namely category I (suitable for all ages), category IIA (not suitable for children), category IIB (not suitable for young persons and children) and category III (persons aged 18 or above only). The advertisement relating to the programme classified has to display prominently the appropriate symbol applicable for the classification and where relevant the corresponding prescribed notices in both English and Chinese.

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## LETTER FROM THE BOARD

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There is no intention to have programmes or advertisements classified as category III shown on the television screens to be set up for the purpose of the Company's Television Screen Broadcast Business. Moreover, it would be an offence to exhibit a programme or an advertisement classified as belonging to category III to a person under the age of 18 but the television screens are intended to be installed at public places where people aged under 18 will also have access. This is another impetus, in addition to factors like maintaining good image, for avoiding showing category III programmes or advertisements on the television screens to be set up.

Furthermore, it is intended that the television screens to be set up will not show any advertisements relating to any film which is classified as belonging to category III. If such advertisements are to be shown, approval of the advertisements by the Television and Entertainment Licensing Authority must be obtained.

### *Control of Obscene and Indecent Articles Ordinance (Chapter 390 of the Laws of Hong Kong)*

The Control of Obscene and Indecent Articles Ordinance seeks to control articles (i.e. any thing consisting of or containing material to be read or looked at or both read and looked at, any sound recording, and any film, video-tape, disc or other record of a picture or pictures) which consist of or contain material that is obscene or indecent (including material that is violent, depraved or repulsive). For any programme or advertisement intended to be shown on the television screens to be set up for the purpose of the Company's Television Screen Broadcast Business, if there is in force a certificate of approval or a certificate of exemption issued under the Film Censorship Ordinance in respect of that programme or advertisement, the Control of Obscene and Indecent Articles Ordinance shall not apply to that programme or advertisement.

In case certificate of approval or certificate of exemption under the Film Censorship Ordinance cannot be obtained for any programme or advertisement intended to be shown on television screens for the purpose of the Company's Television Screen Broadcast Business, showing such programme or advertisement (as the case may be) on television screens will not be further pursued and as such there is no need to go through the procedures in relation to application for classification under the Control of Obscene and Indecent Articles Ordinance.

### *Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)*

Pursuant to the Trade Descriptions Ordinance, it would be an offence to publish an advertisement with a false trade description (as defined under the Trade Description Ordinance). However, it would be a defence for the person charged to prove that he is a person whose business it is to publish or arrange for the publication of advertisements and that he received the advertisement for publication in the ordinary course of business and did not know and had no reason to suspect that its publication would amount to an offence under the Trade Descriptions Ordinance. To guard against the possibility of showing, as commissioned by the advertisers, advertisements containing false trade description, the Media Subsidiary will have in place procedures and policies for examining the content of the advertisements intended to

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## LETTER FROM THE BOARD

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be shown with a view to avoiding as far as possible the showing of advertisements with false or misleading content on television screens. In this connection, efforts will be made to comply with the related provisions in the said Generic Code of Practice on Television Advertising Standards (e.g. the provisions relating to truthful presentation and factual and best selling claims).

### *Legislation relating to Specific Type of Advertisements*

There are Hong Kong ordinances that contain provisions regulating particular types of advertisements. Examples include the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), Banking Ordinance (Chapter 155 of the Laws of Hong Kong), Undesirable Medical Advertisements Ordinance (Chapter 231 of the Laws of Hong Kong), Travel Agent Ordinance (Chapter 218 of the Laws of Hong Kong), Sex Discrimination Ordinance (Chapter 480 of the Laws of Hong Kong), Disability Discrimination Ordinance (Chapter 487 of the Laws of Hong Kong) and Race Discrimination Ordinance (Chapter 602 of the Laws of Hong Kong). Some of these ordinances also contain provisions affording parties carrying on the business of publishing or arranging for the publication of the advertisement defence if certain conditions are satisfied.

### **Control in relation to advertisement production in Hong Kong**

Regarding production of advertisements by the Media Subsidiary, which is intended to constitute a relatively small portion of the Television Screen Broadcasting Business, depending on the location and methodology of shooting, the equipment to be used, etc., certain permits and/or authorization from the relevant authorities may be required to be obtained and there may be relevant statutory provisions and conditions stated in the permits/authorization to be complied with.

### **Not Foresee Major Obstacles in Obtaining Required Approval and Written Permission**

Based on the legal opinion issued by the Company's legal adviser as to Hong Kong laws, it is confirmed that there is no material legal impediment to the obtaining from the relevant authorities in Hong Kong of the required approval and permission, etc. for the running of the Company's Television Screen Broadcast Business in Hong Kong.

In addition, it is intended that relevant experienced professionals will be engaged in advising the Media Subsidiary, for instance, on the selection of appropriate places for installation of the television screens, how the installation should be carried out in order to meet the requisite design construction and other relevant standards and requirements, the appropriate degree of brightness to be set for the television screens etc. and in drawing up the required plans, proposals and submissions. Besides, the physical and surrounding conditions of the site and safety will be important factors to be taken into account in selecting the places for installation of the television screens. Before formal submission of the applications for approval/permission to the Buildings Department and the Transport Department, the Company, the Media Subsidiary and/or the professionals engaged will consult and communicate with these departments in order to have a better understanding of their requirements to ensure proper compliance with the relevant regulatory requirements in Hong Kong.

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## LETTER FROM THE BOARD

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Moreover, the content to be shown on the television screens under the Company's Television Screen Broadcast Business will be news, news related and information programmes and advertisements, not violent or pornographic content.

### **Macau**

#### *No Broadcast Licence Required*

For operating the Television Screen Broadcast Business in Macau, which would not involve transmission of the news, programmes or advertisements through atmospheric radio wave but would simply involve the use of Internet to connect to the server of the Media Subsidiary in Hong Kong, no broadcast licence would be required.

#### *Control in relation to the setting up of television screens*

However, given that advertisements will be shown on the television screens to be set up in Macau, it would be necessary to obtain prior licence from the Civic and Municipal Affairs Bureau ("IACM") for the installation of each television screen that is set up outdoors or can be seen by the public from a public place in the event that is set up indoors.

For the television screens to be installed outdoors in Macau, under Macau law, they should not

- (a) cause obstruction of panoramic perspective or affect the aesthetic or environment of the landscape;
- (b) damage the beauty or the fitting of classified monuments and buildings;
- (c) cause damage to third parties;
- (d) affect the safety of persons or things, especially the road traffic;
- (e) display formats or colors that can be confused with those of road signs;
- (f) affect the movement of pedestrians, including disabled people.

#### *Content Control*

As far as content control is concerned, the advertisements to be shown on the television screens have to be submitted to IACM for inspection and under Macau law, the following advertisements are prohibited:

- (a) advertisements with untrue, incorrect or ambiguous content which mislead and advertisements purposely mislead the consumers about the characteristics of the goods or services advertised;

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## LETTER FROM THE BOARD

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- (b) advertisements that take advantage of the fear, ignorance or superstitions of the addressees;
- (c) advertisements that promote violence and illegal or criminal activities;
- (d) advertisements that use in an improper way the national or religious symbols;
- (e) advertisements that have pornographic or indecorous contents;
- (f) advertisements that are misleading with regards to the quality of the advertised goods or services;
- (g) advertisements that promote an unsafe way of using the advertised goods; and
- (h) advertisements that do not mention special care to prevent accidents when such special care is required for the safe use of the goods.

Besides, there are legislative provisions specifically regulating the advertising of certain goods and services, e.g. vehicles, pharmaceutical products, tobacco, immovable property, alcohol, travels and tourism.

For news reporting and programmes to be shown on the television screens, there is no legal or regulatory requirement for the content thereof to be vetted or inspected by any Macau authority.

However, content-wise, all news, programmes and advertising must be in accordance with Macau law, i.e., their content should be true and correct and should not offend the honor or reputation of third parties.

### *Control in relation to advertisement production in Macau*

Regarding production of advertisements by the Group, which is intended to constitute a relatively small portion of the Company's Television Screen Broadcast Business, in the event that any recording, production, direction takes place in any public place in Macau or the advertisement is otherwise mainly shot or recorded in Macau or has Macau included as the main topic, authorization will have to be obtained from the Cultural Institute of Macau for each advertisement so produced.

### *Legal Form of the Entity Running the Television Screen Broadcast Business in Macau*

With respect to the legal form of the entity for running the Television Screen Broadcast Business, since it is intended that such business will be carried on in Macau on a long term rather than a one-off basis, under Macau law, a corporate entity has to be set up in Macau for the operation of the said business. In this connection, the Company plans to set up a limited liability company in Macau for the purpose of conducting the Television Screen Broadcast Business in Macau.

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## LETTER FROM THE BOARD

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### *No Foreseeable Major Obstacles in Obtaining the Required Licences or Significant Objection or Adverse Comments on Advertisements from Macau Regulatory Authority*

Based on the legal opinion issued by the Company's legal adviser as to Macau laws, it is confirmed that there is no material legal impediment to the obtaining of the necessary licences for the installation of television screens from IACM given that the applicant for the licences would be the Macau entity set up to run the Television Screen Broadcast Business in Macau. In addition, it is also intended that professionals having expertise and experience in the relevant Macau legal and regulatory requirements will be engaged to render services in relation to the choice of site for setting up the television screens, the design for the setting up, the installation works and in the drawing up of related plans and proposals for the application with a view to ensuring compliance with all applicable Macau laws and regulations. In particular, in relation to the setting up of television screens outdoors, efforts will be made to ensure that none of items (a) to (f) in the subsection with the heading "Control in relation to the setting up of television screens" above will apply to the television screens to be installed for the Television Screen Broadcast Business of the Group.

In relation to content control of the advertisements to be shown, efforts will be made to procure as far as possible that the advertisements to be shown will not include those falling within any of the items (a) to (h) listed in the paragraph with the subheading "Content Control". Besides, professional advice will be sought regarding the specific type of goods or services that may be subject to specific legislative control in so far as advertising is concerned and in the event that the goods or services to be advertised fall within those that are subject to such control, extra care will be taken to procure that the relevant statutory requirements are complied with. Given the aforesaid, the Directors do not anticipate significant objection to or adverse comments on the content of the advertisements to be shown from IACM.

### **RISK FACTORS**

#### **(i) Risk Relating to the Business**

*The lack of experience of the existing management of the Company and reliance on key management to be nominated by Asia-Pacific Regional Bureau*

The Group's success in the development of Television Screen Broadcast Business, to a significant extent, will be dependent on its management and other key personnel. Those to be nominated by Asia-Pacific Regional Bureau are expected to possess relevant experiences in the news and media business whereas the existing management and key personnel of the Company lacks experience in such business. If there is any change in the management and other key personnel of the Company or the Media Subsidiary (particularly those nominated by Asia-Pacific Regional Bureau), the operations of the Group may be adversely affected.

*Ability to anticipate and quickly respond to evolving consumer tastes and preferences for advertising will significantly determine future success of the Television Screen Broadcast Business*

The Enlarged Group's business includes provision of advertising services to clients, the success of which largely depends on its ability to anticipate and respond to consumer

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## LETTER FROM THE BOARD

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tastes and preferences for advertising. Such consumer tastes and preferences, however, may change quickly and frequently and the Enlarged Group may not be able to anticipate the same and promptly respond thereto. If the Enlarged Group is unable to adjust its advertising services to address evolving consumer tastes and preferences, demand for advertising services from clients may decrease, subsequently resulting in the reduction in utilisation rate or price level and adversely affecting the Enlarged Group's ability to retain existing clients and attract new clients. As such, the Enlarged Group's business, financial conditions and results of operations may be materially and adversely affected.

### *Risks relating to the broadcasting of the Media Information*

Although the Media Information has been highly regarded in Asia Pacific (including the Development Region) and will be provided to the Media Subsidiary for broadcast on a free of charge basis, there can be no guarantee that the Media Information will remain to be popular or keep evolving in line with the taste and preferences with its audiences (hence potential advertising customers). As such, in the event that Asia-Pacific Regional Bureau fails to (i) capture the taste and preferences of the audiences of the Media Information; and (ii) continue its provision of the Media Information to the Media Subsidiary with quality, both of which are beyond the control of the Enlarged Group, the viewership of the Media Information may deteriorate. Accordingly, the bargaining power of the Group for the advertising placements and demand of advertisers for the same will decrease and consequently the results of operations of the Group will be adversely affected.

### *Risk relating to legal title of the Free Right*

As mentioned above, the Company has received written confirmation from Xinhua News Agency Asia-Pacific Regional Bureau confirming the following:

- (a) Xinhua News Agency Asia-Pacific Regional Bureau has all the News & Information Right and allows Asia-Pacific Regional Bureau to use the same free of charge; and
- (b) Xinhua News Agency Asia-Pacific Regional Bureau also agrees that Asia-Pacific Regional Bureau may permit the Company to use the News & Information Right free of charge for a period of 10 years in accordance with the Cooperation Agreement.

As at the Latest Practicable Date, written confirmation regarding the above has only been given by Xinhua News Agency Asia-Pacific Regional Bureau but not Xinhua News Agency although the Company has been advised that Xinhua News Agency has given green light for proceeding with the transaction contemplated under the Cooperation Agreement by Asia-Pacific Regional Bureau.

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## LETTER FROM THE BOARD

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*No absolute assurance that the Free Right or similar right will not be granted to other media operators*

As mentioned above, Asia-Pacific Regional Bureau has confirmed to the Company and Xinhua News Agency Asia-Pacific Regional Bureau has agreed that (i) Asia-Pacific Regional Bureau has not granted and will not grant the Free Right to other persons, companies or institutions and has never and will not in respect of the Development Region granted/grant rights similar to the Free Right to other persons, companies or institutions; (ii) no other institution, company or unit can, in respect of the Development Region, grant right which is the same as or similar to the Free Right to other persons, companies or institutions; and (iii) to Asia-Pacific Regional Bureau's knowledge, Xinhua News Agency and Xinhua News Agency Asia-Pacific Regional Bureau have not in respect of the Development Region granted the Free Right and rights similar to the Free Right to other persons, companies or institutions. However, such confirmation has not been given by Xinhua News Agency.

*The results of the Television Screen Broadcast Business are affected by the seasonal fluctuations in advertisement spending*

The Enlarged Group's advertising revenue is subject to seasonal demand for its customers' products and services and, accordingly, their advertising budgets. The demand for the customers' products and services is affected by a number of factors beyond the Enlarged Group's control, including economic conditions, industry and market trends, shifts in consumer purchasing patterns and changes in the business environment. As the customer base of advertisers may span a wide spectrum of industries, the Enlarged Group may not be able to anticipate accurately and timely any future changes in the foregoing factors. If there are any adverse changes in trends in seasonal spending patterns or other factors which result in a decrease in demand for the advertising customers' products and services and consequently the tightening of the customers' advertising budgets, demand for the advertising services may decrease and the prospects, results of operations and financial condition of the Enlarged Group may be materially and adversely affected.

*Dependent on the networking of Asia-Pacific Regional Bureau for identifying advertising customers*

The Television Screen Broadcast Business of the Enlarged Group is highly dependent on the networking of Asia-Pacific Regional Bureau for identifying advertising customers. Given that the new business is dependent on the number of advertising customers obtained by the Media Subsidiary after Completion. There is no assurance that the Enlarged Group will be able to obtain substantial number of sales orders to ensure the profitability of the Television Screen Broadcast Business.

*No assurance that the results of the Television Screen Broadcast Business undertaken by the Group will be as anticipated*

There is no assurance that the Television Screen Broadcast Business to be undertaken by the Group will lead to any result or any targeted result can be completed within the anticipated time frame or the cost of such business can be recovered or sufficient demand for advertising can be generated for the Group's Television Screen Broadcast Business.

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## LETTER FROM THE BOARD

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*No assurance that the Television Screen Broadcast Business will be successfully developed*

The Group intends to diversify into the Television Screen Broadcast Business in Hong Kong and Macau at the initial stage. This new business can be leveraging on Asia-Pacific Regional Bureau's position as one of the major players in the media industry given its extensive business network (particularly the enterprises with operations in China).

The Group itself has no previous experience in running such new business for the broadcasting of the Media Information on television screens, therefore, there is no assurance that the operation of Television Screen Broadcast Business to be undertaken by the Enlarged Group will generate profitability or be able to attract sufficient demand for such business. In the event of the lack of sufficient demand, the Enlarged Group's profitability will be adversely affected.

*The Enlarged Group may not be able to obtain appropriate licences, approvals, consents, written permissions and/or authorizations from the relevant government or regulatory authorities in Hong Kong and Macau respectively, for the installation of the television screens and production of advertisement due to any changes in the legal requirements relating to the Television Screen Broadcast Business*

The Enlarged Group intends to place their initial focus of the Television Screen Broadcast Business in Hong Kong and Macau prior to expanding to other places of the Development Region. In this regard, the Enlarged Group is required to obtain appropriate approvals, consents and/or written permissions (as the case may be) from the relevant government authorities, such as the Building Authority and the Transport Department in Hong Kong to engage in the installation of the television screens outdoors. The Enlarged Group may also be required to obtain appropriate licences or authorisations (as the case may be) from regulatory authorities in Macau, such as IACM and Cultural Institute of Macau for the installation and advertisement production, respectively.

Given that the Television Screen Broadcast Business will only commence after Completion, in the event that there are any changes in the legal requirements relating to the operations of the Television Screen Broadcast Business, there is no assurance that the Enlarged Group will be successful in obtaining the relevant licences, approvals, consents, written permissions and/or authorisations required for the running of the Company's Television Screen Broadcast Business in the manner currently contemplated. If the Enlarged Group is unable to obtain the required licences, approvals, consents, written permissions and/or authorizations, the Enlarged Group will not be able to set up television screens and to produce advertisements in Hong Kong and Macau.

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## LETTER FROM THE BOARD

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Furthermore, in the event that the compliance standards in relation to the licences, approvals, consents, written permissions and/or authorisations required for the conduct of the Television Screen Broadcast Business have become more stringent or there is any change in the interpretation of any existing laws and regulations relating to the operation of the Television Screen Broadcast Business, the profitability and operations of the Television Screen Broadcast Business may be adversely affected.

*The widespread outbreak of any severe contagious disease or pandemic, if uncontrolled, could adversely affect results of operations of the Group's Television Screen Broadcast Business*

The widespread outbreak of any severe contagious disease or pandemic, if uncontrolled, could affect people's health and cause disruption to business activities, including affecting the health of the Enlarged Group's employees, suppliers and customers, and leading to disruptions in provision of services of the Enlarged Group. Any widespread uncontrolled outbreak of severe contagious disease or pandemic could therefore adversely affect the results of operations of the Enlarged Group.

**(ii) Risk relating to the Industry**

*The results of operations of the Television Screen Broadcast Business may be affected by advertising trends and increasing competition in the media advertising industry*

Increasing competition in the advertising and media industry may, among other things, create downward pressure on the pricing of the Television Screen Broadcast Business and could therefore significantly and adversely affect the results of the Enlarged Group's operations and financial condition. Some of the Enlarged Group's competitors may be more experienced or have greater financial resources than the Enlarged Group in the media business. New entrants in the market may also reduce the price for their advertising services to compete for business with more established companies. Given the intensifying competition from existing and future competitors, the Enlarged Group's market share and/or profit margins may be adversely affected.

If the Enlarged Group is unable to compete effectively against the competitors by maintaining the Enlarged Group's competitive advantages or to timely respond to a changing business environment, or if there are any reductions in or reallocations of the customers' advertising expenditures or budgets, or any shift to advertising in other types of media, the Enlarged Group may lose customers and its financial condition and results of operations may be adversely affected. In addition, any increase in competition may adversely affect the Enlarged Group's market share. Any of these events could have a material adverse effect on the Enlarged Group's financial condition, results of operations and future prospects.

*Risk relating to violation of laws governing advertising services in Hong Kong and Macau*

For both Hong Kong and Macau, there is legislation regulating in general the truthfulness of advertisements and advertising for specific industries and some of such

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## LETTER FROM THE BOARD

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legislation contain provisions affording parties carrying on the business of publishing or arranging for the publication of advertisements defence if certain conditions are satisfied. Although by running the Television Screen Broadcast Business, the role of the Media Subsidiary (or where relevant, the vehicle set up by the Company in Macau concerned for the carrying on of the Television Screen Broadcast Business in Macau (“**Local Vehicle**”)) will be just providing a media for the placing of advertisements rather than being the advertiser itself, there is still the risk of the Media Subsidiary/the Local Vehicle being in violation of the said legislation if the content of the advertisements or the circumstances of the advertising does/do not meet the corresponding requirements as specified in the legislation and the conditions for relying on the said defence are not all met. In the event of the said violation of legislation, the reputation of the Media Subsidiary/the Local Vehicle and its parent company/ultimate parent company, namely the Company will be adversely affected. Depending on the situation, administrative fines may be imposed by the relevant authorities and its payment does not provide exemption from possible civil or criminal liability. Inability to use the advertisement content concerned is also a possible consequence.

With respect to production of advertisements by the Media Subsidiary for its clients, which is intended to constitute a relatively small portion of the Company’s Television Screen Broadcast Business, in case the Media Subsidiary fails to obtain any necessary permit/authorization for the production or to observe the relevant statutory provisions and/or conditions stated in any such permit or authorization, there is the risk that the Media Subsidiary may be required to discontinue the production in the same manner. Other possible risks of the said non-compliance includes criminal liability on the part of the Media Subsidiary and reputational risk.

### *Risk relating to change of policies in Hong Kong and Macau*

There is no assurance that (i) there will be no change in government policy in relation to conduct of business in general or in areas relating to the Television Screen Broadcast Business in Hong Kong and Macau; and (ii) such change will not have a negative impact on the Group. In the event of the implementation of any unfavourable government policy to the Television Screen Broadcast Business, which may result in (i) increase in operation cost; and (ii) the obligation to comply with more onerous requirements in relation to the conduct of the Television Screen Broadcast Business in Hong Kong and Macau, the results of operation of the Television Screen Broadcast Business of the Group may be adversely affected.

### *Risk relating to failure to obtain relevant licences and permits etc. to operate in Hong Kong and Macau*

In the event of failure to obtain the necessary licences, permits, approvals, consent, authorization etc. required for the running of the Company’s Television Screen Broadcast Business in Hong Kong and Macau from any relevant Hong Kong or Macau authority, the mode of operation of such business would have to change and resources will have to be deployed in devising revised mode of operation that is viable where such licences, permits, approvals, consent or authorization are not in place.

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## LETTER FROM THE BOARD

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### (iii) Risk Relating to the Development Region

*Changes in political and economic policies may have a negative impact on the operations of the Television Screen Broadcast Business*

Upon Completion, the Enlarged Group's results of operations and prospects will be affected to a significant degree by the economic, political and legal environment in the region in which the Television Screen Broadcast Business is operated by the Enlarged Group. The economy of the Development Region may differ from the others including the extent of government involvement, allocation of resources, capital reinvestment, level of development, growth rate, and control of foreign exchange. Any change in the above may have a negative impact on the future financial and business performance of the Enlarged Group.

A variety of policies and other measures that could be taken by the governments of the jurisdictions in the Development Region to regulate the economy, including the introduction of measures to control inflation or reduce growth, changes in the rate or method of taxation, or the imposition of additional restrictions on currency conversions and remittances abroad, could have a negative impact on the Television Screen Broadcast Business. The Enlarged Group's business, financial condition and results of operations may be adversely affected by the governments' political, economic and social policies, tax or other regulations or policies, of the Development Region.

*Risk relating to significant change in or promulgation of laws and regulations*

In the event of significant change in or promulgation of laws and regulations in Hong Kong and Macau, whether affecting the conduct of business in general, the advertising industry in particular or otherwise the Television Screen Broadcast Business, the need to understand (i) what the change is and (ii) the content of the new laws and regulations promulgated and to assess its/their effect on the Television Screen Broadcast Business will arise and there may be uncertainty in the interpretation and enforcement of the new or revised laws and regulations. In fact, in the event that other business (whether or not of the Group) is affected by the said change or promulgation, the said consequences also apply to such other business and are not peculiar to the Company's Television Screen Broadcast Business.

Moreover, whether the effect of the change or promulgation would be positive or negative depends on what the change and the content of the new laws and regulations are. In case negative effect applies, possible impacts include the need to comply with more onerous statutory requirements and increase in cost and possibly operation time as a result, the need to narrow the scope of or to the extreme cease the Television Screen Broadcast Business of the Company.

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## LETTER FROM THE BOARD

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### *Risk relating to evolving legal systems in Hong Kong and Macau*

Like most jurisdictions, the legal system of Hong Kong and Macau is evolving and is not static. A natural corollary of this is possible change in policy, laws and regulations, which may give rise to uncertainties in their interpretation, application and enforcement. Depending on what the change is, such change may also affect the business community's interest in conducting businesses in the Hong Kong and Macau, which in turn may affect the demand for advertising and the number of potential advertising customers of the Group.

### *Risk relating to increase in corporate tax rates in Hong Kong and Macau*

Under the current Hong Kong and Macau tax legislations, no preferential tax treatment is available for companies engaged in the advertising and media industry. On the basis that the Media Subsidiary will be established as a wholly-owned subsidiary of the Company to develop the Television Screen Broadcast Business in Hong Kong and via the Local Vehicle in Macau, profits derived by the Media Subsidiary and the Local Vehicle will be subject to Hong Kong corporate tax rate of 16.5% and Macau Complementary Tax rate ranging from 9% to 12% respectively. In the event that there is an increase in corporate tax rates in Hong Kong and Macau, the results of operation of the Enlarged Group's Television Screen Broadcast Business may be adversely affected.

## **FINANCIAL IMPACT OF THE TRANSACTION CONTEMPLATED UNDER THE COOPERATION AGREEMENT**

Based on the pro forma financial information of the Enlarged Group as set out in Appendix II to this circular, assuming the market price of the Shares approximates to the Issue Price of HK\$0.7047, it is expected that the issue of the Consideration Shares with the share consideration to be satisfied by the granting of the Free Right to the Company will increase the Group's intangible assets by approximately HK\$151.3 million. In addition, given the issue of the Consideration Shares at Completion, it is expected that the Enlarged Group's equity will be increased by the same amount accordingly.

After the commencement of the Television Screen Broadcast Business by the Media Subsidiary, the revenue and the profit derived therefrom will be consolidated into the consolidated financial statements of the Company. In addition, the intangible assets related to the Free Right will be amortised over the term of the Free Right and subject to impairment assessment.

## **FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP**

After Completion, the Enlarged Group will continue its existing business and, through the Media Subsidiary, extend its business scope to the media industry. Coupled with the cooperation with Asia-Pacific Regional Bureau in the development of the Television Screen Broadcast Business, the Directors anticipate that the Television Screen Broadcast Business will contribute positively to the Enlarged Group's profitability and business development in the future.

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## LETTER FROM THE BOARD

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### REASONS FOR ENTERING INTO THE COOPERATION AGREEMENT

The Group is principally engaged in the provision of (i) cleaning and related services for office buildings, public and residential areas in Hong Kong; (ii) medical waste treatment services for hospitals in the PRC and; and (iii) waste treatment services.

Although the Group's cleaning and related services business segment maintained steady growth during the recent years and recorded segment results of approximately HK\$1.7 million and HK\$2.5 million for the years ended 31 March 2009 and 2010, respectively, the Group's overall financial performance has been adversely affected by the significant losses incurred by its medical waste treatment and waste treatment business segments, which resulted in a consolidated loss from its continuing operations of approximately HK\$55.3 million, HK\$37.9 million and HK\$22.9 million for each of the years ended 31 March 2008, 2009 and 2010. In this regard, the management of the Company has been actively seeking other investment and cooperation opportunities to broaden its revenue base with a view to improving the Group's future financial performance.

Having considered (i) Asia-Pacific Regional Bureau's undertaking in the Cooperation Agreement that the audited operating revenue derived from the Company's Television Screen Broadcast Business for the years ending 2011 and 2012 will be no less than HK\$30 million and HK\$100 million respectively; (ii) the competitive advantages of the Media Subsidiary over the other players in the media/advertising industry both in terms of cost and quality of media contents; (iii) the extensive business network of Asia-Pacific Regional Bureau (covering particularly the enterprises with business operations in the PRC) which will help accelerate the business development of the Media Subsidiary; (iv) the growing popularity of "out-of-home" advertising as an advertising medium for marketing and (v) that the Share Consideration represents a discount of approximately 21.2% to the valuation of the Television Screen Broadcast Business, the Directors are of the view that the Cooperation represents a good opportunity for the Group to diversify its business scope and revenue base which will in turn benefit the Group's future financial performance and is in the interests of the Company and the Shareholders as a whole.

### LISTING RULES IMPLICATIONS

Considering the arrangements under the Cooperation Agreement and taking into account the Consideration Shares and the Company's conditional future capital commitments in relation to the Initial Capital Fund and the Extra Capital Fund, the applicable percentage ratio in respect of the transactions contemplated under the Cooperation Agreement for the purpose of Chapter 14 of the Listing Rules exceeds 100% and as such, the entering into of the Cooperation Agreement constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Accordingly, proceeding with the transaction under the Cooperation Agreement is subject to the approval by the Shareholders in an extraordinary general meeting of the Company where votes shall be taken by poll. In this connection, the EGM is convened and will be held for the Shareholders to consider and, if thought fit, approve the relevant resolutions in relation to the Cooperation Agreement and the transactions contemplated thereunder (including but without limitation to the events that are to take place at Completion as mentioned above).

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## LETTER FROM THE BOARD

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### POTENTIAL CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

As Asia-Pacific Regional Bureau will become a substantial Shareholder and hence a connected person of the Company only upon Completion by virtue of its holding of approximately 19.69% shareholding in the Company, the entering into of the Cooperation Agreement by the Company and the transactions (including the Cooperation) contemplated thereunder are not subject to Chapter 14A of the Listing Rules. However, in the event that there is any future transaction between the Enlarged Group and Asia-Pacific Regional Bureau after Completion which constitutes connected or continuing connected transaction of the Company under Chapter 14A of the Listing Rules, the Company will comply with the relevant reporting, announcement, independent shareholders' approval and annual review requirements under the Listing Rules as and when appropriate.

### PROPOSED CHANGE OF THE COMPANY'S NAMES

Pursuant to the Cooperation Agreement, at Completion the Chinese name of the Company shall be changed to “新華通訊頻媒控股有限公司”. The Parties have also agreed that the corresponding new English name of the Company to be adopted with effect from Completion shall be “Xinhua News Media Holdings Limited”.

The Board believes that the new English and Chinese names will give the investors and the public a new corporate image and identity which can better reflect the diversification of the Group's businesses into the development of the Television Screen Broadcast Business and its cooperation with Asia-Pacific Regional Bureau and considers the said change of names of the Company is in the interest of the Company and the Shareholders as a whole.

The said change of names of the Company is subject to (i) the passing of a special resolution approving the change by the Shareholders at the EGM; and (ii) the taking place of Completion.

The said change of names of the Company will take effect from the effective date thereof as stated in the special resolution approving such change if such special resolution is passed and the effective date so stated is the date of Completion. Further announcement will be made by the Company regarding the effective date of the change of names of the Company and the change of its stock short name for trading of the Company's shares on the Stock Exchange.

The said change of names of the Company will not, by itself, affect any of the rights of the Shareholders. All existing certificates of securities of the Company in issue bearing the existing names of the Company will continue to be evidence of legal title to such securities and the existing share certificates will remain valid for trading, settlement, registration and delivery purposes. Any new certificates of securities of the Company issued after the said change of names of the Company has become effective will be under the Company's new names. There will not be any arrangement for free exchange of the existing certificates of securities of the Company in relation to the change of the Company's name.

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## LETTER FROM THE BOARD

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### EGM

A notice calling for the holding of the EGM at 11:00 a.m. on Friday, 8 April 2011 at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong is set out on pages 105 to 107 of this circular. A proxy form for the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying proxy form in accordance with the instructions set out therein to the Company's branch share registrar in Hong Kong, namely Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### Procedures by which a Poll May be Demanded

Pursuant to Article 76 of the Articles of Association of the Company, a resolution put to the vote of any general meeting of the Company 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 by:

- (a) the Chairman of the meeting; or
- (b) at least five Shareholders present in person (or in the case of a corporation, by its duly authorized representative) or by proxy and entitled to vote; or
- (c) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or
- (d) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorized 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.

A demand by a person as proxy for a Shareholder or, in the case of a Shareholder being a corporation, by its duly authorized representative, shall be deemed to be the same as a demand by a Shareholder.

### Voting

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this circular, no Shareholder has any material interest in the transaction and arrangements contemplated under the Cooperation Agreement, therefore no Shareholder would be required to abstain from voting on the proposed resolutions in relation to the Cooperation at the EGM.

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## LETTER FROM THE BOARD

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There was no (i) voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; or (ii) obligation or entitlement whereby any Shareholder had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of his Share to a third party, either generally or on a case-by-case basis as at the Latest Practicable Date.

There is no discrepancy between the beneficial shareholding interest of any Shareholder in the Company as disclosed in this circular and the number of Shares in respect of which such Shareholder will control or will be entitled to exercise control over the voting rights at the EGM.

### RECOMMENDATION

The Directors consider that the terms of the Cooperation Agreement are fair and reasonable and the Cooperation and the change of names of the Company as provided for in the Cooperation Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be considered at the EGM as set out in the notice of EGM, which are for approving the entering into of the Cooperation Agreement and proceeding with the transaction thereunder, including the said change of names of the Company.

### GENERAL

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this circular, none of the Directors has any material interest in the transaction and arrangements contemplated under the Cooperation Agreement.

Your attention is drawn to the further information set out in Appendices I to IV to this circular.

### WARNING

**Shareholders and potential investors should be aware that the Company may or may not proceed with the transaction and arrangements contemplated under the Cooperation Agreement, which is subject to satisfaction of the conditions precedent contemplated under the Cooperation Agreement. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.**

On behalf of the Board  
**Lo's Enviro-Pro Holdings Limited**  
**Lo Kou Hong**  
*Chairman*

**A. FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 AND EACH OF THE THREE YEARS ENDED 31 MARCH 2008, 2009 AND 2010**

The financial information of the Group for (i) the six months ended 30 September 2010 is disclosed in the interim report (the “Interim Report”) of the Company for the six months ended 30 September 2010 published on 9 December 2010, from pages 2 to 17; (ii) the year ended 31 March 2010 is disclosed in the annual report (the “2010 Annual Report”) of the Company for the year ended 31 March 2010 published on 29 July 2010, from pages 33 to 97; (iii) the year ended 31 March 2009 is disclosed in the annual report of the Company for the year ended 31 March 2009 published on 27 July 2009, from pages 33 to 101; and (iv) the year ended 31 March 2008 is disclosed in the annual report of the Company for the year ended 31 March 2008 published on 29 July 2008, from pages 32 to 99, all of which have been published on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of the Company ([www.losgroup.com](http://www.losgroup.com)).

**B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP**

Set out below is the management discussion and analysis of the Group extracted from the Company’s interim report for the six months ended 30 September 2010 and annual reports for each of the three years ended 31 March 2008, 2009 and 2010.

**“For the six months ended 30 September 2010**

*Operating Environment*

Hong Kong has been one of the more fortunate economies that are staging an early and strong recovery from the financial tsunami. The local economy has been expanding visibly with further improvements on the domestic and external fronts. However, inflationary pressure, though still moderate, has notched up alongside sustained economic recovery.

The property price upsurge, brought about obviously by the large inflow of funds and continuously low interest rates, has drawn concerns. The measures introduced by the government in April and again in August this year to curb excessive speculation and to stabilize prices, in particular prices of luxury properties, seemed to have achieved only minimum effect. As a result, strength of the measures has further been enhanced by the government in late November, including the introduction of a special stamp duty for properties which are resold within 24 months and lowering the loan-to-value ratio for property mortgages etc, in response to property market conditions.

The Minimum Wage Ordinance, the aim of which as advocated by the government is to provide the grass-roots workforce with a decent living wage, was passed by the Legislative Council in July this year. The government has recommended an initial minimum wage rate at HK\$28 per hour to come into force on 1 May 2011. The proposal will certainly have an impact on the cleaning industry.

*Operating Results*

The Group's turnover of HK\$85,696,000 for the six months ended 30 September 2010 represented a 3.08% decrease as compared to HK\$88,415,000 for the same period last year. The loss for the Group for the six months ended 30 September 2010 was HK\$13,899,000 against a loss of HK\$11,044,000 for the same six-month period last year. Cleaning and related services business made a profit of HK\$184,000 whereas the medical waste treatment business generated a loss of HK\$842,000, waste treatment business generated a loss of HK\$8,470,000 and corporate expenses and finance costs amounted to HK\$2,003,000.

*Business Review*

During the six-month period under review, general cleaning services were still the core business of the Group. We obtained a two-year contract (with an option to renew for another two years) to provide term cleaning staff, disposal of decoration wastes, pest management and initial cleaning to a new residential estate, comprising about 1,400 apartments with abundant amenities in Tai Wai, Shatin; two one-year contracts with a non-profit making housing organization to provide professional cleaning to their two residential estates in Tuen Mun and Tsing Yi; and a contract for eighteen months rendering external curtain wall cleaning of two high-rise towers accommodating hotels and apartments in West Kowloon. A contract for cleaning of the entire external wall and fabric roof of the data centre of a leading bank has also been confirmed with commencement of work in the fourth quarter of 2010. Several major contracts which had expired during the period under review were also renewed with reasonable adjustments on the contract sums.

The two medical waste treatment plants of the Group in Siping City and Suihua City on the Mainland have been in smooth operation, bringing positive cash flow to the Group.

The municipal solid waste treatment plant in Shuyang County, Jiangsu Province has re-commenced operation in early October 2010, following the re-modification and finetuning of the machineries in order to accommodate the specific content of the municipal solid wastes being delivered to the plant for treatment. At this initial stage, the plant is not operating at its designated capacity as yet. We expect, though, that the plant will be running smoothly soon, by which time the plant will be operating at its full designated capacity.

*Financial Review*

As at 30 September 2010, the Group's cash and cash equivalents and pledged time deposits totalled HK\$36,580,000 (31 March 2010: HK\$39,812,000) and its current ratio was 2.8 (31 March 2010: 3.04). The Group's net assets decreased to HK\$170,117,000 (31 March 2010: HK\$178,439,000).

The Group did not have any bank borrowings but the Group had finance lease payable of HK\$221,000 as at 30 September 2010 (31 March 2010: Nil) and therefore, its gearing ratio, representing ratio of total bank borrowings and finance lease payable to shareholders' equity, was 0.13% (31 March 2010: Nil). The Group's shareholders' equity amounted to HK\$170,117,000 (31 March 2010: HK\$178,439,000).

The Group takes a prudent approach to cash management and risk control. Its revenues, expenses and capital expenditures in relation to the cleaning and related services business are transacted in Hong Kong ("HK") dollars, whereas those of the medical waste treatment business and waste treatment business are transacted in Renminbi ("RMB"). The Group's cash and bank balances are primarily denominated in HK dollars, RMB and United States dollars.

Foreign currency risks in relation to exchange rate fluctuations of RMB will be mitigated as future revenues from the medical waste treatment business and waste treatment business are primarily in RMB, which can offset future liabilities and expenses.

As at 30 September 2010, the Group's banking facilities were secured by the following:

- (i) the pledge of certain of the Group's time deposits amounting to HK\$14,021,000 (31 March 2010: HK\$4,002,000) and
- (ii) a corporate guarantee to the extent of HK\$28 million, including HK\$18 million given by the Company in favour of the Hongkong and Shanghai Banking Corporation Limited and HK\$10 million given by Lo's Cleaning Services Ltd and Peixin Group Ltd in favour of Dah Sing Bank (31 March 2010: HK\$18 million).

#### *Convertible Notes*

On 16 December 2008, the Company issued zero-coupon convertible notes with a nominal value of HK\$65 million to ITAD, with a maturity date of 1 January 2012 as part of the total consideration for the acquisition of 70% equity interest in Peixin. Details of the conversion terms of the convertible notes are disclosed in note 13 to the condensed consolidated interim financial statements.

The convertible notes had been adjusted downward by HK\$65,000,000 due to the shortfall on targeted net profits based on the audited net loss of Shuyang ITAD for the year ended 31 December 2009 and the profit forecast for the year ending 31 December 2010 as estimated by the management. Accordingly, the equity component of the convertible notes of HK\$65,000,000 had been transferred to the merger reserve.

*Warrants*

On 8 September 2010, an aggregate of 151,000,000 unlisted warrants have been successfully placed by the Company to not less than six places who are third parties independent of and not connected with the Company and its connected persons at the issue price of HK\$0.015 per warrant and the subscription price of HK\$0.51 per warrant. The subscription period for the warrants was from the date of issue of the warrants to the expiry of the 18 months of the issue of the warrants.

Upon the exercise in full of the subscription rights attaching to the warrants, a maximum of 151,000,000 shares of the Company will be issued and allotted. As at 30 September 2010, no warrant holders have exercised the subscription rights attached to the warrants.

On 23 November 2010, a total of 50,000,000 shares of HK\$0.01 each were issued for cash at a subscription price of HK\$0.51 per share as a result of the exercise of the Company's warrants made by certain warrant holders for a total cash consideration, before related expenses, of HK\$25,500,000.

On 25 November 2010, a total of 35,000,000 shares of HK\$0.01 each were issued for cash at a subscription price of HK\$0.51 per share as a result of the exercise of the Company's warrants made by certain warrant holders for a total cash consideration, before related expenses, of HK\$17,850,000.

*Contingent Liabilities*

At the end of the reporting period, the Group's contingent liabilities were as follows:

- (i) The Group has executed performance guarantees to the extent of an aggregate amount of HK\$1,562,000 (31 March 2010: HK\$1,468,000) in respect of certain services provided to various customers by the Group.
- (ii) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK\$1,137,000 as at 30 September 2010 (31 March 2010: HK\$1,532,000). The contingent liability has arisen because, at the end of the reporting period, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK\$665,000 (31 March 2010: HK\$865,000) in respect of such payments has been made in the condensed consolidated statement of financial position as at 30 September 2010.
- (iii) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the directors, based on current evidence, any such existing claims should be adequately covered by the insurance as at 30 September 2010 and 31 March 2010.

*Employees and Remuneration Policies*

The total number of employees of the Group as at 30 September 2010 was 1,888 (31 March 2010: 1,945). Total staff costs, including directors' emoluments and net pension contributions, for the period under review amounted to HK\$73,472,000 (30 September 2009: HK\$79,797,000).

Remunerations are commensurate with individual job nature, work experience and market conditions, and performance related bonuses are granted to employees on discretionary basis. In addition, all employees of the Group, including directors, are eligible to participate in the Company's share option scheme.

*Prospects*

Effective management systems of the Group will continue to be our competitive strength in striving for a greater market share in the cleaning and related services. With rapid economic recovery in Hong Kong, demand for professional cleaning services of higher standards are expected from property developers, owners and property management establishments. Likewise, sales of a series of stone care and maintenance products, formulated and manufactured by our Italian business partner, are expected to increase. The Group is confident in extending a good market share in both of these areas.

With increasing global alerts for reducing environment pollution, minimizing waste generation and increasing green procurement, the Group firmly believes that the municipal solid waste treatment business, initiated in Shuyang County, will expand in the Mainland and eventually beyond in the years ahead."

**"For the year ended 31 March 2010***Operating Environment*

With the gradual recovery worldwide from the brunt of the financial tsunami, the Hong Kong economy has shown signs of recovery.

The unemployment rate dropped to 4.4% in the first quarter of 2010. The Hang Seng index surged over 50% on the massive rise of liquidity marking the highest annual gain in the past 10 years.

Soaring property prices, mainly attributable to the unprecedented capital inflow, has spurred government concern over the risk of an asset bubble. Investors have repeatedly been advised to consider their risk tolerance levels before making property investments.

In February 2010, a Provisional Minimum Wage Commission was appointed to give impartial advice to the government on the mechanism for determining the statutory minimum wage and the initial minimum wage rate. A report of the Commission is expected in the third quarter of the year.

The overall severity of H1N1 influenza pandemic turned out less than originally feared as the levels of severe illness from H1N1 appear similar to the local seasonal influenza period.

The economy in Mainland China continued its robust growth though the government objective of expanding domestic demand has encountered some impediments. To prevent the economy from overheating, the Central Government is contemplating certain measures to rein in economic growth/potential asset bubbles, including raising the bank deposit reserve ratio and transforming the previously loose monetary policy to a moderately loose one.

Highlights of the year under review within the Group's core businesses include progressively steady growth in our cleaning, pest management, and stone maintenance and care services as well as sales of a series of stone maintenance products of a celebrated brand from Italy.

#### *Operating Results*

The Group's turnover for the year ended 31 March 2010 amounted to HK\$176,926,000, representing a 8.2% decrease as compared with last year. The loss for the Group for the year was HK\$22,887,000 (2009: HK\$37,937,000). Cleaning and related services business made a profit of HK\$2,518,000 whereas the medical waste treatment business and the waste treatment business made losses of HK\$3,503,000 and HK\$11,842,000 respectively.

The cleaning and related services business has been the Group's main business over the years and has remained a solid contributor in generating turnover and producing a reasonable profit. The two medical waste treatment plants in Siping City and Suihua City are currently in operation and are expected to produce higher income over time.

#### *Business Review*

General cleaning service continued to be the principal business of the Group. We succeeded in the renewal and acquisition of two contracts for the provision of term cleaning staff for a prestigious office building in Central and a luxury apartment estate in Fotan, Shatin for a term of three years, with an option to renew for another three. We also won a bid for a two-year contract to service another grade-A commercial building in Central, owned and managed by a leading real estate developer. Several other existing contracts, set to expire during the year, were renewed for a term of one to two years.

The municipal waste treatment plant in Shuyang County, Jiangsu Province has commenced operation. Certain modifications to our existing equipment have been found to be necessary in order to cater for the specific content of the municipal solid wastes being delivered to the Shuyang Plant. After the soon-to-be-completed modifications, the Shuyang Plant will re-commence operation in the near future. The Group is now concentrating on the promotion and sale of organic fertilisers produced from the Shuyang Plant in Mainland China, Hong Kong and elsewhere in Asia.

Both medical waste treatment plants in Siping City and Suihua City have also been in operation and have brought in revenue to the Group.

For the sixth consecutive year, the Group has been honored as a “Caring Company” by the Hong Kong Council of Social Service for our caring of the community, our employees as well as the environment.

#### *Financial Review*

As at 31 March 2010, the Group’s cash and cash equivalents and pledged time deposits totalled HK\$39,812,000 (31 March 2009: HK\$61,845,000) and its current ratio was 3.04 (31 March 2009: 4.17). The Group’s net assets decreased to HK\$178,439,000 (31 March 2009: HK\$195,622,000).

The Group did not have any bank borrowings as at 31 March 2010 and therefore, its gearing ratio, representing ratio of total bank borrowings to shareholders’ equity, was nil (31 March 2009: nil). The Group’s shareholders’ equity amounted to HK\$178,439,000 (31 March 2009: HK\$195,622,000).

The Group takes a prudent approach to cash management and risk control. Its revenues, expenses and capital expenditures in relation to the cleaning and related services business are transacted in Hong Kong (“HK”) dollars, whereas those of the medical waste treatment business and waste treatment business are transacted in Renminbi (“RMB”). The Group’s cash and bank balances were primarily denominated in HK dollars, RMB and United States dollars.

Foreign currency risks in relation to exchange rate fluctuations of RMB will be mitigated as future revenues from the medical waste treatment business and waste treatment business are primarily in RMB, which can offset future liabilities and expenses.

As at 31 March 2010, the Group’s banking facilities were secured by the following:

- (i) the pledge of certain of the Group’s time deposits amounting to HK\$4,002,000 (2009: HK\$4,048,000); and
- (ii) a corporate guarantee to the extent of HK\$18 million (2009: HK\$18 million) provided by the Company.

#### *Convertible Notes*

On 16 December 2008, the Company issued zero-coupon convertible notes with a nominal value of HK\$65 million to ITAD Biotechnology Limited (“ITAD”), with a maturity date of 1 January 2012 (the “Maturity Date”) as part of the total consideration for the acquisition of 70% equity interest in Peixin Group Ltd. (“Peixin”). The principal amount of the convertible notes shall be divided into two tranches of HK\$32.5 million each, which shall be convertible into ordinary shares at the conversion price of HK\$0.31 per ordinary share upon the exercise of the conversion rights during the first conversion period from 1 July 2010 to 31 December 2010 and the second conversion period from 1 July 2011 to 31 December 2011. ITAD, a former owner of Peixin, has warranted certain targeted net profits of Shuyang ITAD

Environmental Technology Limited (“Shuyang ITAD”), the principal subsidiary of Peixin, and the nominal value of the convertible notes shall be adjusted downward if there is any shortfall on targeted profits. The outstanding principal of the convertible notes that has not been converted into shares shall be redeemed in its entirety by the Company at the redemption price of HK\$1 on the Maturity Date. There was no movement in the number of these convertible notes during the year.

During the year, the convertible notes have been adjusted downward by HK\$65,000,000 due to the shortfall on targeted net profits based on the audited net loss of Shuyang ITAD for the year ended 31 December 2009 and the profit forecast for the year ending 31 December 2010 estimated by management. Accordingly, the equity component of the convertible notes of HK\$65,000,000 was transferred to the merger reserve.

#### *Contingent Liabilities*

At the end of the reporting period, the Group had contingent liabilities as follows:

- (a) The Group has executed performance guarantees to the extent of an aggregate amount of HK\$1,468,000 (2009: HK\$1,159,000) in respect of certain services provided to various customers by the Group.
- (b) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK\$1,532,000 as at 31 March 2010 (2009: HK\$2,890,000). The contingent liability has arisen because, at the end of the reporting period, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK\$865,000 (2009: HK\$1,548,000) in respect of such payments has been made in the consolidated statement of financial position as at 31 March 2010.
- (c) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the directors, based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2009 and 2010.

#### *Employees and Remuneration Policies*

The total number of employees of the Group as at 31 March 2010 was 1,541 (31 March 2009: 2,031). Total staff costs, including directors’ emoluments and net pension contributions, for the year under review amounted to HK\$159,202,000 (31 March 2009: HK\$170,353,000). The Group provides employees with training programmes on latest skills.

Remunerations are commensurate with individual job nature, work experience and market conditions, and performance related bonuses are granted to employees on discretionary basis. In addition, all employees of the Group, including directors, are eligible to participate in the Company's share option scheme.

#### *Prospects*

Environmental Protection is of primary concern throughout the world today and is regarded as one of the stewardship duties of mankind. We believe that our municipal waste and medical waste treatment businesses are well-positioned, in line with the trend, towards sustainable growth.

Professional and effective management systems, which have been enhanced over years, have been a major competitive strength of our cleaning and related services. We are still aiming to secure contracts of middle to high-class properties and are confident that our market share in these areas will be enlarged.

The stone care and maintenance products formulated and manufactured by our business partner in Italy, have gradually earned recognition and acceptance in the market in view of their cost-effectiveness. Our Italian partner is introducing new products specially formulated to cater for the needs of the Asian market. The Group maintains an optimistic outlook about the prospects for market expansion in the years ahead."

#### **"For the year ended 31 March 2009**

#### *Operating Environment*

The Hong Kong economy has been sluggish with the onset of the global financial crisis from the third quarter of last year, sending unemployment rate to a record high since the SARS outbreak in 2003. Governments around the world have taken action to stimulate their economies. The Hong Kong Government, likewise, has stepped up the construction of infrastructure projects to ease unemployment and boost confidence in the economy.

The Government is proceeding with legislative work for the introduction of a statutory minimum wage for cleaning workers, security guards and relevant others, subsequent to the end of the "2-year wage protection movement". The movement, launched by the Government with voluntary participation from employers, did not produce results meeting the expectations of the Government and some sectors of the community.

On China Mainland, prices of consumer goods and production costs have been generally on the decline, but economists have played down the risk of deflation on the ground that commodity prices have rebounded and that they see price reform on the horizon. Following the stabilization of the economy in the Mainland, the Group anticipates a surge in demand for waste treatment services and much development potential in this segment.

Subsequent to the end of the financial year, economies around the world have been affected by the outbreak of the H1N1 influenza. Fortunately, the virus seems to have weakened and is less threatening than previously feared.

All situations considered, the Group has been able to maintain steady growth of its cleaning services business and stone care and maintenance businesses, as well as sale of a celebrated Italian brand of stone care products which the Group is entrusted to exclusively distribute in Hong Kong, Macau and the Mainland.

#### *Operating Results*

The Group's turnover for the year ended 31 March 2009 amounted to HK\$192,761,000, representing a 6.8% decrease as compared with last year. The net loss of the year included a profit of HK\$1,698,000 from the cleaning and related services counter-balanced by a loss of HK\$4,335,000 from the medical waste treatment business, a loss of HK\$5,807,000 from the municipal solid waste business, a charge to the income statement of share options expense of HK\$3,567,000, an impairment of deposits paid for the acquisition of plant and equipment of HK\$14,400,000 and an impairment of intangible assets of HK\$1,800,000.

During the year, the Group continued to exercise financial control and enhance operational efficiency. The Group is optimistic about the prospects for the cleaning and related services business in the foreseeable future, as it has successfully secured some new contracts and renewed some major contracts at better prices during the year. As for the medical waste treatment business, the Group is negotiating with the partners concerned for ways to resolve issues related to the business. The impairment of deposits paid for the acquisition of plant and equipment comprised deposits made for the medical waste treatment business. The Group made provision for such as it is currently uncertain about the likely developments of the medical waste treatment business.

#### *Business Review*

The Group completed acquisition of a municipal solid waste treatment plant in Shuyang County, Jiangsu Province in December 2008. The plant is now in operation though slightly behind schedule. The Group is optimistic that it will generate handsome incomes in the future through the sale of by-products in the waste treatment process.

Construction of the Group's second medical waste treatment plant, which is in Suihua City, Heilongjiang Province, has been completed. The plant is expected to start contributing income to the Group in 2009.

During the year under review, general cleaning service continued to be the core business of the Group. The Group obtained a 3-year contract (with an option to renew for another 3 years) to provide term cleaning staff, pest control treatments as well as disposal of decoration debris for a new luxurious residential estate in Fotan, a 2-year contract for providing general cleaning and pest control services to three residential estates in Kwun Tong and Sai Kung owned or managed by a non-profit housing organization and a contract for cleaning of three shopping malls in Causeway Bay.

The several major cleaning service contracts renewed included those for the tallest office building on Hong Kong Island, a residential estate with some 6,000 units and a multi-storey car park in Tseung Kwan O and two residential estates in Tung Chung. The renewed contracts have terms ranging from one to three years.

The external wall cleaning contract for a prestigious residential estate in Tin Hau ended in June 2009. The Group has secured another external wall cleaning contract for a building in a college and a monastery in the mid-levels, which will commence when the summer vacation starts this year.

The stone finishing care, maintenance and restoration business and sale of the stone care products of a celebrated Italian brand developed steadily during the year and sales income has been on the up trend.

During the year, the Group signed a sole agency agreement for the sale in Hong Kong and Macau of a series of sprayers imported from Spain. The sprayers are widely used by pest control and horticultural professionals.

The Group has been named a “Caring Company” by The Hong Kong Council of Social Service for the fifth consecutive year, for caring about the environment and employing the vulnerable, among other worthwhile community involvement.

The Group has also been honoured by the Mental Health Association of Hong Kong as an “Enterprise Ambassador” for its continuous efforts to provide the disabled with job opportunities and to help disabled employees improve their work skills.

#### *Financial Review*

As at 31 March 2009, the Group’s cash and cash equivalents and pledged time deposits totalled HK\$61,845,000 (31 March 2008 (restated): HK\$93,907,000) and its current ratio was 4.2 (31 March 2008 (restated): 1.9). The Group’s net assets increased to HK\$195,622,000 (31 March 2008 (restated): HK\$146,888,000) following the acquisition of a 70% stake in Peixin.

The Group did not have any bank borrowing as at 31 March 2009 and therefore, its gearing ratio, representing ratio of total bank borrowings to shareholders’ equity, was nil (31 March 2008: nil). The Group’s shareholders’ equity amounted to HK\$195,622,000 (31 March 2008 (restated): HK\$146,888,000).

The Group takes a prudent approach to cash management and risk control. Its revenues, expenses and capital expenditures in relation to the cleaning and related services business are transacted in Hong Kong (“HK”) dollars, whereas those of the medical waste treatment business and municipal solid waste treatment business are transacted in Renminbi (“RMB”). The Group’s cash and bank balances were primarily denominated in HK dollars, RMB and United States dollars.

Foreign currency risks in relation to exchange rate fluctuation of RMB will be mitigated as future revenues in relation to the medical waste treatment business and municipal solid waste treatment business will be in RMB, which can offset future liabilities and expenses.

As at 31 March 2009, the Group's banking facilities were secured by the followings:

- (i) the pledge of certain of the Group's time deposits amounting to HK\$4,048,000 (2008: HK\$4,022,000); and
- (ii) a corporate guarantee to the extent of HK\$18 million (2008: HK\$18 million) provided by the Company.

#### *Convertible Notes*

On 16 December 2008, the Company issued zero-coupon convertible notes with a nominal value of HK\$65 million to ITAD Biotechnology Limited ("ITAD"), with a maturity date of 1 January 2012 (the "Maturity Date") as part of the total consideration for the acquisition of 70% equity interest in Peixin. The principal amount of the convertible notes shall be divided into two tranches of HK\$32.5 million each, which shall be convertible into ordinary shares at the conversion price of HK\$0.31 per ordinary share upon the exercise of the conversion rights during the first conversion period between 1 July 2010 and 31 December 2010 and the second conversion period between 1 July 2011 and 31 December 2011. ITAD has warranted certain targeted net profits of Shuyang ITAD Environmental Technology Limited, the principal subsidiary of Peixin, and the nominal value of the convertible notes shall be adjusted downward if there is any shortfall on targeted profits. The outstanding principal of the convertible notes that has not been converted into shares shall be redeemed in its entirety by the Company at the redemption price of HK\$1 on the Maturity Date.

#### *Contingent Liabilities*

As at 31 March 2009, the Group had contingent liabilities as follows:

- (a) The Group has executed performance guarantees to the extent of an aggregate amount of HK\$1,159,000 (2008: HK\$1,065,000) in respect of certain services provided to various customers by the Group.
- (b) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK\$2,890,000 as at 31 March 2009 (2008: HK\$1,440,000). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group and are hence eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK\$1,548,000 (2008: HK\$811,000) in respect of such payments has been made in the consolidated balance sheet as at 31 March 2009.

- (c) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by employees or third party claimants. The Group maintains insurance cover and, in the opinion of the directors, based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2008 and 2009.

#### *Employees and Remuneration Policies*

The total number of employees of the Group as at 31 March 2009 was 2,031 (31 March 2008 (restated): 2,121). Total staff costs, including director's emoluments and net pension contributions, for the year under review amounted to HK\$170,353,000 (31 March 2008 (restated): HK\$166,609,000). The Group provides employees with training programmes on latest skills.

Remunerations are commensurate with individual job nature, work experience and market conditions, and performance related bonuses are granted to employees on discretionary basis. In addition, all employees of the Group, including directors, are eligible to participate in the Company's share option scheme.

#### *Prospects*

Conservation and environment protection are issues of growing importance to communities worldwide. Traditional methods of treating municipal solid wastes by dumping them in landfills or incineration, which produce pollutants, can now be replaced in part by innovative, environmentally friendly methods. The Shuyang Plant is serving as a platform for us to demonstrate commercially-viable and environmentally-friendly alternative to treating municipal solid wastes. It will help pave the way for the Group to expand its business in the field in Mainland China and worldwide.

The "unhealthy" competition in the cleaning service business is showing signs of easing. The Group is confident of expanding its share in the market, particularly in the middle to high class cleaning service sector.

The Group will continue to work closely with its Italian partner to introduce new stone care products to cater to the changing demands of Asian markets. It sees room for expansion of the business in the foreseeable future."

**“For the year ended 31 March 2008***Operating Environment*

As the Hong Kong economy continued to grow during the year under review, it also faced increasing inflation pressure. Rising commodity prices, especially of oil and food, were the main culprits, and the lingering impact of the US sub-prime mortgage issue was not helping overall market sentiment. On the cost front, with the 2-year wage protection movement launched by the government to end in October 2008, there have been calls in the community for the government to legislate for minimum wages. The cleaning service market though had gotten on a healthier path with customers turning their focus on quality instead of just price, and in turn the Group's profit margin broadened slightly. There was an increase in demand for stone finishing care, maintenance and restoration services which we were able to meet. That plus strong sales of a celebrated Italian stone care and maintenance products distributed by the Group brought in satisfactory income.

*Operating Results*

The Group's turnover for the year ended 31 March 2008 in respect of its continuing operations amounted to HK\$188,567,000, representing a 22.2% increase as compared with last year whereas the total turnover, including both continuing and discontinued operations was HK\$195,074,000 representing a 4.53% increase over that of last year's. A net loss of HK\$55,722,000 was recorded against a net loss of HK\$34,536,000 last year. The Group's cleaning and related services recorded a profit of HK\$3,472,000, which was however offset by losses of HK\$8,510,000 from the medical waste treatment business, the loss of HK\$2,503,000 incurred by the discontinued building maintenance and renovation business, the charge to the income statement of share options expenses of HK\$7,912,000 and a write-off due to impairment of goodwill of HK\$39,185,000. The cleaning and related services business of the Group secured some major new contracts as well as renewed some existing contracts at better prices, with the market shifting emphasis on quality met by the Group's strengths in delivering excellent and reliable services and success of the Group in reducing costs and keeping service charges competitive. All factors considered, we are optimistic about the prospects of the segment in the foreseeable future. During the year, apart from stepping up financial control and striving for higher operational efficiency, certain members of senior management, including all the executive directors, had volunteered to reduce their salaries to help the Group through the challenging times.

*Business Review*

The impairment of goodwill of \$39,185,000 was based on the assumptions used in the cash flow projections to undertake impairment testing of goodwill and on the requirements as stipulated in the accounting standard in respect of impairment review of goodwill. Notwithstanding that a full impairment has been made in respect of the goodwill, the Group is continuing with every effort in developing the medical waste treatment business.

The Group saw its first medical waste treatment plant in Siping City, Jilin Province, kicked off operation during the year, employing the steam-based technology developed by the

Canadian company, Hydroclave. Our partner, Tsinghua Daring China, delayed delivery of new sites for the Group to build new plants, however, the Group is confident of and will forge ahead with growing the business. The Group has stopped relying solely on its partner to look for and secure suitable plant sites, and has started to identify potential sites by itself to ensure smoother progress with growing this business. The Group is working hard to capture the huge and largely untapped potential of the medical waste treatment market in China, aiming to obtain a fair share.

During the year under review, general cleaning services continued to be the major business of the Group accounting for a significant portion of its revenue. The Group obtained a 3-year contract (with the option to renew for another 3 years) to provide initial, day-to-day cleaning as well as pest and rodent control services for a top-notch shopping mall of over a million square feet and including some 900 car parking spaces in West Kowloon and a 2-year contract for providing day-to-day cleaning services for an Academy of Medicine Building in Wong Chuk Hang. The several major cleaning service contracts renewed included those for two luxurious residential estates, the largest flight kitchen in Chek Lap Kok and the biggest residential estate in terms of number of flats in Tseung Kwan O. They were renewed for periods between two to three years.

The stone finishing care, maintenance and restoration business and sale of stone care products of an Italian brand as its sole agent in Hong Kong, Mainland China and Macau, have also been developing steadily. The Group finished several stone finishing maintenance and restoration projects, including for a bank building in Central and Phase 2 of a tourist shopping arcade on the Peak. As for the stone care chemicals, sales volume has been growing at accelerating pace after it was launched by the Group to the market.

After completing all the contracts on hand, the Group disposed of its entire interest in Best Crown and its subsidiary Mak Tai Construction & Engineering Limited on 28 September 2007 and discontinued the building maintenance and renovation business.

The Group was awarded “Caring Company Logo” in the “Caring Company Scheme” launched by the Hong Kong Council of Social Service for the fourth consecutive year, recognising it as a company that cares for the environment and giving employment opportunities to the less-privileged.

#### *Financial Review*

As at 31 March 2008, the Group’s cash and cash equivalents and pledged time deposits were HK\$84,654,000 (31 March 2007, approximately HK\$54,415,000). The current ratio was 6.7 (31 March 2007, 3.2).

The Group did not have any bank borrowing as at 31 March 2008 and therefore, the Group’s gearing ratio, representing ratio of total bank borrowings to shareholders’ equity, was nil (31 March 2007: total bank borrowings was \$4,096,000 and the gearing ratio was 5.44%). The Group’s shareholders equity amounted to HK\$146,308,000 (31 March 2007: HK\$75,325,000).

The Group employs a conservative approach to cash management and risks control. Its revenues, expenses and capital expenditures in relation to the cleaning and related services business are transacted in HK dollars whereas those of the medical waste treatment business are transacted in Renminbi (“RMB”). The Group’s cash and bank balance was primarily denominated in Hong Kong dollars, RMB and US dollars.

Foreign currency risks in relation to exchange rate fluctuation of the RMB will be mitigated as future revenue in relation to the medical waste business will be in RMB which can offset future liabilities and expenses.

As at 31 March 2008, the Group’s banking facilities were secured by the following:

- (i) pledge of certain of the Group’s time deposits amounting to HK\$4,022,000 (31 March 2007: HK\$16,130,000); and
- (ii) a corporate guarantee to the extent of HK\$18 million (31 March 2007: HK\$27 million) by the Company.

#### *Bonus Share Issue and Capital Structure*

A bonus share issue of one bonus share for every one ordinary share in issue was approved at the annual general meeting of the Company held on 29 August 2007. A total of 392,680,000 ordinary shares of HK\$0.01 each were issued and had been credited as fully paid by a transfer from the Company’s share premium account.

#### *Issue of New Shares*

In July 2007, the Group raised approximately HK\$98,000,000 through placing 25,000,000 new shares of the Company at HK\$4.00 each to raise fund for the acquisition of 65% of the issued share capital of Season and the medical waste project.

In August 2007, the Group issued 5,000,000 new shares of the Company to Tsinghua Daring China as part of the consideration for acquiring from Tsinghua Daring China the 65% interest in Season.

#### *Contingent Liabilities*

As at 31 March 2008, the Group had contingent liabilities as follows:

- (a) The Group has executed performance guarantees to the extent of an aggregate amount of HK\$1,065,000 (2007: HK\$1,972,000) in respect of certain services provided to various customers by the Group.
- (b) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK\$1,440,000 as at 31 March 2008 (31 March 2007:

HK\$1,469,000). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK\$811,000 (31 March 2007: HK\$817,000) in respect of such payments has been made in the consolidated balance sheet as at 31 March 2008.

- (c) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the directors, based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2008.

#### *Employees and Remuneration Policies*

The total number of employees of the Group as at 31 March 2008 was 2,319 (31 March 2007: 2,137). Total staff costs, including director's emoluments and net pension contributions, for the year under review amounted to HK\$166,250,000 (31 March 2007: HK\$137,798,000). The Group provides employees with training programmes on latest skills.

Remunerations are commensurate with individual job nature, work experience and market conditions, and performance related bonuses are granted to employees on discretionary basis. In addition, all employees of the Group, including directors, are eligible to participate in the Company's share option scheme.

#### *Prospects*

Notwithstanding the impact of the sub-prime mortgage problem rippling across the world from the United States, climbing crude oil price and the "weak" US dollar, the economy in Mainland China and Hong Kong are expected to keep growing steadily. Intense competition in the cleaning service business has shown signs of easing, as reflected in the Group's improved profit margin. With a strong reputation for professionalism in the market, the Group is optimistic about the business growing and expanding its market share, particularly in the middle to high class cleaning service market, in the foreseeable future. At the same time, with expertise in stone maintenance and restoration winning new projects recently from clients, the Group sees room for expansion in this business area.

Our medical waste treatment business using steam-based and environmentally friendly technology had a good beginning in Mainland China attracting favorable response. With environmental protection now a priority concern in Mainland China, the replacement of plants that incinerate medical wastes by steam-based treatment plants is going to become a prevalent trend. With support from the authority and our state-of-the-art technology, the Group has a solid platform for promoting and expanding this business in the years ahead."

### C. STATEMENT OF INDEBTEDNESS

Based on a review of the accounting records of the Group and independent confirmations, we confirm that as at 31 January 2011, the Group had the following indebtedness:

#### (a) Borrowings

Based on the review of the accounting records of the Group and independent confirmations, we confirm that as at the close of business on 31 January 2011, being the latest practicable date for the purpose of the Statement of Indebtedness prior to the printing of the Circular, the Group had the following outstanding borrowings:

	<i>Note</i>	<i>HK\$'000</i>
Loan from a director, unsecured	(i)	3,587
Finance lease payable		<u>207</u>
Total borrowings		<u><u>3,794</u></u>

*Note:*

(i) The loan is unsecured, interest-bearing at 1% p.a. and repayable on 14 October 2015.

(b) As at 31 January 2011, the Group's banking facilities were secured by the following:

- (i) the pledge of certain time deposits amounting to approximately HK\$14,025,000; and
- (ii) a corporate guarantee to the extent of HK\$28 million provided by the Group, including HK\$18 million given by the Company in favour of The Hongkong and Shanghai Banking Corporation Limited and HK\$10 million given by Lo's Cleaning Services Ltd and Peixin Group Ltd in favour of Dah Sing Bank.

(c) As at 31 January 2011, the Group had the following contingent liabilities:

- (i) The Group had executed performance guarantees to the extent of an aggregate amount of HK\$1,157,000 in respect of certain services provided to various customers;
- (ii) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK\$1,420,000 as at 31 January 2011. The contingent liability has arisen because, at the end of the reporting period, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances; and

- (iii) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the directors, based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 January 2011.

Save as disclosed above and apart from the intra-group liabilities, the Group did not have any outstanding debt securities, bank or other borrowings, debt, mortgages, charges, debentures, or other loan capital, bank overdrafts, term loans, loans or other similar indebtedness, guarantee, contingent liabilities, liabilities under acceptances, acceptance credits or hire purchase commitments.

#### D. SUFFICIENT WORKING CAPITAL AVAILABLE

The Directors, after due and careful enquiry have confirmed that, after taking into account the available borrowing facilities, internal resources and forthcoming fund raising exercises of the Group and the undertaking given by Dr. Lo Kou Hong, the Chairman, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the Latest Practicable Date, in the absence of any unforeseeable circumstances.

#### E. OTHERS

The corporate guarantee to the extent of HK\$18 million as at 31 March 2008, 2009 and 2010, respectively as disclosed in the Company's corresponding annual reports, was provided by the Company in favour of The Hongkong and Shanghai Banking Corporation Limited.

The maturity profile of the Group's finance lease payable as at 30 September 2010, based on the contractual undiscounted payments, is as follows:

	<b>Less than 3 months HK\$'000</b>	<b>3 to less than 12 months HK\$'000</b>	<b>1 to 5 years HK\$'000</b>	<b>Total HK\$'000</b>
Finance lease payable	<u>15,000</u>	<u>45,000</u>	<u>210,000</u>	<u>270,000</u>

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

Set out herein is the pro forma financial information of Lo's Enviro-Pro Holdings Limited (the "Company") and its subsidiaries (the "Group") in connection with the granting of a free right by Xinhua News Agency Asia-Pacific Regional Bureau Limited ("Asia-Pacific Regional Bureau") to the Company to broadcast the information collected or obtained by Asia-Pacific Regional Bureau to public entities or individuals in the specified regions (the "Free Right") (collectively referred as the "Enlarged Group"), comprising unaudited pro forma combined statement of financial position of the Enlarged Group as at 30 September 2010 and unaudited pro forma combined statement of comprehensive income and unaudited pro forma combined statement of cash flows of the Enlarged Group for the year ended 31 March 2010 have been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for illustrative purpose only, to provide information about how the granting of the Free Right might have affected the financial position, and the result and cash flow of the Group as if the granting of the Free Right had been completed on 30 September 2010, and 1 April 2009 respectively.

The unaudited pro forma financial information of the Enlarged Group has been prepared based on the unaudited interim condensed consolidated statement of financial position as at 30 September 2010 and the audited consolidated financial statements of the Group for the year ended 31 March 2010 after giving effect to the unaudited pro forma adjustment as described in the accompanying notes.

**APPENDIX II****UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP****1. UNAUDITED PRO FORMA COMBINED STATEMENT OF FINANCIAL  
POSITION OF THE ENLARGED GROUP**

The unaudited pro forma consolidated statement of financial position is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 September 2010 or any future dates.

	<b>The Group as at 30 September 2010 HK\$'000</b>	<b>Pro forma Adjustments HK\$'000 (Note 1)</b>	<b>Pro forma total for the Enlarged Group HK\$'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	106,801		106,801
Intangible asset	22,609	151,286	173,895
Deposit paid for acquisition of plant & equipment	94		94
Interests in an associate	83		83
	<u>129,587</u>	<u>151,286</u>	<u>280,873</u>
<b>CURRENT ASSETS</b>			
Inventories	2,560		2,560
Due from an associate	1,294		1,294
Trade receivables	29,125		29,125
Prepayments, deposits and other receivables	5,082		5,082
Pledged time deposits	14,021		14,021
Cash and cash equivalents	22,559		22,559
	<u>74,641</u>	<u>–</u>	<u>74,641</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	2,038		2,038
Finance lease payables	42		42
Other payables and accrued liabilities	24,593		24,593
	<u>26,673</u>	<u>–</u>	<u>26,673</u>
<b>NET CURRENT ASSETS</b>	<u>47,968</u>	<u>–</u>	<u>47,968</u>

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

	<b>The Group as at 30 September 2010 HK\$'000</b>	<b>Pro forma Adjustments HK\$'000 (Note 1)</b>	<b>Pro forma total for the Enlarged Group HK\$'000</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	177,555	151,286	328,841
<b>NON-CURRENT LIABILITIES</b>			
Provision for long service payments	665		665
Finance lease payable	179		179
Deferred income	6,594		6,594
Total non-current liabilities	7,438	–	7,438
<b>Net assets</b>	<u>170,117</u>	<u>151,286</u>	<u>321,403</u>
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital	7,667	2,147	9,814
Reserves	135,483	149,139	284,622
	143,150	151,286	294,436
Non-controlling interests	26,967	–	26,967
<b>TOTAL EQUITY</b>	<u>170,117</u>	<u>151,286</u>	<u>321,403</u>

*Note:*

1. The pro forma adjustments relate to the granting of the Free Right by Asia-Pacific Regional Bureau to broadcast the information collected or obtained by Asia-Pacific Regional Bureau to public entities or individuals in the specified regions (including the right to use Asia-Pacific Regional Bureau's name) which shall be used to satisfy the consideration for the issue of 214,681,040 new shares of the Company at a price of HK\$0.7047 each.

**2. UNAUDITED PRO FORMA COMBINED STATEMENT OF COMPREHENSIVE INCOME AND UNAUDITED PRO FORMA COMBINED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP EXPRESSED IN HKD**

The following is the unaudited pro forma combined statement of comprehensive income and unaudited pro forma combined statement of cash flow of the Enlarged Group assuming that the granting of the Free Right had taken place on 1 April 2010. The unaudited pro forma combined statement of comprehensive income and unaudited pro forma combined statement of cash flow were prepared based on the consolidated statement of comprehensive income and consolidated statement of cash flow of the Group for the year ended 31 March 2010 as extracted from the annual report 2009/2010 of the Group for the year ended 31 March 2010.

The unaudited pro forma combined statement of comprehensive income and unaudited pro forma combined statement of cash flow are for illustrative purposes only 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 give a true picture of the results of the Enlarged Group for the year ended 31 March 2010 or any future dates.

**(i) Unaudited Pro Forma Combined Statement of Comprehensive Income of the Enlarged Group**

	<b>The Group for the year ended 31 March 2010</b>	<b>Pro forma adjustments (Note 1)</b>	<b>Unaudited pro forma total for the Enlarged Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	176,926		176,926
Cost of sales	(4,325)		(4,325)
Other income and gains	995		995
Staff cost	(159,202)		(159,202)
Depreciation and amortisation	(3,717)	(15,129)	(18,846)
Other operating expenses	(33,529)		(33,529)
Finance costs	(35)		(35)
	<u>          </u>		<u>          </u>
LOSS BEFORE TAX	(22,887)		(38,016)
Income tax expense	–		–
	<u>          </u>		<u>          </u>
LOSS FOR THE YEAR	<u>(22,887)</u>		<u>(38,016)</u>

*Note:*

- The adjustment represents the amortisation charges of the Free Right granted by Asia-Pacific Regional Bureau for a term of 10 years. The adjustment is expected to have continuing effect on the combined statement of comprehensive income of the Enlarged Group.

**APPENDIX II****UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP****(ii) Unaudited Pro Forma Combined Statement of Cash Flows of the Enlarged Group**

	<b>The Group for the year ended 31 March 2010</b>	<b>Pro forma Adjustment (Note 1)</b>	<b>Unaudited pro forma total for the Enlarged Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CASH FLOW OPERATING ACTIVITIES</b>			
Loss before tax	(22,887)	(15,129)	(38,016)
Adjustments for:			
Finance costs	35		35
Depreciation	5,295		5,295
Amortisation of intangible assets	789	15,129	15,918
Interest income	(92)		(92)
Loss on property, plant and equipment	14		14
Loss on disposal of items of property, plant and equipment	(312)		(312)
Equity-settled share option expense	2,569		2,569
Impairment of trade receivables	318		318
Reversal of impairment of an amount due from an associate	(187)		(187)
Write-back of provision for long service payments	(372)		(372)
	<u>(14,830)</u>		<u>(14,830)</u>
Decrease in an amount due from an associate	151		151
Decrease in trade receivables	467		467
Increase in prepayments, deposits and other receivables	(7)		(7)
Increase in inventories	(3,323)		(3,323)
Decrease in trade payables	(186)		(186)
Increase in other payables and accrued liabilities	2,449		2,449
Decrease in provision for long service payments	(311)		(311)
	<u>(15,590)</u>		<u>(15,590)</u>
Cash used in operations	(15,590)		(15,590)
Interest paid	(35)		(35)
	<u>(15,625)</u>		<u>(15,625)</u>
Net cash flows used in operating activities	<u>(15,625)</u>		<u>(15,625)</u>

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

	<b>The Group for the year ended 31 March 2010</b>	<b>Pro forma Adjustment (Note 1)</b>	<b>Unaudited pro forma total for the Enlarged Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment	(9,096)		(9,096)
Proceeds from disposal of items of property, plant and equipment	744		744
Additions to intangible assets	(22)		(22)
Interest received	92		92
Decrease in pledged time deposits	46		46
	<u>(8,236)</u>		<u>(8,236)</u>
Net cash flows used in investing activities			
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Proceeds from issue of shares	1,851		1,851
	<u>1,851</u>		<u>1,851</u>
Net cash flows from financing activity			
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
	(22,010)		(22,010)
Cash and cash equivalents at beginning of year	57,797		57,797
Effect of foreign rate changes, net	23		23
	<u>35,810</u>		<u>35,810</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
	<u>35,810</u>		<u>35,810</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	25,726		25,726
Non-pledged time deposits with original maturity of less than three months when required	10,084		10,084
	<u>35,810</u>		<u>35,810</u>

*Note:*

1. The adjustment represents the amortisation charges of the Free Right granted by Asia-Pacific Regional Bureau for a term of 10 years. The adjustment is expected to have continuing effect on the combined statement of cash flows of the Enlarged Group.

**B. LETTER FROM THE ACCOUNTANTS IN RESPECT OF THE UNAUDITED  
PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

11 March 2011

Board of Directors  
Lo's Enviro-Pro Holdings Limited  
3/F, Caltex House  
258 Hennessy Road, Wanchai  
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of financial position (the "Unaudited Pro Forma Financial Information") of Lo's Enviro-Pro Holdings Limited (the "Company") and its subsidiaries (the "Group") in relation to the granting of a free right to the Company by Xinhua News Agency Asia-Pacific Regional Bureau Limited ("Asia-Pacific Regional Bureau") to broadcast the information collected or obtained by Asia-Pacific Regional Bureau to public entities or individuals in the specified regions ("Free Right") (collectively referred as the "Enlarged Group") as set out in Appendix II to the circular dated 11 March 2011 (the "Circular") issued by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors for illustrative purposes only, to provide information about how the granting of the Free Right might have affected the relevant consolidated financial position of the Group.

The basis of preparation of the unaudited pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Enlarged Group.

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

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and 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 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 September 2010 or any future dates.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**GREATER CHINA APPRAISAL LIMITED**  
漢華評值有限公司

Room 2703-08  
Shui On Centre  
6-8 Harbour Road  
Wanchai, Hong Kong

11 March 2011

The Board of Directors  
Lo's Enviro-Pro Holdings Limited  
3/F., Caltex House  
258 Hennessy Road  
Wanchai, Hong Kong

**Re: Valuation on the Television Screen Broadcast Business**

Dear Sirs/Madams,

At the request of Lo's Enviro-Pro Holdings Limited (the "Company"), we were engaged to assist you in the valuation analysis on the business of publicly broadcasting information and advertisements on television screens (whether indoors or outdoors) (the "Television Screen Broadcast Business") as of 31 January 2011 (the "Valuation Date").

On 22 November 2010, 27 November 2010 and 28 January 2011, the Company and Xinhua News Agency Asia-Pacific Regional Bureau Limited ("Asia-Pacific Regional Bureau") entered into the Principal Agreement, the Supplemental Agreement and the Clarification Memorandum (together refer to as the "Cooperation Agreement"), respectively. According to the Cooperation Agreement, the Company and Asia-Pacific Regional Bureau shall closely cooperate in the development of the Television Screen Broadcast Business.

It is our understanding that our analysis will be used by the management of the Company for investment purpose only, details of which are set out in the circular dated 11 March 2011 issued by the Company to the shareholders (the "Circular"), of which this valuation report forms part. Unless otherwise stated, terms used in this valuation report have the same meanings as those defined in the Circular. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes. The standard of value is fair value; whilst the premise of value is value in use, as part of going concern.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

### **PURPOSE OF ENGAGEMENT**

As aforementioned, the purpose of this particular engagement is to assist the management of the Company in determining fair value of the Television Screen Broadcast Business as of the Valuation Date for investment purpose.

The premise of value is Going Concern, defined as:

*“an ongoing and operating business enterprise”.*

Going Concern value is defined as:

*“the value of a business enterprise that is expected to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained workforce, an operational plant, and the necessary licenses, systems, and procedures in place”.*

### **SCOPE OF SERVICES**

We were engaged by the management of the Company to assist in their estimate of the fair value of the Television Screen Broadcast Business as of the Valuation Date.

- We understand that the Company will use our analysis solely for investment purpose only;
- Our analysis and conclusion of opinion of value of the Television Screen Broadcast Business was based on our discussions with the management of the Company, as well as a review of the Cooperation Agreement and financial projection, including:
  - The Principal Agreement relating to development of the business of broadcasting advertisements and information on television screens (發展電視屏幕廣告和資訊播放業務合作協議) dated 22 November 2010;
  - The Supplemental Agreement in relation to the Principal Agreement dated 27 November 2010 and the Clarification Memorandum dated 28 January 2011; and
  - Financial projection for the period from 1 January 2011 to 31 December 2020 provided by the Company.

We also relied upon publicly available information from sources on capital markets, including industry reports, and various databases of publicly traded companies and news.

### **COMPANY OVERVIEWS**

#### **Lo's Enviro-Pro Holdings Limited (the "Company")**

The Company is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 309). The principal business activities of the Company and its subsidiaries are provision of cleaning and related services, provision of medical waste treatment services and provision of waste treatment services.

The cleaning and related services business segment is the major revenue generator of the Company. In recent years, the Company established two medical waste treatment plants in Siping city, Jilin Province and in Suihua City, Heilongjiang Province. The plants have commenced operation in 2009 and are currently generating revenue for the Company.

Furthermore, the Company has also kicked off its investment in waste treatment business and has successfully brought revenue to the Company in the financial year ended 31 March 2010.

The Company is planning to expand its operation to the Television Screen Broadcast Business. According to the Cooperation Agreement with Asia-Pacific Regional Bureau, the Company will be granted a free right (the "Free Right") to broadcast to public entities or individuals in the regions<sup>1</sup> (the "Development Region") for ten years. The Company will develop and expand the Television Screen Broadcast Business in the Development Region.

#### **Xinhua News Agency Asia-Pacific Regional Bureau Limited ("Asia-Pacific Regional Bureau")**

Asia-Pacific Regional Bureau is a company incorporated under the laws of Hong Kong with limited liability and established by Xinhua News Agency Asia-Pacific Regional Bureau. Its principal business activities include news reporting, editing, press release and other related business.

### **BACKGROUND**

The Company and Asia-Pacific Regional Bureau entered into the Cooperation Agreement, which comprises the Principal Agreement, the Supplemental Agreement and the Clarification Memorandum on 22 November 2010, 27 November 2010 and 28 January 2011, respectively. The Cooperation Agreement is related to development of the Television Screen Broadcast Business.

<sup>1</sup> include: (a) Hong Kong; (b) Macau; (c) Taiwan; (d) Asia Pacific countries (excluding China) and/or regions, including Japan, South Korea, North Korea, East Asia, South East Asia, Australia, New Zealand and the nearby island countries, etc.; and other regions (including China) as may be jointly confirmed by the parties to the Cooperation Agreement from time to time

According to the Cooperation Agreement, the Company would be granted the Free Right to broadcast to public entities or individuals in the Development Region for ten years. Asia-Pacific Regional Bureau and the Company shall closely cooperate in the development of the Television Screen Broadcast Business in the Development Region.

The Free Right is a right granted by Asia-Pacific Regional Bureau to the Company to broadcast the information collected or obtained by Asia-Pacific Regional Bureau in the course of development of the Television Screen Broadcast Business and other information mutually agreed by the Company and Asia-Pacific Regional Bureau including the name of Asia-Pacific Regional Bureau as well as other information and advertisement content which Asia-Pacific Regional Bureau acquires or owns copyright from time to time (the “Media Information”) to public entities or individuals on television screens that are installed indoors (e.g. shopping malls and office building lobby) and outdoors (e.g. external walls of buildings and plazas) in the Development Region. It is expected that the Media Information that may be covered in the Television Screen Broadcast Business will include news, news related programmes, information programmes and other information and advertisement content which Asia-Pacific Regional Bureau from time to time acquires or owns copyright, whether or not registered or registrable.

At completion, the Company will allot and issue to Asia-Pacific Regional Bureau 214,681,040 shares with nominal value of HK\$0.01 each, which represents 28% of the issued share capital of the Company as at the date of the Principal Agreement. A sum of no less than HK\$100,000,000 for the sole purpose of development of the Television Screen Broadcast Business will be made available in the designated account.

### **ECONOMIC OUTLOOK AND INDUSTRY ANALYSIS**

In conjunction with the preparation of this valuation opinion, we have reviewed and analysed the current economic conditions in Asia Pacific, the development of the advertising industry, in particular, the outdoor advertising industry, and how the value of the Television Screen Broadcast Business be impacted in this economic environment.

#### **Economic Outlook in Asia Pacific**

According to 2009 International Monetary Fund’s world GDP ranking, two of the Asia Pacific countries are ranked in the top five, with Japan ranked the second largest and China ranked the third largest in terms of GDP. It should not be to anyone’s surprise that Asia Pacific countries will continue to sustain healthy economic development, especially with China being one of the leading countries with the most impressive recovery from the global financial crisis among all major economies.

## Global GDP Ranking

	Country	GDP (Millions of USD)
1	United States	14,119,050
2	Japan	5,068,894
3	People's Republic of China	4,984,731
4	Germany	3,338,675
5	France	2,656,378
	<b>World</b>	<b>57,843,376</b>

Source: 2009 List by the International Monetary Fund

The regions in the Asia Pacific are recovering promptly from the global financial crisis in the past years. Although many of these countries have suffered from negative economic growth in 2009, they have picked up their recovery in late 2009 and quickly resulted in positive growth in early 2010. Looking at Hong Kong and Macau in specific, the current GDP level has grown higher than the pre-financial crisis GDP growth and is expected to stay positive in 2011.

## Real GDP Growth Rates (%)

Region	2007 Actual	2008 Actual	2009 Actual	2010 (Q3) Actual	2010 Forecast	2011 Forecast
Hong Kong	6.4	2.2	-2.8	6.8	6.1	4.5
Macau	26	12.9	1.3	27.1	—*	—*

Source: Bloomberg, December 2010

\* information not yet available

Hong Kong economy heavily relies on two industries which are tourism, include wholesale, retail, import and export trades, restaurant and hotels; and financial industry which include financing, insurance, real estate and business services. The mainland China has long been Hong Kong's largest trading partner, accounting for about half of Hong Kong's exports by value. As a result of China's easing of travel restrictions, the number of mainland tourists to the territory has surged from 4.5 million in 2001 to 17.96 million in 2009<sup>2</sup>, accounting for 60.7% of total arrivals.

<sup>2</sup> Hong Kong Tourism Board – 2009 Full-Year Tourism Performance Figures

Furthermore, Hong Kong has established itself as the premier stock market for Chinese firms seeking to list abroad. A significant portion of the firms listed on the Stock Exchange are now mainland Chinese companies (H shares and Red chip companies)<sup>3</sup>. These firms account for 48.1% of the Stock Exchange's market capitalization and over 61% of equity turnover. During the past decade, as Hong Kong's manufacturing industry moved to the mainland, its service industry has grown rapidly and in 2009 accounted for more than 90% of the territory's GDP<sup>4</sup>.

Macau has also enjoyed rapid economic growth in recent years, which was largely contributed from the tourism and gaming sectors. Since 2001, Macau has attracted billions of dollars of foreign investment, after opening up its locally-controlled casino industry to foreign competition. It has become the world's largest gaming centre, with its gaming revenue exceeded Las Vegas strip by 2006 and accounted for 75% of total government revenue<sup>5</sup>.

Throughout 2010, Macau managed to achieve double digit real GDP growth for the first three quarters of 2010. The growth was mainly driven by the substantial rise in gross gaming revenue and total visitor spending. Although exports fell due to the shrinking demand of the European and US markets, private consumption expenditure posted steady growth upon low unemployment rate and stable median employment earnings<sup>6</sup>.

Given the high economic growth and the consequential high purchasing power, the development of the advertising industry in the above regions is considered to be optimistic.

### **Outdoor Advertising Industry in Asia Pacific**

Outdoor advertising is also referred as the out-of-home advertising included any forms of advertising that reaches the customers while they are outside the home.

According to a research released by ZenithOptimedia recently, the advertising industry recovered from the financial crisis in 2008, with a strong growth of 4.9% overall. It is expected that the global expenditure on advertising in 2012 will exceed the peak of 2008.

Emerging countries, like China, demonstrated a strong growth in advertising expenditure among all regions. Based on the ZenithOptimedia research, China will take over Germany and become the world's third-largest advertising market in 2011. Although Asia Pacific advertising expenditure fell by 6.5% in 2009, it is expected to have a better performance in 2010 with 6.3% growth overall. The upward trend on advertising expenditure is expected to continue across the forecast period. The research also expects the size of Asia Pacific advertising market will exceed Western Europe advertising market size in 2010.

<sup>3</sup> Hong Kong Exchanges and Clearing Limited – Factbook 2009

<sup>4</sup> Hong Kong Census and Statistics Department – Hong Kong Statistics 2009

<sup>5</sup> Macau Economy 2010 – CIA World Factbook

<sup>6</sup> Macao Economic Service, Macao Economic Bulletin, 2nd Quarter 2010.

	Advertising Expenditure (US\$ Million)						CAGR (2009-13)
	Historical		Forecast				
	2008	2009	2010	2011	2012	2013	
Australia	9,461	8,664	9,394	9,885	10,412	10,981	6.1%
China	18,966	19,826	22,606	25,636	30,182	34,236	14.6%
Hong Kong	3,299	2,689	2,777	2,839	2,915	2,988	2.7%
Japan	49,649	43,405	43,267	43,731	44,367	45,300	1.1%
South Korea	6,905	6,149	6,665	7,383	7,765	8,023	6.9%
Others	18,384	19,013	21,312	23,871	26,359	29,183	11.3%
<b>AP Total</b>	<b>106,664</b>	<b>99,746</b>	<b>106,021</b>	<b>113,345</b>	<b>122,000</b>	<b>130,711</b>	<b>7.0%</b>

Source: ZenithOptimedia – Advertising Expenditure Forecast December 2010

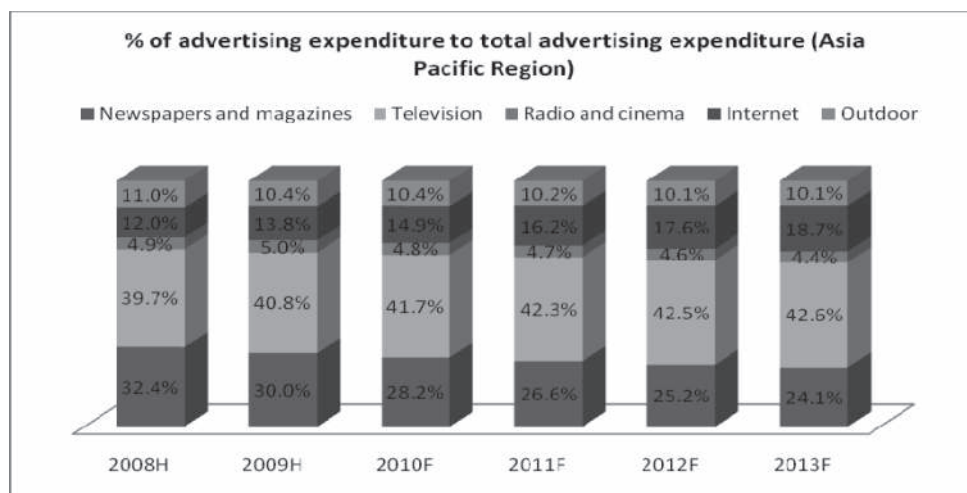
The growth in advertising expenditure is not evenly distributed among all types of media. The market shares of traditional media, e.g. newspapers and magazines, will be eroded by the internet as the readers migrate to this new information platform. Traditional media owners in Asia Pacific have a hard time to cut down the loss of revenue to the strengthening army of new media providers.

Among all types of media, internet advertising has the brightest outlook. Corporate is more aware of the influence on consumer behaviour from the internet. Mature e-business environment, stable network and advancement on mobile technology make more corporate willing to spend a bigger portion of marketing budget to the internet advertisement. Internet is expected to continuously demonstrate a strong growth in 2011-2013.

According to ZenithOptimedia research, the outdoor advertisement will continue to grow but with a slightly slower pace than the overall market. Benefit from the advancement in technology which increased the visibility and impact to consumers (such as digital signage), the outdoor advertisement has a better position in resistance to the competition from the new platform. The market share of the outdoor advertisement is expected to be stable across the forecast period according to ZenithOptimedia research.

	Outdoor Advertising Expenditure (US\$ Million)						CAGR (2009-13)
	Historical		Forecast				
	2008	2009	2010	2011	2012	2013	
Australia	354	312	356	373	388	402	6.5%
China	2,630	2,814	3,236	3,624	4,168	4,731	13.9%
Hong Kong	273	252	260	273	281	295	4.0%
Japan	6,924	5,625	5,611	5,664	5,771	5,878	1.1%
South Korea	374	280	308	324	337	350	5.7%
Others	1,168	1,124	1,215	1,309	1,410	1,502	7.5%
<b>AP Total</b>	<b>11,723</b>	<b>10,407</b>	<b>10,986</b>	<b>11,567</b>	<b>12,355</b>	<b>13,158</b>	<b>6.0%</b>

Source: ZenithOptimedia – Advertising Expenditure Forecast December 2010



Source: ZenithOptimedia – Advertising Expenditure Forecast December 2010

## VALUATION METHODOLOGIES

The valuation of any asset or business can be broadly classified into one of three approaches, namely asset approach, market approach and income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value analysis of that asset.

### Asset Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities.

Value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

We have considered but rejected asset approach for this valuation due to:

- The fair value of the Television Screen Broadcast Business is determined by cash flow generated from business operation, which is the advertising operation. This means that the future economic benefit is more important in valuing the Television Screen Broadcast Business than the cost of setting up the Television Screen Broadcast Business.

### Market Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Value is established based on the principle of substitution. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should approximate one another.

We have considered but rejected market approach for this valuation due to the following reasons:

- There is no similar transaction sought in the market. Although public information of similar transaction is sometimes available, acquisition frequently involves specific buyers who pay a premium/discount under its unique circumstances. It would be difficult to know if the price paid for the projects truly represents the approximate transaction price of the transaction.
- The Television Screen Broadcast Business is unique and it is very difficult, if not impossible, to find another similar transaction.

### **Income Approach**

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rate of return at the Valuation Date, business risk associated with the industry in which the company operates, and other risks specific to the asset being valued.

We have considered and selected income approach for this valuation because:

- The value of the Television Screen Broadcast Business is determined by the ability to generate a stream of benefits in the future; and
- Economic benefit streams of the Television Screen Broadcast Business can be identified based on operation and revenue forecast prepared by the management of the Company.

**MAJOR ASSUMPTIONS OF VALUATION**

We have relied heavily on the management's representation on all the background and financial information, as well as the profit forecast required for the valuation. Our investigation included discussions with members of the Company's management in relation to the nature, operations and prospects of the Television Screen Broadcast Business and review of other relevant documents. Before arriving at our opinion of value, we have considered the following principal factors:

- the nature of the Television Screen Broadcast Business;
- the financial condition of the Television Screen Broadcast Business and its outlook;
- the economic outlook in general and the specific economic and competitive elements affecting each segment of the Television Screen Broadcast Business;
- past and projected operation results;
- operation, revenue and cost projections of the Television Screen Broadcast Business provided by the management of the Company; and
- market derived investment returns of companies engaged in a similar nature of business.

Our development of a value will be performed by using a discounted cash flow ("DCF") methodology, which requires a number of assumptions, including revenue and expense forecasts, working capital requirement and capital expenditure requirement.

The projection applied in the valuation model matches with the Company's expansion plan as disclosed in the Circular. Based on the information provided by the management of the Company, the Television Screen Broadcast Business will commence operation in Hong Kong and Macau. South Korea market will be the development region starting from the third year of the Television Screen Broadcast Business. No further expansion plan has been provided other than these three locations.

**Projection Period**

According to the Cooperation Agreement, the Free Right will be granted to the Company for ten years commencing from the date of Completion. The projection period of the Television Screen Broadcast Business is assumed to be ten years.

**Revenue**

Revenue will be derived from two types of businesses:

- (1) Sale of air time for advertisement

(2) Advertisement production income

The sale of air time for advertisement would be the core of the operation. According to the business plan provided by the management of the Company, advertisements will be distributed through outdoor and indoor television screens broadcasting the Media Information. Hong Kong and Macau would be the core focus of the Company in the first two years and the Company is also planning to expand its operation to South Korea starting from the third year.

Advertisement production would be a value added support services to clients who will use the Company's screens to display their advertisements. In cases where clients do not have a costumed advertisement, the Company would assist clients in producing the advertisement. Depends on the complexity of the advertisement, clients are grouped into different categories and charged with different prices. This service is expected to be provided in Hong Kong.

The revenue projection is based on the existing business plan prepared by the management of the Company with reference to a number of factors including:

- (i) the business network of the Asia-Pacific Regional Bureau;
- (ii) the undertaking made by Asia-Pacific Regional Bureau that the revenue for the years ending 31 December 2011 and 2012 derived from the Television Screen Broadcast Business will amount to HK\$30 million and HK\$100 million, respectively;
- (iii) the availability of the Initial Capital Fund and the Extra Capital Fund;
- (iv) the Media Subsidiary will have:
  - a total of 2 outdoor television screens (1 in Hong Kong and 1 in Macau) and 12 indoor television screens (10 in Hong Kong and 2 in Macau) by 2011;
  - a total of 5 outdoor television screens (3 in Hong Kong and 2 in Macau) and 15 indoor television screens (11 in Hong Kong and 4 in Macau) by 2012;
  - a total of 8 outdoor television screens (4 in Hong Kong, 2 in Macau and 2 in South Korea) and 25 indoor television screens (18 in Hong Kong, 5 in Macau and 2 in South Korea) by 2013;
  - 2 additional outdoor television screens being installed during the remaining projection period; and
  - an average of approximately 10 additional indoor television screens per annum being installed during the remaining projection period;
- (v) each advertisement session (comprising video and still picture) will be shown around 100 times per day;

- (vi) Outdoor screens and indoor screens will operate twelve hours and eight hours per day respectively;
- (vii) the average market price for weekly advertisement package will be approximately HK\$40,000 for outdoor screen and no less than HK\$1,000 for indoor screen; and
- (viii) the advertisement production income will on average account for less than 10% of the total revenue during the projection period.

### **Cost of Services**

Cost of services mainly comprises of fixed cost such as rental expenses for leasing of premises for installation of television screens, utility cost and advertisement production cost which are estimated by the management of the Company based on the existing business plan including the market rates for leasing of premises for installation of indoor and outdoor television screens, the number of television screens (both indoor and outdoor) installed, the operating hours of the television screens (both indoor and outdoor) during the projection period. In addition, since the Company can display the Media Information without charge during the projection period according to the Cooperation Agreement, no production cost or subscription charge of media content is being included in the cost of services. Given the relatively fixed nature of the cost of services, it is expected that the percentage of the cost of services to the revenue during the projection period will stabilize gradually.

### **Operating Costs**

Operating costs of the Television Screen Broadcast Business mainly include selling and marketing expenses as well as general and administrative expenses which are incurred in the ordinary course of the business to generate revenue of the Television Screen Broadcast Business. The operating costs mainly comprises of fixed cost such as staff salary and welfare expenses, depreciation expenses, office expenses, marketing expenses and insurance expenses which are estimated by the management of the Company based on the existing business plan, including (i) the Media Subsidiary will recruit up to 40 and 70 employees during the first two years of its operations, respectively, and up to approximately 80 employees during the remaining projection period; and (ii) the total number of television screens to be installed. Given the relatively fixed nature of the operating costs, it is expected that the percentage of the operating costs to the revenue during the projection period will stabilize gradually.

### **Capital Expenditures (“Capex”)**

Per discussion with the management of the Company and the estimation in the business plan, capital expenditures would include the cost of the television screens to be set up during the projection period as well as, office fixtures and office equipment. We have considered the useful life of television screens which is six years for indoor screens and ten years for outdoor screens and estimated the necessary replacement Capex in the valuation.

Based on the business plan provided by the management of the Company, the capital expenditure to be incurred during the projection period will amount to:

	<b>Approximately</b> <i>HK\$' Million</i> <i>(Note)</i>
2011	15
2012	19
2013	20
2014	7
2015 – 2020	< 10 (total)

*Note: balance include the replacement Capex*

### **Tax Rate**

Since the Television Screen Broadcast Business has not yet started operation, no historical effective tax rate information could be relied on and reference has been made to the corporate tax rate of 16.5%, 12% and 24.2% in Hong Kong, Macau and South Korea respectively.

### **Working Capital Movement**

As the Television Screen Broadcast Business has not yet started operation, we used the similar companies in the industry's working capital ratios as references.

### **Other Assumptions**

Owing to the changing environment in which the Television Screen Broadcast Business operates, a number of assumptions have to be established in order to sufficiently support our concluded fair value of the Television Screen Broadcast Business. The major assumptions adopted in this valuation are:

- There will be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in the Development Region;
- There will be no major changes in the current taxation law that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;
- Projected revenue, cost of services and operating costs of the Television Screen Broadcast Business will conform to the level as stated in the financial forecast provided by the management of the Company;

- The Company will implement the Television Screen Broadcast Business and/or marketing plans according to the expansion plan as disclosed in the Circular; and
- The Company will be able to successfully obtain appropriate licenses, approvals, consents, written permissions and/or authorization from the relevant government or regulatory authorities in Hong Kong, Macau and South Korea respectively, for the installation of the television screens and advertisement production.

#### DETERMINATION OF DISCOUNT RATE

We developed the cost of equity (“Re”) and the cost of debt (“Rd”) for the valuation of the Television Screen Broadcast Business based on data and factors relevant to the economy and industry as at the Valuation Date. These costs were then weighted in terms of a typical or market participant industry capital structure to arrive at the estimated weighted average cost of capital (“WACC”).

#### Development of Weighted Average Cost of Capital (“WACC”)

We considered market and industry data to develop the WACC. The traditional formula for calculating WACC is:

$$\text{WACC} = [(\%D) \times (Rd) \times (1 - \text{Tax Rate})] + [(\%E) \times (Re)]$$

#### Development Cost of Equity (“Re”)

We considered the Modified Capital Asset Pricing Model (the “MCAPM”) to calculate the cost of equity of the Television Screen Broadcast Business. Such method is considered a common method.

#### *Modified Capital Asset Pricing Model*

MCAPM, as applied to the Television Screen Broadcast Business, can be summarized as follows:

$$\text{Re} = \text{Rf} + \text{Beta} \times \text{RPm} + \text{RPs} + \text{RPu}$$

#### *Risk Free Return (“Rf”)*

Rf was found by looking at the yields of the Hong Kong Monetary Authority Exchange Fund Bills and Notes Fixings. Ideally, the duration of the security used as an indication of Rf should match with the horizon of the projected cash flows that were being discounted, which was 10 years in the present case. We relied on the 10-Year Hong Kong Monetary Authority Exchange Fund Bills and Notes Fixings yield as at the Valuation Date.

#### *Market Equity Premium (“RPm”)*

RPm was calculated by subtracting the long-term average of the income return on riskless asset from the long-term average stock market return. We relied on International Equity Risk Premia Report Handbook published by Ibbotson Associates. The RPm in Hong Kong applied is 8.49%.

*Beta*

In the Modified CAPM formula, beta is a measure of the systematic risk of a particular investment relative to the market for all investment assets. We obtained betas for 7 identified publicly traded guideline companies from Bloomberg as of the Valuation Date. The identified betas were unlevered to remove the effects of financial leverage on the indication of relative risk provided by the beta, and re-levered at the optimal industry capital structure.

*Selection of Guideline Public Companies*

As aforementioned, the Guideline Public Companies are selected to compute beta in our determination of Re. One would start with a description of the subject company, in terms of lines of business, markets served, size and other criteria.

**Selection of Guideline Public Companies**

Due care was exercised in the selection of Guideline Public Companies by using reasonable criteria in deciding whether or not a particular company is relevant to compute beta in our determination of Re.

In selecting the Guideline Public Companies, we started with a description of the company being valued, in terms of lines of business, location of the operation and other criteria. For this particular engagement, we have selected the Guideline Public Companies based on the following criteria:

*(1) Status of operation*

The Guideline Public Companies are engaged in the outdoor advertising business. Since there is no identical company in the market, regardless of which industry it is, it is always not the case that the Guideline Public Companies are engaged in the identical line of business, but rather we have looked into companies with similar or complementary businesses.

*(2) Regional status geographically*

The operation of the Television Screen Broadcast Business could spread across the whole Asia Pacific region and focus in Hong Kong and Macau at the beginning. It would be a good start to looking for the Guideline Public Companies which are located in similar regions or close to Hong Kong and Macau.

*(3) Market risk and investment status*

The Guideline Public Companies are listed on the stock exchanges of Hong Kong, the United States and Thailand.

The following is the list of Guideline Public Companies that we have reviewed in connection with the valuation:

	<b>Guideline Public Companies</b>	<b>Ticker</b>	<b>Location</b>	<b>Market Capitalisation</b>	<b>Business Activities<sup>7</sup></b>
1	VisionChina Media Inc.	VISN US	China	US\$265.5M	The company operates an out-of-home advertising network. The company uses real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China.
2	Focus Media Holding Limited	FMCN US	China	US\$3,340.3M	The company operates an out-of-home advertising network in China. It uses audiovisual television displays which are placed primarily in high-traffic areas of commercial office buildings such as in lobbies and near elevators, as well as in large retail chain stores and other venues.
3	AirMedia Group, Inc.	AMCN US	China	US\$453.3M	The company operates digital media advertising networks. It operates digital television screens displaying advertising in China airports.
4	Dahe Media Company Limited	8243 HK	China	HK\$228.3M	The company provides a full range of specialized outdoor advertising services, which include design and production of outdoor advertisement and dissemination of them through renting out its outdoor advertising space in China.

<sup>7</sup> Bloomberg data

Guideline Public Companies	Ticker	Location	Market Capitalisation	Business Activities <sup>7</sup>
5 China Outdoor Media Group Limited	254 HK	China	HK\$529.3M	The company integrates the high quality outdoor media resources of China to build up an all-round networking management platform, and to provide the comprehensive advertising services for both national and international clients. <sup>8</sup>
6 Master Ad Public Company Limited	MACO TB	China	THB470M	The company provides advertising services. It specializes in outdoor advertising through billboards, signs and displays.
7 SearchMedia Holdings Ltd	IDI US	China	US\$55.9M	The company is a nationwide advertising company. It offers outdoor billboards and in-elevator advertising in China.

When selecting the Guideline Public Companies, we consider companies that are in the same or similar line of business – outdoor advertising. The selected Guideline Public Companies can be considered “comparable” in a number of other respects: e.g. nature of business operations and market size.

We believe that the Guideline Public Companies are sufficiently comparable to the different operations of the Television Screen Broadcast Business and permit a meaningful comparison. These companies were selected as the Guideline Public Companies because they all engage in the similar business operation, and that their size and line of products are comparable to those of the Television Screen Broadcast Business under valuation.

**Median Levered Beta**

0.796

**Median Re-levered Beta**

0.794

<sup>7</sup> Bloomberg data

<sup>8</sup> Based on China Outdoor Media Group 2009 annual report.

*Small Company Premium (“RPs”)*

RPs, is typically added to account for the additional risk inherent in small company stocks. Generally, small companies likewise have higher risks than larger companies. Investors will demand for a higher return to compensate for the higher inherent risk. In this case, we compared the size of the Television Screen Broadcast Business and applied the size premium return in excess of MCAPM of companies in the Micro cap segment of NYSE/AMEX/NASDAQ in the United States<sup>9</sup>. We relied on the studies performed by Ibbotson Associates as reflected in their Stocks, Bonds, Bills, and Inflation: 2010 Yearbook.

*Specific Company Adjustment (“RPu”)*

RPu for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to the new business.

Specific risk factors may include the following:

- Competition
- Customer Concentration
- Size
- Poor Access to Capital
- Thin Management
- Lack of Diversification
- Environmental
- Litigation
- Distribution Channels
- Old Technology
- Company Outlook

<sup>9</sup> Ibbotson SBBI® 2010 Valuation Yearbook.

In this case, we believe it was necessary to apply an RPu to the cost of equity as the Television Screen Broadcast Business is not in operation and the existing business of the Company is not the same as the Television Screen Broadcast Business. As a general practice, 3-5% specific risk premium would be applied with consideration to the fact that the business is at start up stage and the existing management of the company do not have the experience in the business. 5% of specific risk premium has been applied to the case.

#### *Cost of Equity Conclusion*

The calculation of MCAPM therefore becomes:

<b>MCAPM</b>	
Risk Free Rate (“Rf”)	2.912%
Beta	0.794
Equity Risk Premium (“Rpm”)	8.49%
Small Company Premium (“RPs”)	3.99%
Specific Company Adjustment (“RPu”)	5.00%
<b>Cost of Equity (“Re”)</b>	<b>18.65%</b>

#### **Weighted Average Cost of Capital**

WACC (being the discount rate for this valuation) is determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise’s capital structure. We have “levered” the subject company as if it mirrored the median percentage of debt as the Guideline Public Companies, on the assumption that over time, the subject company will approach an optimal capital structure with 1.96% of debt, which is the less expensive form of capital than equity, to remain competitive. Subsequent to the calculations of cost of equity and the cost of debt, the following equation is used to develop the WACC:

$$\text{WACC} = [(\%D) \times (Rd) \times (1-\text{Tax Rate})] + [(\%E) \times (Re)]$$

The calculation of WACC, or the discount rate, therefore becomes:

<b>WACC</b>	
Percentage of Interest Bearing Debt (%D)	1.96%
× Market Cost of Debt (Hong Kong Prime Rate) (Rd)	5.00%
× 1 – Tax Rate	83.5%
<b>Weighted Cost of Debt</b>	<b>0.08%</b>
+	
Percentage of Equity (%E)	98.04%
× Cost of Equity (“Re”)	18.65%
<b>Weighted Cost of Equity</b>	<b>18.28%</b>
<b>WACC (rounded)</b>	<b>18.00%</b>

*Note: The marketability discount will normally be applied when equity interests in non-listed companies are being converted into cash at a known price with minimal transaction cost. Since the valuation of Television Screen Broadcast Business does not involve any change in shareholding nor transfer of equity interests and the value of which is solely dependent on the amount of cash flow generated during the projection period, the marketability discount is considered not applicable in this case.*

## SENSITIVITY ANALYSIS

WACC and revenue adopted play pivotal roles in the valuation as they are very sensitive to the fair value of the Television Screen Broadcast Business. The fair value of the Television Screen Broadcast Business under different combinations of WACC and revenue is presented below:

	Fair Value (HK\$)				
	Revenue				
	90%	95%	100%	105%	110%
WACC					
16.00%	135,000,000	175,000,000	215,000,000	254,000,000	294,000,000
17.00%	127,000,000	165,000,000	203,000,000	241,000,000	279,000,000
18.00%	119,000,000	155,000,000	192,000,000	228,000,000	264,000,000
19.00%	112,000,000	146,000,000	181,000,000	216,000,000	251,000,000
20.00%	105,000,000	138,000,000	171,000,000	205,000,000	238,000,000

## LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Television Screen Broadcast Business valued.

The opinion expressed in this report has been based on the information supplied to us by the Company and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the management of the Company. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

**SYNTHESIS AND RECONCILIATION**

Because valuations cannot be made on the basis of a prescribed formula, there is no means whereby the various applicable factors in a particular case can be assigned mathematical weights in deriving the fair value. For this reason, no useful purpose is served by taking an average of several factors (for example, book value, capitalized earnings and capitalized dividends) and basing the valuation on the result. Such a process excludes active consideration of other pertinent factors, and the end result cannot be supported by a realistic application of the significant facts in the case except by mere chance.

The following comparative data summarizes and the various methods that we have accepted or considered and rejected, along with their respective final values. Each method is rated relative to the applicability of the method relative to the facts and circumstances, and strengths/weaknesses were previously discussed.

**Asset Approach**

Replacement, Liquidation or Book Value Method . . . . .	N/A
Application. . . . .	Rejected

**Market Approach**

Comparable Company Method or Comparable Transaction Method . . . . .	N/A
Application. . . . .	Rejected

**Income Approach**

Discounted Cash Flow Method . . . . .	HK\$192,000,000
Application. . . . .	Accepted

Since the income approach is the only valid and applicable approach in this valuation, we conclude the fair value of our valuation is HK\$192,000,000 using discounted cash flow method.

**CONCLUSION OF VALUE**

In conclusion, based on the investigation and analysis stated above and on the valuation method employed, it is our opinion that the fair value of the Television Screen Broadcast Business is as follows:

HONG KONG DOLLARS ONE HUNDRED AND NINETY-TWO MILLION ONLY  
(HK\$192,000,000)

This valuation report is issued subject to our general service conditions.

Yours faithfully,  
For and on behalf of

**GREATER CHINA APPRAISAL LIMITED**

**Samuel Y.C. Chan**  
*MBA, CVA, CM&AA*  
*Director*

**Rachel S.K. Au**  
*CPA, CVA*  
*Head of Business Advisory*

*Note:*

Mr. Samuel Y.C. Chan, MBA, Certified Valuation Analyst of The International Association of Consultants, Valuators and Analysts (IACVA) and Certified Merger & Acquisition Advisor, has been conducting business enterprise and intellectual property valuations for various purposes since 2004. He also spends a significant portion of his time in valuation of financial instruments including convertible bonds, preference shares, swaps, corporate guarantees and employee share options for private and public companies in China, Hong Kong, Taiwan, Japan, Singapore and the United States.

Ms. Rachel S.K. Au, CPA, Certified Valuation Analyst (CVA) of the International Association of Consultants, Valuators and Analysts (IACVA), is experienced in performing business and intangible asset valuation & advisory for both private and public companies for various purposes, including financial reporting, merger and acquisition, restructuring, disposal, liquidation and litigation. Her experience covers diverse industries, including healthcare, financial services, mining, toll road, information technology, manufacturing and retail.

**GENERAL SERVICE CONDITIONS**

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional appraisal standards. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, workpapers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least five years.

Our report is to be used only for the specific purposes stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for his or her own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorneys' fees, to which we may become subjects in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' and chief executives' interest in the Company and its associated corporations

As at the Latest Practicable Date, the interest and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required (i) 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 are taken or deemed to have under such provisions of the SFO); (ii) pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

#### A.(1) Interests in shares of the Company

Name of Director	Long/Short position	Capacity and Nature of interest	Number of ordinary shares	Percentage* of the Company's issued share capital
Dr. Lo Kou Hong	Long	Founder of a discretionary trust	80,000,000 (Note (1))	9.14%
	Long	Interest of spouse	1,700,000 (Note (2))	0.19%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Beneficiary of a discretionary trust	80,000,000 (Note (1))	9.14%
	Long	Beneficial owner	1,700,000 (Note (2))	0.19%
Mr. Leung Tai Tsan, Charles	Long	Beneficial owner	1,900,000	0.22%
Mr. Cheung Pui Keung, James	Long	Beneficial owner	1,480,000	0.17%

*Notes:*

- (1) These shares were owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust, a unit trust of which all the units in issue were owned by Equity Trustee Limited as the trustee of The Lo's Family Trust, a discretionary trust of which the objects included Dr. Lo Kou Hong's family members. Accordingly, Dr. Lo Kou Hong, as the founder of The Lo's Family Trust, and Ms. Ko Lok Ping, Maria Genoveffa, as one of the beneficiaries of The Lo's Family Trust, were deemed to be interested in the shares owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust under Part XV of the SFO.

In addition, Dr. Lo and Ms. Ko were the directors of The Lo's Family (PTC) Limited.

- (2) Dr. Lo Kou Hong was deemed to be interested in the 1,700,000 Shares through interest of his spouse, Ms. Ko Lok Ping, Maria Genoveffa.

- \* The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at the Latest Practicable Date.

*A.(2) Interests in underlying shares of the Company – physically settled  
unlisted equity derivatives*

<b>Name of Director</b>	<b>Long/Short position</b>	<b>Capacity and Nature of interest</b>	<b>Number of underlying shares in respect of the share options granted</b>	<b>Percentage* of the underlying shares over the Company's issued share capital</b>
Dr. Lo Kou Hong	Long	Beneficial owner	9,400,000	1.07%
	Long	Interest of spouse	9,400,000 <i>(Note (1))</i>	1.07%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Beneficial owner	9,400,000	1.07%
	Long	Interest of spouse	9,400,000 <i>(Note (2))</i>	1.07%
Mr. Leung Tai Tsan, Charles	Long	Beneficial owner	5,000,000	0.57%
Mr. Cheung Pui Keung, James	Long	Beneficial owner	6,000,000	0.69%

*Notes:*

- (1) Dr. Lo Kou Hong was deemed to be interested in the 9,400,000 share options of the Company through interest of his spouse, Ms. Ko Lok Ping, Maria Genoveffa.

- (2) Ms. Ko Lok Ping, Maria Genoveffa was deemed to be interested in the 9,400,000 share options of the Company through interest of her spouse, Dr. Lo Kou Hong.

- \* The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at the Latest Practicable Date.

A.(3) *Interests in convertible notes of the Company*

Name of Director	Long/Short position	Capacity and Nature of interest	Number of underlying shares in respect of the convertible notes issued	Percentage* of the underlying shares over the Company's issued share capital
Dr. Lo Kou Hong	Long	Interest held by controlled corporation	83,870,968 (Note)	9.58%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Interest held by controlled corporation	83,870,968 (Note)	9.58%

*Note:* These convertible notes were held by Triple Kind Investments Limited, the entire issued share capital of which was owned as to 50% by Dr. Lo Kou Hong and 50% by Ms. Ko Lok Ping, Maria Genoveffa.

In addition, Dr. Lo and Ms. Ko were the directors of Triple Kind Investments Limited.

\* The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at the Latest Practicable Date.

B.(1) *Associated corporation -Peixin Group Ltd ("Peixin"), a subsidiary of the Company*

Name of Director	Long/Short position	Capacity and Nature of interest	Number of ordinary shares in Peixin	Percentage* of Peixin's issued share capital
Dr. Lo Kou Hong	Long	Interest held by controlled corporations	42 shares (Note)	30%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Interest held by controlled corporations	42 shares (Note)	30%

*Note:* The 42 shares in Peixin were held through the controlled corporations of Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa. As such, Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa were deemed to be interested in such shares pursuant to Part XV of the SFO.

\* The percentage represents the number of ordinary shares interested divided by the number of Peixin's issued shares as at the Latest Practicable Date.

B.(2) *Associated corporation -Shuyang ITAD Environmental Technology Limited (“Shuyang ITAD”), a subsidiary of the Company*

<b>Name of Director</b>	<b>Long/Short position</b>	<b>Capacity and Nature of interest</b>	<b>Amount of registered capital in Shuyang ITAD</b>	<b>Percentage* of Shuyang ITAD’s issued share capital</b>
Dr. Lo Kou Hong	Long	Interest held by controlled corporations	RMB62,500,000 (Note)	100%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Interest held by controlled corporations	RMB62,500,000 (Note)	100%

*Note:* The registered capital in Shuyang ITAD was held through the controlled corporations of Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa. As such, Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa were deemed to be interested in such registered capital pursuant to Part XV of the SFO.

\* The percentage represents the amount of registered capital interested divided by the total amount of Shuyang ITAD’s registered capital as at the Latest Practicable Date.

In addition to the above, as at the Latest Practicable Date, certain Directors held shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors were directors or employees of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and none of the Directors and chief executives of the Company had 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 are required (i) 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 are taken or deemed to have under such provisions of the SFO); (ii) pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Substantial shareholders' interests and short positions in shares and underlying shares of the Company**

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, each of the following parties (not being a Director or chief executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or was 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 were as follows:

*(1) Interests in shares of the Company*

<b>Name of substantial shareholder</b>	<b>Long/Short position</b>	<b>Capacity and Nature of interest</b>	<b>Number of ordinary shares</b>	<b>Percentage* of the Company's issued share capital</b>
The Lo's Family (PTC) Limited	Long	Trustee	80,000,000 <i>(Note 1)</i>	9.14%
Equity Trustee Limited	Long	Trustee	80,000,000 <i>(Note 1)</i>	9.14%
Asia-Pacific Regional Bureau	Long	Beneficial owner being conditionally entitled to be issued the Shares in which it is interested	214,681,040 <i>(Note 2)</i>	24.51%
Xinhua News Agency Asia-Pacific Regional Bureau	Long	Interest held by controlled corporation	214,681,040 <i>(Note 3)</i>	24.51%

*Notes:*

- (1) These shares were owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust, a unit trust of which all the units in issue were owned by Equity Trustee Limited as the trustee of The Lo's Family Trust. By virtue of its ownership of all the issued units in The Lo's Family Unit Trust, Equity Trustee Limited in its capacity as the trustee of The Lo's Family Trust was deemed to be interested in such shares owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust.
- (2) Asia-Pacific Regional Bureau's long position in the Shares is by virtue of its entering into the Cooperation Agreement with the Company pursuant to which Asia-Pacific Regional Bureau will be entitled to be issued the Consideration Shares at Completion if Completion, which is subject to satisfaction of the conditions precedent contemplated under the Cooperation Agreement, takes place.

- (3) Asia-Pacific Regional Bureau is a company established by Xinhua News Agency Asia-Pacific Regional Bureau, which in turn is deemed to be interested in the Shares in which its controlled corporation has interest.

\* The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at the Latest Practicable Date.

(2) *Interests in convertible notes of the Company*

Name of substantial shareholder	Long/Short position	Capacity and Nature of interest	Number of underlying shares in respect of the convertible notes issued	Percentage* of the underlying shares over the Company's issued share capital
Triple Kind Investments Limited	Long	Beneficial owner	83,870,968 (Note)	9.58%

*Note:* These convertible notes were held by Triple Kind Investments Limited, the entire issued share capital of which was owned as to 50% by Dr. Lo Kou Hong and 50% by Ms. Ko Lok Ping, Maria Genoveffa.

Such interest was also disclosed as the interest of Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa in the above section headed "Directors' and chief executives' interest in the Company and its associated corporations".

\* The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at the Latest Practicable Date.

Save as disclosed above, the Directors or chief executives of the Company are not aware of any person (not being a Director or chief executive of the Company) who as at the Latest Practicable Date, had an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or who was 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.

### 3. MATERIAL LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

**4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

**5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective associates (as defined under the Listing Rules) had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**6. DIRECTORS' INTEREST IN ASSETS AND CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any interest, whether direct or indirect, in any assets which have been, since 31 March 2010, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group or proposed to be acquired, disposed of by or leased to any member of the Group.

Save as disclosed in the Interim Report and the 2010 Annual Report and the confirmation provided by Dr. Lo Kou Hong, the Chairman and Managing Director, that in the event that upon using its best efforts to raise sufficient funds required for the completion of the Cooperation Agreement, including placement of shares, warrants or other securities or raising of debt financing from third party lenders, the Company is unable to have sufficient funds to be allocated for the Television Screen Broadcast Business as required under the Cooperation Agreement, Dr. Lo Kou Hong will either himself, or through his companies or arrange with other third party financial institutions to provide for the sole purpose of development of the Television Screen Broadcast Business of the Company financing facility to cover the shortfall, up to HK\$50 million, on normal commercial terms for such loans, and for a term to be agreed so as to enable Completion to take place in accordance with the Cooperation Agreement there is no other contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

**7. SHARE CAPITAL**

As at the Latest Practicable Date, the authorised and issued share capital of the Company, together with changes proposed in this circular, are as follows:

*Authorised share capital*

<i>Shares</i>	<i>HK\$</i>
<u>2,000,000,000</u> (as at the Latest Practicable Date)	<u>20,000,000</u>

*Issued and fully paid up share capital*

<i>Shares</i>	<i>HK\$</i>
875,718,000 Existing Shares	8,757,180.00
<u>214,681,040</u> Consideration Shares to be issued	<u>2,146,810.40</u>
<u>1,090,399,040</u>	<u>10,903,990.40</u>

**8. NO MATERIAL ADVERSE CHANGE**

The Directors confirm that 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 2010, being the date to which the latest published audited financial statements of the Group were made up.

**9. QUALIFICATIONS CONSENTS AND NO INTEREST CONFIRMATIONS OF EXPERTS**

The following are the qualifications of the experts who have given opinions or advice which are contained or mentioned in this circular (“**Experts**”):

<b>Name</b>	<b>Qualifications</b>
Ernst & Young	certified public accountants
Greater China Appraisal Limited	an independent professional business valuer
King & Wood	Hong Kong lawyers
MdME Lawyers	Macau lawyers

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report/letter/certificate/opinion (as the case may be) and/or reference to its name or opinion in the form and context in which it appears.

Each of the Experts has confirmed that as at the Latest Practicable Date,

- (a) it was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) it did not directly or indirectly, have any interest in any assets which had since 31 March 2010 (being the date to which the latest published audited financial statements of the Company were made up) been 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.

#### **10. GENERAL**

- (a) The registered office of the Company is situated at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (b) The Company's head office and principal place of business in Hong Kong is situated at 3rd Floor, Caltex House, No. 258 Hennessy Road, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Leung Tai Tsan, Charles. He is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.
- (d) The Company's Hong Kong branch share registrar and transfer office in Hong Kong is Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the event of conflict or inconsistency between the two.

#### **11. MATERIAL CONTRACTS**

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by the Group within the two years immediately preceding the date of this circular:

- (a) the Principal Agreement dated 22 November 2010 together with the Supplemental Agreement dated 27 November 2010 and the Clarification Memorandum dated 28 January 2011, which are in relation to cooperation between the Company and Asia-Pacific Regional Bureau in the development of Television Screen Broadcast Business in the Development Region where details of the consideration passing from the Company are set out in the section with the sub-heading "The Consideration, the Initial Capital Fund and the Extra Capital Fund" in the letter from the Board as contained in this circular;

- (b) the Share Placing Agreement, pursuant to which the Company has agreed to allot and issue and MasterLink has agreed to procure on a best efforts basis investors to subscribe for the Placing Shares at the share placing price of HK\$0.70 per Placing Share and MasterLink is entitled to receive a placing commission of 6.5% of the aggregate share placing price of such Placing Shares which are procured to be subscribed and successfully placed by MasterLink in accordance with the Share Placing Agreement and the Share Placing Long Stop Date under which has been agreed by the Company and MasterLink to be extended to 11 March 2011 (or such later date as may be further agreed between the Company and MasterLink) by virtue of the related time extensions mentioned in the Company's announcements on 21 December 2010, 11 January 2011 and 28 February 2011);
- (c) the Warrant Placing Agreement II (which was referred to in the Company's announcements on 7 December 2010, 21 December 2010, 11 January 2011 and 28 February 2011), pursuant to which the Company has agreed to grant, MasterLink has agreed to procure on a best efforts basis investors to subscribe for the Warrants II at the warrant issue price of HK\$0.01 per Warrant II where the subscription price is HK\$0.70 (subject to adjustment) per Warrant Share II and MasterLink is entitled to receive a placing commission of HK\$100,000 in accordance with the Warrant Placing Agreement II and the Warrant Placing Long Stop Date II under which has been agreed by the Company and MasterLink to be extended to 11 March 2011 (or such later date as may be further agreed between the Company and MasterLink) by virtue of the related time extensions mentioned in the Company's announcements on 21 December 2010, 11 January 2011 and 28 February 2011);
- (d) the Warrant Placing Agreement I (which was referred to in the Company's announcements on 26 August 2010 and 8 September 2010), pursuant to which the Company has conditionally agreed to place, through MasterLink on a best efforts basis, a maximum of 151,000,000 Warrants I to independent investors at the warrant issue price of HK\$0.015 per Warrant I where the subscription price is HK\$0.51 (subject to adjustment) per Warrant Share I and MasterLink is entitled to receive a placing commission of HK\$150,000 in accordance with the Warrant Placing Agreement I and the Warrant Placing I under which was completed on 8 September 2010;
- (e) the Convertible Notes 2nd Supplemental Agreement (which was referred to in the Company's announcement on 5 August 2009), which has clarified the negotiation process in reaching mutually agreed mechanism for adjustment on the conversion price of the Shares to be allotted and issued by the Company upon exercise of the conversion rights attached to the Convertible Notes, the terms of which supplemental agreement shall take retrospective effect as from 16 December 2008 and do not involve any consideration passing to or from any member of the Group; and

- (f) the Convertible Notes 1st Supplemental Agreement (which was referred to in the Company's announcements on 10 July 2009 and 5 August 2009), which has amended certain terms of the Convertible Notes to address an accounting technical issue on the Convertible Notes and in return the Company has given certain negative covenants, the terms of which supplemental agreement shall take retrospective effect as from 16 December 2008.

Capitalised terms used in this section headed "Material Contracts" shall have the following meanings:

"Awards Technology"	Awards Technology Ltd
"Convertible Notes"	certain convertible notes issued by the Company to Triple Kind and Award Technology on 16 December 2008
"Convertible Notes 1st Supplemental Agreement"	the first supplemental agreement relating to the Convertible Notes entered into by the Company, ITAD Biotechnology, Triple Kind and Awards Technology on 10 July 2009
"Convertible Notes 2nd Supplemental Agreement"	the second supplemental agreement relating to the Convertible Notes entered into by the Company, ITAD Biotechnology, Triple Kind and Awards Technology on 5 August 2009
"ITAD Biotechnology"	ITAD Biotechnology Limited
"MasterLink"	MasterLink Securities (Hong Kong) Corporation Limited
"Placing Shares"	a maximum of 76,500,000 new Shares to be issued by the Company pursuant to the Share Placing Agreement
"Share Placing"	the placing of the Placing Shares by or on behalf of MasterLink pursuant to the Share Placing Agreement
"Share Placing Agreement"	the Share Placing Principal Agreement as supplemented by the Share Placing Supplemental Agreement
"Share Placing Completion"	completion of the Share Placing by or on behalf of MasterLink pursuant to the Share Placing Agreement
"Share Placing Long Stop Date"	the date on or before which satisfaction of certain conditions under the Share Placing Agreement is a condition precedent to the Share Placing Completion

“Share Placing Principal Agreement”	the share placing agreement dated 7 December 2010 entered into by the Company with MasterLink relating to the placing of the Placing Shares as referred to in the Company’s announcements on 7 December 2010, 21 December 2010, 11 January 2011 and 28 February 2011
“Share Placing Supplemental Agreement”	the supplemental agreement to the Share Placing Principal Agreement entered into by the Company and MasterLink on 28 February 2011 (which was referred to in the Company’s announcement dated 28 February 2011) pursuant to which the Company and MasterLink agreed to further extend the Share Placing Long Stop Date to 11 March 2011 (or such later date as may be further agreed between the Company and MasterLink in writing) and to change the placing commission concerned from 2.5% to 6.5% of the aggregate share placing price of such Placing Shares which are procured to be subscribed and successfully placed by the Placing Agent in accordance with the Share Placing Agreement
“Triple Kind”	Triple Kind Investments Limited
“Warrant Placing Agreement I”	the Warrant Placing Agreement dated 26 August 2010 entered into by the Company and MasterLink relating to the placing of the Warrants I
“Warrant Placing Agreement II”	the Warrant Placing Agreement dated 7 December 2010 entered into by the Company and MasterLink relating to the placing of the Warrants II
“Warrant Placing Completion II”	completion of the Warrant Placing II in accordance with the terms and conditions of the Warrant Placing Agreement II
“Warrant Placing Long Stop Date II”	the date on or before which satisfaction of certain conditions under the Warrant Placing Agreement II is a condition precedent to the Warrant Placing Completion II
“Warrant Placing I”	the placing of the Warrants I by or on behalf of MasterLink pursuant to the Warrant Placing Agreement I
“Warrant Placing II”	the placing of the Warrants II by or on behalf of MasterLink pursuant to the Warrant Placing Agreement II

“Warrant(s) I”	unlisted warrants of the Company in registered form conferring rights entitling their holder(s) to subscribe for up to HK\$77,010,000 in aggregate in cash for 151,000,000 Warrant Shares I at the subscription price of HK\$0.51 per Warrant Share I (subject to adjustment) to be issued by the Company pursuant to the Warrant Placing Agreement I
“Warrant(s) II”	a maximum of 76,500,000 unlisted warrants of the Company, each in registered form conferring right entitling its holder(s) to subscribe for 76,500,000 Warrant Shares II at the subscription price of HK\$0.70 (subject to adjustment), to be issued by the Company pursuant to the Warrant Placing Agreement II
“Warrant Shares I”	new Shares to be issued by the Company upon the exercise of the subscription rights attaching to the Warrants I by the holders thereof
“Warrant Shares II”	new Shares to be issued by the Company upon the exercise of the subscription rights attaching to the Warrants II

## **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the Company’s principal place of business in Hong Kong at 3/F., Caltex House, 258 Hennessy Road, Wanchai, Hong Kong 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 material contracts as referred to in the Section with the heading “Material Contracts” in this appendix IV;
- (c) the valuation report in respect of the Television Screen Broadcast Business as set out in appendix III to this circular;
- (d) the unaudited pro forma financial information of the Enlarged Group and the report thereon issued by Ernst & Young as set out in appendix II to this circular;
- (e) the annual reports of the Company for the years ended 31 March 2009 and 2010;
- (f) the legal opinions issued by the Company’s legal adviser as to Hong Kong laws as referred to on pages 8 and 27 of this circular; and
- (g) the legal opinion issued by the Company’s legal adviser as to Macau laws as referred to on page 30 of this circular.

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## NOTICE OF EGM

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### LO'S ENVIRO-PRO HOLDINGS LIMITED

### 勞氏環保控股有限公司

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

**(Stock Code: 309)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Lo's Enviro-Pro Holdings Limited (the "**Company**") will be held at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong at 11:00 a.m. on Friday, 8 April 2011 for the purpose of considering and, if thought fit, passing the following resolutions:

#### ORDINARY RESOLUTION

**1. "THAT**

- (a) the entering into by the Company with Xinhua News Agency Asia-Pacific Regional Bureau Limited ("**Asia-Pacific Regional Bureau**") of the Cooperation Agreement (as defined in the circular dated 11 March 2011 issued by the Company and despatched to its shareholders (the "**Circular**")), which comprises the following documents collectively:
- (i) the Principal Agreement (as defined in the Circular), a copy of which has been produced to the meeting and marked "A" and initialed by the chairman of the meeting for the purpose of identification;
  - (ii) the Supplemental Agreement (as defined in the Circular), a copy of which has been produced to the meeting and marked "B" and initialed by the chairman of the meeting for the purpose of identification; and
  - (iii) the Clarification Memorandum (as defined in the Circular), a copy of which has been produced to the meeting and marked "C" and initialed by the chairman of the meeting for the purpose of identification,

the terms thereof and the performance by the Company of the Cooperation Agreement be and are hereby approved, confirmed and ratified;

- (b) specifically, subject to and conditional upon the grant by The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the Consideration Shares (as defined below), the directors of the Company (the "**Directors**" and each a "**Director**") be and are hereby generally and specifically authorized to allot and issue at completion under the Cooperation Agreement 214,681,040 ordinary shares of the Company with a nominal value

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## NOTICE OF EGM

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of HK\$0.01 each (the “**Consideration Shares**”) to Asia-Pacific Regional Bureau at the issue price of HK\$0.7047 per Consideration Share to be satisfied by the grant by Asia-Pacific Regional Bureau of the Free Right (as defined in the Circular) to the Company for a term of 10 years with power to the Media Subsidiary (as defined in the Circular) to use the same for the running of the Company’s Television Screen Broadcast Business (as defined in the Circular); and

- (c) any Director be and is hereby authorized to handle any matter in connection with implementing, performing and giving effect to the Cooperation Agreement and the transactions thereunder and for compliance with the related legal and regulatory requirements and to do all acts and things which he/she deems necessary, desirable or expedient for such purpose, including signing for and on behalf of the Company any related document, notice and correspondence provided that where such document, notice and/or correspondence requires the common seal of the Company to be affixed thereto, the same shall be signed for and on behalf of the Company by any two Directors or any one Director and the Secretary of the Company and any such signatory shall be authorized to affix or arrange for the affixing of such common seal to any such document, notice and/or correspondence.”

### SPECIAL RESOLUTION

2. “**THAT** subject to and conditional upon the taking place of completion under the Cooperation Agreement, the names of the Company be changed with effect from the date of such completion from “Lo’s Enviro-Pro Holdings Limited (勞氏環保控股有限公司)” to “Xinhua News Media Holdings Limited (新華通訊頻媒控股有限公司)”.”

On behalf of the Board  
**Lo’s Enviro-Pro Holdings Limited**  
**Lo Kou Hong**  
*Chairman*

Hong Kong, 11 March 2011

*Registered Office:*

P.O. Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

*Head office and Principal Place of Business in Hong Kong:*

3/F., Caltex House  
258 Hennessy Road  
Wanchai  
Hong Kong

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## NOTICE OF EGM

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*Notes:*

1. **A member of the Company entitled to attend and vote at the extraordinary general meeting convened by the above notice (the “EGM”) is entitled to appoint another person (who must be an individual) to attend and on a poll vote instead of him. A proxy need not be a member of the Company.**
2. A proxy form for the EGM is enclosed with the Circular.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorized in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorized to sign the same.
4. To be valid, the instrument appointing a proxy and (if required by the Board of Directors of the Company) the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited at the Company’s branch share registrar in Hong Kong, namely Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the EGM (or adjournment thereof).
5. Completion and return of the proxy form will not preclude a member from attending in person and voting at the EGM or any adjournment thereof should he so wish.
6. Where there are joint registered holders of any share in the Company, any one of such persons may vote at the EGM, either in person or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders are present at the EGM in person or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of such share and for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of such share. Several executors or administrators of a deceased member in whose name any share stands shall for the purpose of the Articles of Association of the Company be deemed joint holders thereof.