THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Yunbo Digital Synergy Group Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Yunbo Digital Synergy Group Limited
雲博產業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8050)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND (2) NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 6 to 30 of this circular. A letter from the Independent Board Committee is set out on page 52 of this circular. A letter from China Galaxy, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 53 to 76 of this circular.

A notice convening the EGM to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on 26 November 2014, Wednesday at 9:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, you are advised to read the notice and to complete and return the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at http://www.ybds.com.hk.

10 November 2014

CHARACTERISTICS OF GEM

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

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

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

"Acquisition"	The proposed acquisition of all of the equity interest of the Target Company by the Purchaser in accordance with the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the conditional sale and purchase agreement dated 20 August 2014 and entered into between the Purchaser and the Vendor in relation to the Acquisition
"associate(s)"	has the meaning as ascribed to it in the GEM Listing Rules
"Beijing YBDS"	Beijing YBDS IT Co., Ltd.* (北京韻博港信息科技有限公司), a wholly foreign owned enterprise established on 19 December 2012 in the PRC with limited liability, and an indirectly wholly-owned subsidiary of the Company
"Board"	the board of Directors
"Business Day"	any day (other than Saturday or Sunday or public holiday or any day on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which banks in Hong Kong are open for business
"BVI"	the British Virgin Islands
"China Galaxy" or "Independent Financial Adviser"	China Galaxy International Securities (Hong Kong) Co., Limited, a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder

* *For identification purpose only*

"close associate(s)"	has the meaning as ascribed to it in the GEM Listing Rules
"Company"	Yunbo Digital Synergy Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the GEM
"Completion"	completion of the sale and purchase of the Target Company in accordance with the Acquisition Agreement
"Completion Date"	Being a date falling within five Business Days after the date on which satisfaction of all terms and conditions pursuant to the Acquisition Agreement or otherwise waived and the date on which Completion takes place (or such other date as the Purchaser and the Vendor may mutually agree in writing before Completion)
"connected person"	has the meaning ascribed to it in the GEM Listing Rules
"Consideration"	the total consideration for the Acquisition
"controlling shareholder"	has the meaning ascribed to it in the GEM Listing Rules
"DSL"	Digital Subscriber Line
"Director(s)"	the director(s) of the Company
"E-PON equipment"	Ethernet Passive Optical Network equipment
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition (assuming the Acquisition has been completed)
"G-PON equipment"	Gigabit-Passive Optical Network equipment
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM

"Group"	the Company and its subsidiaries
"Guangzhou YBDS"	Guangzhou YBDS IT Co., Ltd.* (廣州韻博信息科技有限公司), a wholly foreign owned enterprise established on 18 September 2012 in the PRC with limited liability, and an indirect wholly-owned subsidiary of the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hua Qin"	Beijing Huaqin World Technology Limited Company* (北京華勤天地科技有限公司), a company established in the PRC, which is owned as to 51% by Hua Tian and as to 49% by Wuxi Yanqin Information Technology Limited* (無錫研勤信息科技有限公司), an Independent Third Party as at the Latest Practicable Date
"Hua Tian"	Hua Strong Network Science and Technology Limited Company* (華天網絡科技有限公司), a company established in the PRC, which is owned as to 90% by the Target Company and as to 10% by Beijing Hua Rong Zhengtong Trading Limited* (北京華融正通商貿有限公司), an Independent Third Party as at the Latest Practicable Date
"Independent Board Committee"	the independent board committee of the Company comprising Dr. Chow Ka Ming, Jimmy, Dr. Wong Wing Lit, Mr. Ngan Yu Loong and Mr. Tse Yee Hin, Tony, being all the independent non-executive Directors, established to give recommendations to the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than Mr. Chan and his associate(s) for the purpose of approving the Acquisition Agreement and the transactions contemplated thereunder
"Independent Third Party(ies)"	third party(ies) who is/are independent of the Company and connected person(s) (as such term is defined under Chapter 20 of the GEM Listing Rules) of the Company
"LAN"	Local Area Network

"Latest Practicable Date"	6 November 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Long Stop Date"	31 December 2014 or such other date as the Vendor and the Purchaser may agree in writing
"Macau"	the Macau Special Administrative Region of the PRC
"POS"	Point-of-sale
"PRC"	the People's Republic of China (excluding, for the purpose of this circular, Hong Kong, Macau and Taiwan)
"Purchaser"	Able Bloom Technology Limited, a company incorporated in Hong Kong with limited liability wholly-owned by the Company, and the purchaser to the Acquisition Agreement
"Reorganisation"	reorganisation in relation to the disposal of the Disposed Companies as stated in paragraph headed "Information on the Target Group" as set out in the letter from the Board of this circular
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the existing ordinary share(s) of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the issued Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Magic Hour Holdings Ltd. (麥基浩爾控股有限公司), a company incorporated in the BVI, which is wholly-owned by the Vendor
"Target Group"	collectively, the Target Company and its subsidiaries
"Vendor" or "Mr. Chan"	Mr. Chan Foo Wing, the sole shareholder of the Target Company and also a controlling shareholder of the Company as at the date of this circular

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	the lawful currency of the United States of America
"%"	per cent

For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK$ is calculated at the approximate exchange rates of RMB1.00 to HK$1.26.

雲博產業

Yunbo Digital Synergy Group Limited
雲博產業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8050)

Executive Directors:
Mr. Wang Chaoyong
Mr. Yau Hoi Kin
Mr. Kwong Wai Ho, Richard
Dr. Huang Youmin

Non-executive Director:
Mr. Hsu Chia-Chun

Independent Non-executive Directors:
Dr. Chow Ka Ming, Jimmy
Dr. Wong Wing Lit
Mr. Ngan Yu Loong
Mr. Tse Yee Hin, Tony

Registered office:
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

Head office and principal place of business in Hong Kong:
Room 1602, 16/F
AXA Centre
151 Gloucester Road
Wanchai
Hong Kong

10 November 2014

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND (2) NOTICE OF THE EXTRAORDINARY GENERAL MEETING

A. INTRODUCTION

Reference is made to the announcement of the Company dated 20 August 2014 in relation to the Acquisition and the announcement of the Company dated 30 September 2014 in relation to the delay in despatch of circular. On 20 August 2014 (after trading hours), the Purchaser, an indirectly wholly-owned subsidiary of the Company, and the Vendor entered into the Acquisition Agreement. Pursuant to the Acquisition Agreement, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase all of the equity interest of the Target Company at a consideration of HK$3 million (subject to adjustment). The consideration will be settled by way of cash upon Completion.

The purpose of this circular is to provide you with, among other matters, (i) further details regarding the Acquisition Agreement and the transactions contemplated thereunder; (ii) the financial information on the Group and the Target Group; (iii) a letter from the Independent Board Committee containing its advice to the Independent Shareholders in respect of the Acquisition; (iv) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition; (v) the general information of the Company; and (vi) a notice convening the EGM.

B. THE ACQUISITION AGREEMENT

On 20 August 2014 (after trading hours), the Purchaser, an indirectly wholly-owned subsidiary of the Company, and the Vendor entered into the Acquisition Agreement. Pursuant to the Acquisition Agreement, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase all of the equity interest of the Target Company at a consideration of HK$3 million (subject to adjustment). The principal terms of the Acquisition Agreement are as follows:

Date 20 August 2014 (after trading hours)

Parties

(A) Vendor: Mr. Chan

(B) Purchaser: Able Bloom Technology Limited, an indirectly wholly-owned subsidiary of the Company

Assets to be acquired

Pursuant to the terms of the Acquisition Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, all of the equity interest of the Target Company, being two ordinary shares of US$1.00 each, representing all the entire existing number of shares of the Target Company in issue as at the Latest Practicable Date.

Consideration

The consideration of HK$3 million (subject to adjustment) will be settled upon Completion by way of cash by the Company to the Vendor (or to such other party as he may direct). The cash consideration payable will be funded by the internal resources of the Company.

The Consideration was arrived at after arm's length negotiations between the parties to the Acquisition Agreement with reference to (i) the historical operating and financial performance of the Target Group including but not limited to the unaudited net asset value and net loss of the Target Group of approximately HK$1.3 million and HK$0.8 million as at 31 March 2014 and for the year ended 31 March 2014, respectively; and (ii) the growth potential of the business of the Target Group together with the synergies that may be derived with the businesses of the Group in the telecommunications industry in the PRC.

Based on the above and having considered the benefits of the Acquisition to the Group as set out in the paragraph headed "Reasons for and benefits of the Acquisition" below, the Directors (including the independent non-executive Directors, who have expressed their views on the Acquisition Agreement and the transactions contemplated thereunder in the letter from the Independent Board Committee to this circular after taking into account the advice from China Galaxy) consider that the Consideration is determined on a fair and reasonable basis.

Adjustment to the Consideration

The Vendor has undertaken to the Purchaser that the consolidated net profit (after taxation and excluding any profit (loss) deriving from the discontinued operation(s) of the Target Group and activities not within the ordinary and usual course of business of the Target Group as shown in the audited accounts which shall be prepared in accordance with Hong Kong Financial Reporting Standard for the year ending 31 March 2015 (the "**2015 Audited Accounts**")) of the Target Group for the financial year ending 31 March 2015 shall not be less than HK$3.0 million (the "**Guaranteed Profit**").

The Guaranteed Profit is determined with reference to:

1) Bid winning ability of the Target Group

According to the management of the Target Group, they are a winning bidder in a tendering process with China Telecom Corporation Limited ("**China Telecom**") in 2014 in relation to a purchase order of approximately 6.37 million residential gateways products, which included E-PON equipment, G-PON equipment and other residential gateway products and having a maximum contract sum of approximately RMB1,226.6 million (equivalent to approximately HK$1,545.5 million) in which the Target Group secured purchase order in an amount of approximately RMB96.0 million (equivalent to approximately HK$121.0 million). The Target Group had also participated in the tendering process of China Telecom in 2011, 2012 and 2013, and was previously a winning bidder to supply a portion of the purchase order every time. Having considered the historical allocation percentage of the total purchase order and the long term relationship between the Target Group and China Telecom, it is mutually agreed by the parties to the Acquisition Agreement that there is growth potential in the allocation percentage and in turn the revenue of the Target Group.

2) Historical performance of the Target Group

Considering the improving operating performance of the Target Group in the past three financial years as set out in the paragraph headed "Financial Information of the Target Group" below, the management of the Company is confident that the Target Group is able to turn over an operating profit in the next 12 months, as the Company will be able to more closely and efficiently supervise the operations of the trading business and effectively reduce unnecessary costs and expenses to produce the desired positive financial results.

3) Synergetic effect with the Company

The Directors (including the independent non-executive Directors, who have expressed their views on the Acquisition Agreement and the transactions contemplated thereunder in the letter from the Independent Board Committee to this circular after taking into account the advice from China Galaxy) are of the view that the Acquisition may offer an invaluable entry point for the Group's proposed and ongoing value added projects with the telecommunications operators in the PRC and if the Group needs a joint cooperation, the Group will be in a stronger position when negotiating the general and specific terms and conditions of the written agreement(s). Such potential value added projects with the telecommunications operators in the PRC are expected to have a positive effect on the financial results of the Target Group.

Moreover, the Acquisition will provide a window of opportunity for the Group as a whole to strengthen its existing relationship with subsidiaries and sub-groups of China Telecom.

In the event that the actual consolidated net profit of the Target Group for the financial year ending 31 March 2015 (the "**Actual Profit**") shall be less than the Guaranteed Profit, subject to the terms and conditions set out in the Acquisition Agreement, the Vendor and the Purchaser agree that the Consideration shall be adjusted in the manner as set out below:

(i) In the event that the Actual Profit exceeds HK$3.0 million, no adjustment shall be made to the Consideration.

(ii) In the event that the Actual Profit falls short of the Guaranteed Profit, the Vendor shall pay the Purchaser an amount equivalent to the difference between the Guaranteed Profit and the Actual Profit (the "**Consideration Adjustment**") in full within 30 days after the issue of the 2015 Audited Accounts, provided that the Consideration Adjustment shall be no more than HK$3.0 million. In the event that the Actual Profit is equal to or less than zero, the Consideration Adjustment shall be HK$3.0 million.

In the event that the Actual Profit falls short of the Guaranteed Profit, the Group will comply with the disclosure requirements under Rule 20.61 of the GEM Listing Rules.

According to the management account of the Target Group for the four months period ended 31 July 2014, the Target Group has recognised unaudited revenue of approximately HK$71.2 million which were mainly attributable to the recognition of revenue in relation to the contract sum won by Hua Qin in the tendering process in the previous year as well as sales to telecommunications equipment companies. Having considered the above, the contract sum won in the

2014 tendering process which will contribute to the revenue of the Target Group in the second half of the financial year ending 31 March 2015 and the expected cost saving effect, including but not limited to the elimination of overlapping expenses between the Group and the Target Group, the Directors (including the independent non-executive Directors, who have expressed their views on the Acquisition Agreement and the transactions contemplated thereunder in the letter from the Independent Board Committee to this circular after taking into account the advice from China Galaxy) are of the view that the Guaranteed Profit is not unreasonable.

Conditions precedent

Completion shall be subject to and conditional upon the satisfaction in full or (at the sole and absolute discretion of the Purchaser) the waiver of any one or more of the following conditions (other than (i), (ii), (v) and (vi)):

(i) the Independent Shareholders should have approved the Acquisition Agreement and all the transactions contemplated thereunder in a general meeting of the Company in accordance with the GEM Listing Rules;

(ii) completion of the Reorganisation;

(iii) PRC legal opinions shall have been delivered to the Purchaser to its absolute satisfaction;

(iv) the Purchaser being satisfied with the results of the due diligence review, including but not limited to the satisfaction of the Reorganisation, affairs, business, assets, liabilities, operations, records, financial position, value of assets, accounts, results, legal and financial structure of the Target Group and there is no matter appearing to the Purchaser from the due diligence review which in the opinion of the Purchaser may adversely affect the value of the equity interest of the Target Company;

(v) if applicable, obtaining all necessary consent, registration and approval from or by the relevant third parties (including but not limited to any government, government organization or regulatory authority) in relation to the transfer of the equity interest of the Target Company and there having been no statute, regulation, law or decision proposed, enacted or adopted by the aforesaid third parties to prohibit or restrict the transfer of the equity interest of the Target Company;

(vi) the transactions contemplated thereunder will not be treated as a reverse takeover or an extreme very substantial acquisition under the GEM Listing Rules;

(vii) the audited consolidated accounts of the Target Group for the three financial year ended 31 March 2012, 2013 and 2014 having been issued in a form and substance acceptable to the Purchaser; and

(viii) it has not come to the attention of the Purchaser that any material adverse changes or effect has occurred prior to the Completion Date or is likely to occur whether on or before the Completion Date.

Each of the Vendor and the Purchaser shall use his/its reasonable endeavours to ensure that the conditions precedent set out above shall be fulfilled by the Long Stop Date.

The Purchaser may in its absolute discretion at any time waive in writing any one or more of the conditions precedent (other than conditions referred to in sub-paragraphs (i), (ii), (v) and (vi) above which cannot be waived) and such waiver may be made subject to such terms and conditions as may be determined by the Purchaser.

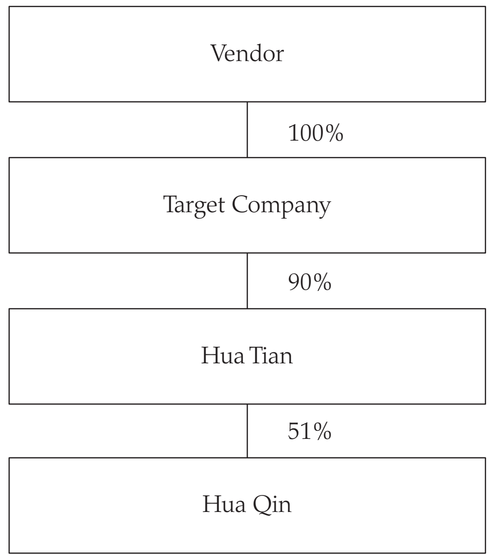
In the event that any of the conditions precedent stated above are deemed not to have been fulfilled or are not fulfilled or otherwise waived by the Purchaser, in each case, on or before the Long Stop Date or such later date as the Vendor and the Purchaser may from time to time agree in writing, the Acquisition Agreement and the transactions contemplated thereunder shall terminate and be null and void and of no further effect and no party to the Acquisition Agreement shall have any liability to any other party, save in respect of any prior breaches of and subject to the continuing obligations set out in the Acquisition Agreement.

Completion

Completion shall take place at the office of the Purchaser in Hong Kong on or before 3:00 p.m. on the Completion Date, or such other place and time as shall be mutually agreed in writing by the Vendor and the Purchaser.

C. INFORMATION ON THE TARGET GROUP

The following chart illustrates the Target Group's shareholding and corporate structure as at the Latest Practicable Date:



The Target Company is a company incorporated in the BVI on 1 July 2009 as an investment holding company. As at the Latest Practicable Date, the Target Company is wholly-owned by the Vendor.

Hua Tian is a company incorporated in the PRC on 29 December 1995 as an advertising company. Subsequently in January 2007, Hua Tian has changed its business scope to the engagement of research and development of computer software auxiliary equipment, broadband network equipment, communications transmission equipment, multimedia communications systems; production of computer software, system integration, sale of the self-manufactured products and provision of technical consulting services.

Hua Qin, a company incorporated in the PRC on 19 July 2010, is approved to conduct licensed business activities of manufacturing communications equipment (only branches), and general business activities of provision of technical advice and transfer, research and development of computer software and auxiliary equipment; sales of communications equipment, computer auxiliary equipment (excluding retail sales); production of computer software; provision of computer systems services and sales of the self-manufactured products.

In June 2010, given that Mr. Chan was interested in developing the telecommunications business in the PRC, the Target Company acquired 90% of the equity interest in Hua Tian at a consideration of RMB90,000 (equivalent to approximately HK$113,400) with reference to the then financial position of the Target Company with net liability and significant loss before the acquisition, in which the Target Company had to bear all the liabilities of Hua Tian in an amount of approximately RMB15 million (equivalent to approximately HK$18.9 million) and a loss of approximately RMB17 million (equivalent to approximately HK$21.4 million) at the time of acquisition. The consideration of RMB90,000 (equivalent to approximately HK$113,400) was arrived at after arm's length negotiations between the parties.

During the three years ended 31 March 2014 and the three months ended 30 June 2014, the Target Company had interests in certain indirectly-owned subsidiaries, namely, 51% equity interest in Beijing Yun Tai Tian Cheng Investment Limited* (北京雲泰天成投資有限公司) ("**Yun Tai**"), 65% equity interest in Beijing Yunbo Zhong Ruan International Technology Limited* (北京雲博中軟國際科技有限公司) ("**Yunbo Zhong Ruan**"), 100% equity interest in Fu Song Hua Tian Property Development Limited* (撫松華天房地產開發有限公司) (formerly known as Fu Song Hua Tian Investment Limited* (撫松華天投資有限公司)) ("**Fu Song**"), 100% equity interest in Hui Tou Cai Zhi Investment Management (Beijing) Limited* (滙投財志投資管理(北京)有限公司) (formerly known as Beijing Hua Tong Tian Bo Network Technology Limited* (北京華通天博網絡技術有限公司) ("**Hua Tong**")) and 100% equity interest in Beijing Hua Xin Tian Rui Technology Limited* (北京華信天瑞科技有限公司) ("**Hua Xin**") (collectively, the "**Disposed Companies**"). The disposals of Yunbo Zhong Ruan, Yun Tai, Fu Song, Hua Tong and Hua Xin had been completed on 12 September 2014, 29 July 2014, 9 May 2014, 12 August 2013 and 16 September 2011, respectively. Upon the completion of the aforesaid disposals, the Disposed Companies have ceased to be subsidiaries of the Target Company. The Disposed Companies were all incorporated in the PRC and were dormant before the disposals.

The Target Company indirectly holds 51% equity interest in Hua Qin through its 90% owned subsidiary, Hua Tian. Hua Tian and Hua Qin are currently the major operating subsidiaries of the Target Company and are principally engaged in the trading of residential gateway products, namely, routers, G-PON equipment and E-PON equipment, as well as providing IT network consultation service. Details of its major customer are set out below:

Major customer

China Telecom Corporation Limited (中國電信股份有限公司) ("**China Telecom**") is the Target Group's major customer which contributed approximately 70.5%, 91.1%, 95.7% and 52.2% of the total revenue of the Target Group for the three years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014, respectively.

China Telecom is a company listed on the Main Board of the Stock Exchange (stock code:728), and is principally engaged in the provision of wireline and mobile telecommunications services including wireline voice, mobile voice, internet, managed data and leased line, value-added services, integrated information application services and other related services.

The cooperation between the Target Group and China Telecom began in 2011 when the Target Group won a bid to supply China Telecom's branch companies with telecommunications equipment. The Target Group had also won bids from China Telecom in 2012 and 2013 in relation to the provision of G-PON equipment and E-PON equipment.

According to the management of the Target Group, they have just been informed by China Telecom that they were one of the winning bidders in 2014 in relation to the purchase order for approximately 6.37 million residential gateway products, which include E-PON equipment, G-PON equipment and other residential gateway products. The Target Group had submitted bids on three categories of the purchase order, namely DSL, G-PON equipment and E-PON equipment, to supply approximately 0.5 million, 3.1 million and 2.8 million units, respectively. Pursuant to the result announcement received by the Target Group at the end of August 2014, the percentage of the bulk purchase quantities allocated to Hua Qin was approximately 0%, 5.1% and 11.4%, respectively. The framework agreement was signed at the end of August 2014 but no completion date was clearly stated. The Target Group has not submitted/won bids to/from any PRC telecommunications operators other than China Telecom.

With regard to telecommunications projects, including those related to the centralised purchase of equipment, as listed on each respective websites of the three largest telecommunications companies in the PRC and as advised by the management of the Company, it is the industry norm that only companies that possess the prerequisite industry experience and proven track records ("**Qualified Companies**" or each a "**Qualified Company**") are qualified to submit bids. For the Target Group, the business of supplying telecommunications equipment such as the DSL, E-PON equipment and G-PON equipment products to China Telecom is centrally managed, and is therefore subject to a tendering process. This is because all branch companies of the three largest telecommunications companies in the PRC heavily employ the use of these equipment in their day-to-day operations. For them, it is just more cost-effective to purchase in bulk and easier to manage given the sheer quantity of these equipment needed by each branch company annually.

The prerequisites needed to be deemed as one of the Qualified Companies are individually determined by each telecommunications operator. In most cases, the aspects that they would take into consideration include but not limited to competency, capability, level of quality, and financial assurance.

The relevant laws and regulations to which these telecommunications projects including the bulk purchase of equipment are subject are the Law of the People's Republic of China on Bid Invitation and Bidding (中華人民共和國招標投標法), Regulations on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding (中華人民共和國招標投標法實施條例), Provisions on the Scope and Threshold of Construction Projects for Bid Invitation (工程建設項目招標範圍和規模標準規定), and the Measures on the Administration of Bidding for Communications Construction Projects (通信工程建設項目招標投標管理辦法), all of which continues to be currently applicable. Over the years, this procedure has become a standard practice in the telecommunications industry in the PRC especially for equipment purchases.

For China Telecom, the Company is aware that internally they have compiled their own list of approved vendors which are derived from their own existing working relationships and prior operating experience from which they would select when it comes to equipment purchase. As such, the purported qualifications are not subject to any approval/renewal by governmental or regulatory authorities in the PRC.

As advised by the management of the Company, large telecommunications operators such as China Telecom normally place all of their annual purchase of equipment under a tendering process to ensure all purchases are facilitated in an open, fair and orderly manner, and that China Telecom is able to purchase the relevant equipment of the highest quality and at the lowest price. As in all tenders, the most competitive bid(s) is/are selected and a formal contract is subsequently entered into between the winning party(ies), China Telecom, and/or China Telecom's related companies. The contract relating to supply of equipment for a specific number of units at a specific ceiling price is for a period starting from the date of the relevant contracts until (i) the date on which the buyer and the seller enter into another framework contract; or (ii) the date of the release of the next tendering result; or (iii) the date of termination notification sent by the buyer to the seller. China Telecom's bulk purchase of equipment for the following year will go through the same tendering process and therefore there is no right of renewal offered to the successful bidders.

According to the management of the Target Group, for any company interested in submitting a bid or for companies that were invited to submit a bid for any telecommunications project in the PRC, the general industry qualifications guidelines are as follows: the bidder (i) should be established in the PRC (excluding Hong Kong, Macau and Taiwan); (ii) should have a registered capital of not less than RMB20 million (equivalent to approximately HK$25.2 million) and total assets of not less than RMB50 million (equivalent to approximately HK$63.0 million) as at the latest financial year; and (iii) should submit, including but not limited to, the following:

1. Quality Management System Certification (ISO9000 series);

2. List of after-sales service outlets showing that the bidder has after-sales services outlets in not less than 10 provinces in the PRC (excluding Hong Kong, Macau and Taiwan), and has service coverage over all 31 provinces in the PRC;

3. Telecommunications Equipment Network License (電信設備進網許可證) for the products to be supplied;

4. China Compulsory Certification (中國國家強制性產品認證證書) for the products to be supplied; and

5. Radio Transmission Equipment Type Approval Certification (無線電發射設備型號核准證) and the relevant testing report for certain specific products to be supplied.

The operating subsidiary of the Target Group, Hua Qin was established in the PRC, with a registered capital of RMB50 million (equivalent to approximately HK$63.0 million) and the Target Group has a total assets of approximately HK$132.8 million, HK$295.3 million, HK$366.9 million and HK$330.8 million as at 31 March 2012, 2013 and 2014 and 30 June 2014 respectively, which is not less than the requirement of RMB50 million (equivalent to approximately HK$63.0 million) as mentioned above.

The Target Group has also obtained an ISO9001:2008 standard registration which is valid until 4 January 2016 and the Target Group further advised that they have outlets in 10 provinces in the PRC including Guangdong, Shanxi, Zhejiang, Chongqing, Fujian, Jiangsu, Shanghai, Guizhou, Beijing and Anhui and a service coverage over all 31 provinces in the PRC.

Hua Qin has obtained the Telecommunications Equipment Network Licenses, China Compulsory Certifications and Radio Transmission Equipment Type Approval Certifications for certain specific products with expiry dates ranging from January 2015 to March 2019. As confirmed by the management of the Target Company, Hua Qin is a Qualified Company.

In view of the fact that the major operating subsidiary of the Target Group, Hua Qin, is a Qualified Company and the improving financial performance of the Target Group attributable to the consistently winning of bids, the Board does not foresee any obstacle for the Target Group to remain capable of meeting the above requirements in the near term.

Major terms of the customer contracts

The Target Group has entered into numerous sales contracts with China Telecom in relation to the sales of G-PON equipment and E-PON equipment with contract sum ranging from RMB19,278 to RMB138 million (equivalent to approximately HK$24,290.3 to HK$173.9 million) mainly for a period starting from the date of the relevant contracts until (i) the date which the buyer and the seller enter into another framework contract; or (ii) the date of the release of the next tendering result; or (iii) the date of termination notification sent by the buyer to the seller. As the entering into of sales contracts is subject to tendering process, once the Target Group wins the bid, the sales contract will only be entered into between the Target Group and China Telecom or its related company for a fixed term with no right of renewal. The Target Group would submit bids at the target selling price of the relevant product determined with reference to the prevailing market price.

Major supplier

The major supplier of the Target Group is Shanghai Monetics Telecommunications Corporation ("**SMTC**"). The cooperation between the Target Group and SMTC commenced in 2010. The contracted amount of business between the Target Group and SMTC represented approximately 98.8%, 84.6%, 70.4% and 72.3% of the total purchase by the Target Group for the three years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014, respectively.

SMTC, a company established in the PRC, is principally engaged in the manufacturing of telecommunications hardware which includes G-PON equipment and E-PON equipment. SMTC is indirectly wholly-owned by Unizyx Holding Corporation ("**Unizyx**"), a company listed on the Taiwan Stock Exchange (stock code: 3704). Unizyx is a Taiwan-based company principally engaged in the provision of network communication products, broadband access solution and its products are mainly used in computer network communications. Unizyx also indirectly wholly-owns Wuxi Yanqin Information Technology Limited* (無錫研勤信息科技有限公司) ("**Wuxi Yanqin**") which has a 49% equity interest in Hua Qin. Wuxi Yanqin is principally engaged in the research and development of telecommunications and network products.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, SMTC and Wuxi Yanqin are Independent Third Parties that do not meet the requirements of Qualified Companies for China Telecom's tendering process as mentioned herein above.

Major terms of the supplier contracts

Hua Qin entered into a supplier contract with SMTC on 1 December 2010 in relation to G-PON equipment and E-PON equipment with an initial term of three years and if no termination notification was served by either party six months prior to the expiry date (including any and all expiry date(s) after any relevant auto-renewal(s)), the supplier contract would be automatically renewed for another twelve month period. Pursuant to the supplier contract, Hua Qin is obligated to pay SMTC 20% of the total purchase amount within 10 days upon delivery. The remaining amount would be settled upon receipt by Hua Qin of the invoiced amount relating to the subsequent sale of the same to telecommunications operators in the PRC. The price of products supplied by SMTC to the Target Group is mainly determined with reference to the prevailing market price of similar G-PON equipment or E-PON equipment available in the market. The terms of delivery and contract sum would be determined upon each purchase order submitted. As a second supplier contract was entered into between Hua Qin and SMTC, the aforesaid supplier contract was terminated on 3 June 2014.

Hua Qin had further entered into a second supplier contract with SMTC on 3 June 2014 with a term of three years with no right of renewal for the supply of, including but not limited to hardware such as G-PON equipment and E-PON equipment and licensed software. It is stated in the second supplier contract that the supply of certain original design manufacturer ("**ODM**") equipment with the name and logo of Hua Qin is exclusive for Hua Qin. The payment terms and pricing basis of the second supplier contract are the same as those of the previous supplier contract as disclosed above. The terms of delivery and contract sum would be determined upon each purchase order submitted.

As advised by the management of the Target Group, the expansion of the scope of the product nature in the second supplier contract is to provide flexibilities for future cooperation between the Target Group and SMTC. In substance, the Target

Group only made purchase orders with SMTC regarding G-PON equipment and E-PON equipment, which the Target Group has obtained the relevant Telecommunications Equipment Network License and China Compulsory Certification, from the date of the second supplier contract until the Latest Practicable Date, and the management of the Target Group currently has no discussion with SMTC regarding purchase order of products other than G-PON equipment and E-PON equipment as at the Latest Practicable Date.

The price of products supplied from SMTC to the Target Group is mainly determined with reference to the prevailing market price of similar G-PON equipment or E-PON equipment typically available in the market. In addition, Hua Qin would only be required to pay the remaining purchase amount, i.e. 80% of the total purchase amount, upon receipt of the settlement of its subsequent sale of the same to the relevant telecommunications operator in the PRC, which, as advised by the management of the Target Company, is longer than the normal settlement terms in the industry of approximately 120 days to 180 days. Given the above and as advised by management of the Company that the terms will remain unchanged after the Acquisition, the Directors consider that the transaction between SMTC and the Target Group was and will be on commercial terms better than those provided by third party suppliers, and in the interests of the Company and the Shareholders as a whole upon Completion.

As (i) the Board has approved the Acquisition Agreement and the transactions contemplated thereunder; and (ii) the Board considers the transaction between SMTC and the Target Group was on commercial terms better than those provided by third party suppliers, and in the interests of the Company and the Shareholders as a whole upon Completion, the continuing connected transaction between SMTC and the Target Group is exempt from the circular, independent financial advice and shareholders' approval requirement pursuant to Rule 20.99 of the GEM Listing Rules.

Features and characteristics of the Target Group's major products

G-PON equipment

G-PON residential gateway is an optical network unit (ONU) which can provide high-speed internet access, Internet Protocol Television (IPTV) and high quality voice services to users.

The G-PON equipment of the Target Group provide interface which comply with standard G.984 of International Telecommunication Union and support data transfer speed of 2.5 gigabit per second downstream and 1.25 gigabit per second upstream and has good interoperability and supports remote access based on Technical Report 069 (TR-069) standard of the Broadband Forum and Management and Control Interface (OMCI) which allow remote access, monitor and maintenance by user that met the requirement of China Telecom.

E-PON equipment

The E-PON equipment of the Target Group provide four Ethernet interfaces and support upstream data transfer speed of 600 megabit per second.

The E-PON equipment of the Target Group support Internet Protocol version 4/Internet Protocol version 6 (ipv4/ipv6) dual stack routing, access control, service differentiation and different Quality of Service (QoS) control, anti-Denial-of-service (anti-DOS) attack, which is suitable for home users' multi-service access and security needs.

Business model

As discussed in the paragraph headed "major customer" above, China Telecom contributed approximately 70.5%, 91.1%, 95.7% and 52.2% of the total revenue of the Target Group for the three years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014, respectively. The remaining portion of the revenue of the Target Group for the three years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014 were contributed by 8, 12, 12 and 13 wholesalers of telecommunications equipment in the PRC who are Independent Third Parties.

During the three years ended 31 March 2014 and the three months ended 30 June 2014, Hua Qin is participating in the annual bulk purchase of equipment by China Telecom ("**Annual Tendering Process**"), which normally started in the first half of every year. Before the Annual Tendering Process, bidding companies would normally go through the prequalification process. Hua Qin is required to present relevant materials as requested by China Telecom to pass the prequalification process. Hua Qin would then receive a tendering invitation for the Annual Tendering Process which included a notification of the passing of the prequalification process which indicated that Hua Qin is a Qualified Company and description of the quantity and specification of each category of the bulk purchase equipment.

Upon review of the quantity and specification of the bulk purchase equipment, Hua Qin would submit a bid with the expected selling price for each category of the bulk purchase equipment which was determined after (i) analysing the cost of the products of the Target Group; (ii) analysing the prevailing marking price of the product through market research e.g. anonymous quotation; and (iii) considering the sales strategy and objectives of the Target Group.

According to the management of the Target Group, the period for accepting bids is around one month for each Annual Tendering Process for each of the past three years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014. China Telecom would review, select and allocate its bulk purchase quantity among bid winners based on its internal standards on four categories namely technology, service, business and price, and thereafter the result would be subsequently announced on site within a period of one to three months upon the closure of the period for accepting bid. However, in view of the internal document preparation procedures of China Telecom, the official result announcement letter is only received by the Target Company several weeks after the onsite announcement.

Hua Qin has participated in the Annual Tendering Process of China Telecom since 2011, and has been a winning bidder each year since 2011 in relation to G-PON equipment and E-PON equipments being the major trading products of the Target Group.

Set forth below is the details of the tenders for 2012, 2013 and 2014:

	Annual Tendering Process					
	2012		**2013**		**2014**	
Categories of the bulk purchase equipment	**Total bulk purchase quantities**	**Percentage allocated to Hua Qin**	**Total bulk purchase quantities**	**Percentage allocated to Hua Qin**	**Total bulk purchase quantities**	**Percentage allocated to Hua Qin**
DSL	2.8 million	0.2%	1.6 million	5.6%	0.5 million	0%
LAN	0.3 million	0%	0.3 million	1.5%	N/A	N/A
G-PON	1.8 million	5.9%	5.2 million	6.4%	3.1 million	5.1%
E-PON	3.6 million	19.7%	5.1 million	12.2%	2.8 million	11.4%

	Annual Tendering Process		
	2012	**2013**	**2014**
Total contract sum secured by Hua Qin	RMB251.8 million	RMB273.4 million	RMB96.0 million

As advised by the management of the Target Group, Hua Qin would normally sign a framework agreement with China Telecom and/or the relevant branch company(ies) for the quantity of the bulk purchase equipment within one month after the receipt of the official result announcement letter. The relevant branch company of China Telecom would need to provide purchase order for each lot of their purchase request, and the requested delivery period would normally be within two to four weeks.

Given the different purchase request pattern and timing of the relevant branch company(ies) of China Telecom over which the Target Group had no control, the time taken for the completion of the aforementioned framework agreement ranged from 14 to 15 months for the 2012 and 2013 tenders.

As discussed in the paragraph headed "major supplier" above, the contracted amount of business between the Target Group and SMTC represented approximately 98.8%, 84.6%, 70.4% and 72.3% of the total purchase by the Target Group for the three years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014, respectively. The remaining portion of the purchase of the Target Group for the three years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014 were from 7, 9, 10 and 5 manufacturers and wholesalers of telecommunication equipment in the PRC who are Independent Third Parties.

As advised by the management of the Target Group, given the preparation time for the telecommunications equipment is ranging from four to sixteen weeks, the Target Group would circulate a product delivery forecast for the next three months to SMTC which would be updated every week to meet the purchase orders from China Telecom. Also, in view of the lag time between the preparation time for the telecommunications equipment and the requested delivery period of China Telecom, the Target Group would normally maintain a buffer inventory.

Credit period granted by the Target Group to its customers generally ranged from 120 to 180 days after delivery of the products.

As confirmed by the management of the Target Group, the Target Group had no patents and technical know-how and had no research and development capability as at the Latest Practicable Date.

Business development plan after the Completion

The Directors noted that the Target Group had heavy reliance on China Telecom and SMTC. The Company has preformed market research on the industry in which the Target Group is operating, and noted that there are only three telecommunications operators in the PRC. It is further noted that in view of the recent technical advancement, there are other manufacturers which are capable of manufacturing telecommunications equipment which can meet the standard of the three telecommunications operators, and as indicated by the decreasing trend of ratio of the purchase sum from SMTC to total purchase of the Target Group. As such, the Target Group is actively broadening its supplier base.

In view of (i) the long term relationship with both China Telecom and SMTC; (ii) the limited number of telecommunications operators in the PRC; and (iii) the effort of the Target Group in broadening its supplier base, the Directors are of the view that the existing business model of the Target Group is viable. It is also worth mentioning that, the Company has included a HK$3 million profit guarantee from the Vendor in relation to the Acquisition.

It is also the current intention of the Directors to maintain the present business model of the Target Group with the existing staff and financial resources available to the Target Group. Hence, the Directors do not expect that the Acquisition will have any material and/or potential impact on the funding requirement of the Group's liquidity and cash flow, and there will be no modification to the Group's working capital management policy. Save for the cost control upon Completion including but not limited to the reduction of overlapping expenses of both the Group and the

Target Group, which is expected to reduce the current operating expenditure level of the Target Group, the Directors do not foresee the Acquisition will result in any significant capital expenditure, additional operating expenditure and material commitment.

Going forward, upon Completion, the Company intends to expand both the customer base to other PRC telecommunications operators and the supplier base to other manufacturers. Leveraging on the existing business network of the Group, the Directors are optimistic that the Enlarged Group, with Hua Qin's industry experience and business licenses, will be able to obtain more businesses in different areas from China Telecom and other PRC telecommunications operators. The Company will also implement internal control measures including regular anonymous quotation to manufacturers of telecommunications equipment and competitors of the Target Group in order to ensure the selling/purchase price, and the relevant payment terms will be no less favourable than those provided by other Independent Third Parties.

D. FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is the audited consolidated financial information of the Target Group extracted from for each of the years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014 prepared in accordance with the Hong Kong Financial Reporting Standards, as extracted from Appendix II to this circular:

	For the three months ended 30 June		**For the year ended 31 March**		
	2014	**2013**	**2014**	**2013**	**2012**
	(Audited)	**(Unaudited)**	**(Audited)**	**(Audited)**	**(Audited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	51,288	73,318	282,695	223,388	56,342
Loss before taxation from continuing operations	(355)	(244)	(731)	(16,022)	(25,115)
Loss for the year/period from continuing operation	(355)	(244)	(731)	(16,022)	(25,115)
Loss for the year/period from discontinued operations	(2)	(5)	(50)	(50)	(5)
Loss for the year/period	(357)	(249)	(781)	(16,072)	(25,120)

As at 31 March 2014 and 30 June 2014, the audited net asset of the Target Group amounted to approximately HK$1.3 million and HK$1.0 million, respectively.

The revenue of the Target Group was mainly generated by Hua Tian and Hua Qin, which are principally engaged in the trading of residential gateway products, namely, routers, G-PON equipment and E-PON equipment with, as well as providing IT network consultation service to, major customers being telecommunications operators in the PRC.

Set out below is the breakdown of the Target Group's revenue and purchase for each of the years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014:

Breakdown of revenue

By customers

	For the three months ended 30 June		**For the year ended 31 March**		
	2014	**2013**	**2014**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
China Telecom	26,800	73,300	270,600	203,500	39,700
Others	24,500	–	12,100	19,900	16,600

By products

	For the three months ended 30 June		**For the year ended 31 March**		
	2014	**2013**	**2014**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
G-PON equipment	9,700	14,900	49,800	27,400	–
E-PON equipment	38,900	55,600	219,000	145,200	700
Others	2,700	2,800	13,900	50,800	55,600

Breakdown of purchase

By suppliers

	For the three months ended 30 June		**For the year ended 31 March**		
	2014	**2013**	**2014**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SMTC	42,000	14,500	143,800	259,500	89,500
Others	16,100	8,700	60,600	47,300	1,100

By products

	For the three months ended 30 June		For the year ended 31 March		
	2014	**2013**	**2014**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
G-PON equipment	14,300	7,900	54,800	43,300	–
E-PON equipment	43,500	14,500	144,400	232,000	25,300
Others	300	800	5,200	31,500	65,300

E. INFORMATION OF THE VENDOR

Mr. Chan, the sole shareholder of the Target Company and is also a controlling shareholder of the Company as at the Latest Practicable Date.

F. REASONS FOR AND BENEFITS OF THE ACQUISITION

The core businesses of the Group include mobile payments big data, unified communications, cloud computing, network security SDN, 4G new media, top-level network designs for e-finance platforms, and designs, maintains and operates back end support systems. The Group also designs, develops, manufactures and operates leading products for mobile networks as well as online and offline payment services. Upon completion of the Acquisition, the Target Company will become a subsidiary of the Company and the Target Group's results will be consolidated into the Group's accounts.

As mentioned in the Company's annual report for the year ended 31 March 2014, with respect to the segment of trading ancillary high-tech software and hardware equipment, the Company has commenced the trading of G-PON equipment in the fourth quarter of 2012. Similarly, the major operating subsidiaries of the Target Company are also engaged in the telecommunications businesses including trading of residential gateway products, namely, routers, G-PON equipment and E-PON equipment, as well as providing IT network consultation service to China Telecom, being its major customer.

The management of the Company believes that one of China Telecom's internal requirements of its "approved" equipment suppliers is that such equipment suppliers must be able to provide after-sales services for all of China Telecom's branch companies. This is because equipment purchases by China Telecom are made in bulk on behalf of all its branch companies within China Telecom. Hence, in order for the Company to build such an after-sales service network and obtain all the necessary and relevant approvals, certifications and other requirements, the process is not only capital intensive, in view of the initial start up cost of the outlets, including but not limited to the pre-paid rent, rental expense, staff salary expense, and the administration expense for the application of all the necessary and relevant approvals, certifications and other requirements, but also very time consuming. In addition, in view of the time to be spent on searching for the premises for the after-sales network, recruiting competent staff, and waiting for the application results of all the necessary and relevant approvals, certifications and other requirements, the Company expects that the aggregate investment and the search and waiting cost and time for building the after-sales network, and obtaining all the necessary and relevant approvals, certifications and other requirements will eventually exceed the Consideration and the time to complete the Acquisition. Moreover, there is no assurance that after having built such a network, the Group will be able to be included into China Telecom's internally approved equipment suppliers list given the Company's current relationship with this part of China Telecom, or win bids, and in business volumes which would justify the Group making an investment of capital and resources of this magnitude. From the management's perspective, it is much more prudent, efficient, cost-effective, and justifiable to simply acquire the Target Group.

Through the Acquisition, the Group envisages that it will not only be able to expand its business in the trading of telecommunications products (with the qualification that the operating subsidiaries of the Target Company currently have to submit bids for telecommunications projects in the PRC in the future) but also enhance the Group's overall market position as well as its competitiveness within the PRC telecommunications industry.

In addition, considering the improving operating performance of the Target Group in the past three financial years, the management of the Company is confident that Target Group is able to turn over an operating profit in the next 12 months, as the Company would be able to more closely and efficiently supervise the operations of the trading business and effectively reduce unnecessary costs and expenses to produce the desired positive results.

While operating performance is certainly an important factor when determining the value of the Target Group, from the management's perspective, the inherited intangible goodwill of the Acquisition in terms of the Target Group's registered capital, track record, and relevant licences are equally important. Acquiring the Target Group may offer an invaluable entry point for many of the Group's proposed and ongoing value added projects with the telecommunications operators in the PRC, and if the Group needs a joint cooperation, it will be in a stronger position when negotiating the general and specific terms and conditions of the written agreement(s).

Furthermore, given the Guaranteed Profit to be provided by the Vendor, the inherited intangible goodwill, and the Target Group's improving operating performance, the management of the Company considers that the acquisition cost of the Target Group is minimal.

Having considered the above, the Directors (including the independent non-executive Directors, who have expressed their views on the Acquisition Agreement and the transactions contemplated thereunder in the letter from the Independent Board Committee to this circular after taking into account the advice from China Galaxy) are of the view that the Acquisition is in line with the Group's long term strategic development and will create synergetic effects with its existing businesses, and believe that the

Acquisition will not only broaden the income source and customer base of the Group but will also enhance the turnover and profit of the Group as well as bringing long-term strategic benefits to the Group. The Directors (including the independent non-executive Directors, who have expressed their views on the Acquisition Agreement and the transactions contemplated thereunder in the letter from the Independent Board Committee to this circular after taking into account the advice from China Galaxy) are of the opinion that the terms of the Acquisition Agreement are fair and reasonable and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, save as disclosed above, the Group has no present intention to (i) scale down or terminate its existing business subject to the Board's review of the business strategy from time to time; (ii) appoint director/representative to the board of directors/management team of the Target Group; (iii) change the board composition of the Company as a result of the Acquisition; and (iv) acquire further interests in any member of the Target Group. As at the Latest Practicable Date, the Board has no intention/negotiation/agreement for any potential acquisition or investment.

The Company had, on 5 August 2013, raised net proceeds of approximately HK$100,000,000 by issuing 450 million shares by way of subscription to Mr. Chan (the "**Subscription**"). It was stipulated in the circular of the Company dated 11 July 2013 that such proceeds are to be applied in the following manner:

(i) approximately HK$30,000,000 to pay up the remaining registered capital of Guangzhou YBDS and Beijing YBDS;

(ii) approximately HK$50,000,000 as further investment for contribution towards the total investment amounts of Guangzhou YBDS and Beijing YBDS; and

(iii) the remaining balance as general working capital of the Company.

At the time of the Subscription, the Company had the intention to apply to the Bureau of Foreign Trade and Economic Cooperation of Beijing Municipality (北京市對外貿易經濟合作局) to increase the registered capital of Beijing YBDS from RMB20 million to RMB40 million and its total investment from RMB40 million to RMB80 million. A sum of approximately HK$45.5 million from the proceeds of the Subscription was earmarked for paying up the initial registered capital and increased registered capital of Beijing YBDS (the "**Capital Increase**"). The intent of the Capital Increase was to enable the Group's subsidiaries to meet the minimum capital threshold requirement when submitting bids for proposed projects offered by the relevant telecommunications service providers in the PRC.

However, taking into account the fact that the Company is in the process of acquiring the Target Group which has a subsidiary with the aforesaid minimum capital threshold requirement, in the event that Completion takes place, the Company will not need to proceed with applying the aforesaid earmarked proceeds from the Subscription for paying up the remaining initial registered capital of Beijing YBDS and the Capital Increase.

Once Completion has taken place, the Company will make a further announcement in relation to the change in the use of proceeds in accordance with the GEM Listing Rules. However, in the event that Completion does not take place, the Company will proceed with the paying up of the remaining initial registered capital of Beijing YBDS on or before 18 December 2014 and the Capital Increase.

G. BOARD COMPOSITION AND PROPOSED MANAGEMENT OF THE TARGET GROUP

The Board would like to confirm that there is no present intention to change the board composition of the Company as a result of the Acquisition.

The Directors intend to maintain the current business model of the Target Group with the existing staffing, and hence, as at the Latest Practicable Date, there is no recruitment plan and planned staff training program. Going forward, the Enlarged Group will recruit and provide training to new staff when necessary.

Upon Completion, the Company will appoint Mr. Wang Xiao Qi to manage the operation of the Target Group on behalf of the Company. Mr. Wang, aged 35, was employed as a business manager of Guangzhou YBDS on 19 May 2014 and is expected to overlook the operation of the Target Group. Prior to joining the Group, Mr. Wang was an employee of Hua Tian since July 2000, and was the deputy general manager of Hua Tian and Hua Qin immediately before he resigned from Hua Tian and Hua Qin in April 2014. Mr. Wang obtained a bachelor's degree from Beijing University of Technology in Computer Control and applications. Mr. Wang has 14 years of experience in working and managing the subsidiaries of the Target Group and has good knowledge of the industry that the Target Group is operating.

H. FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become an indirectly wholly-owned subsidiary of the Company, and the financial results of the Target Group will be consolidated into the Group's accounts.

(1) Effect on earnings

The financial impact of the Acquisition is set out in Appendix III to this circular. Please refer to Appendix III to this circular for the unaudited pro forma financial information of the Enlarged Group and the basis of preparation thereof.

The Group recorded an audited revenue from continuing operation of approximately HK$36.6 million and loss after tax of approximately HK$10.4 million for the year ended 31 March 2014. Based on the unaudited pro forma financial information as set out in Appendix III of this circular, the turnover of the Enlarged Group for the year ended 31 March 2014 would have been increased by approximately HK$282.7 million to approximately HK$319.3 million as if the Acquisition had taken place at 1 April 2013. Therefore, given the historical financial performance of the Target Group, the Acquisition is expected to enhance the revenue base of the Enlarged Group. The loss of the Enlarged Group for the year ended 31 March 2014 would have been increased from approximately HK$10.4 million to approximately HK$13.8 million; and the loss attributable to equity holders of the Company would have been increased from approximately HK$10.5 million to approximately HK$14.3 million as if the Acquisition had taken place on 1 April 2013.

(2) Effect on assets

Based on the unaudited pro forma financial information as set out in Appendix III of this circular, if the Acquisition had been completed on 31 March 2014, the unaudited pro forma total assets value of the Enlarged Group as at 31 March 2014 would have been increased by approximately HK$343.0 million from approximately HK$131.5 million to approximately HK$474.5 million. The increase of total assets was mainly due to increase in (i) the property, plant and equipment of approximately HK$3.1 million; (ii) the inventories of approximately HK$92.7 million; (iii) trade and other receivables of approximately HK$80.6 million; (iv) cash and cash equivalent of approximately HK$122.7 million (net amount after the payment of cash consideration of approximately HK$3.0 million and the estimated acquisition-related legal and professional expenses of approximately HK$2.6 million), assuming that sale proceeds of the Disposed Companies are equal to their net book value and are received; and (v) the goodwill arising from the Acquisition is approximately HK$34.9 million.

The aforesaid increase in total asset is partially offset by the decrease in the assets of disposal group classified as held for sale of approximately HK$35.3 million, assuming the disposal of the Disposed Companies is completed.

(3) Effect on liabilities

Based on the unaudited pro forma financial information as set out in Appendix III of this circular, if the Acquisition had been completed on 31 March 2014, the total liabilities of the Enlarged Group as at 31 March 2014 would have been increased by approximately HK$329.8 million from approximately HK$8.9 million to approximately HK$338.7 million, mainly due to the increase in trade and other payables of approximately HK$329.8 million.

If the Acquisition had been completed on 31 March 2014, the net assets of the Enlarged Group as at 31 March 2014 would have been increased by approximately HK$13.2 million given the increase in total assets is greater than the increase in total liabilities. Therefore, the overall financial position of the Enlarged Group would have been improved.

The Acquisition is expected to provide an additional and stable income source to the Group in the medium to long term by way of direct profit contribution to the Target Group as a subsidiary of the Group and the Enlarged Group looks forward to the business opportunities to be brought by the Acquisition in the PRC.

I. GEM LISTING RULES IMPLICATIONS

As certain applicable percentage ratios (as defined under Chapter 19 of the GEM Listing Rules) in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company. Mr. Chan, the sole shareholder of the Target Company, is also a controlling shareholder of the Company as at the Latest Practicable Date. Therefore, the Acquisition also constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Acquisition is subject to the requirements of reporting, announcement and Independent Shareholders' approval by way of poll at the EGM.

On the date of the Board's approval of the Acquisition Agreement on 20 August 2014, none of the Directors has a material interest in the Acquisition and is required to abstain from voting on the board resolution approving the Acquisition Agreement and the transaction contemplated thereunder.

As at the Latest Practicable Date, Mr. Chan and his respective associate(s) are interested in 987,888,771 Shares in aggregate, representing approximately 72.84% of the issued share capital of the Company, and are required to abstain from voting for the resolution approving the Acquisition Agreement and the transactions contemplated thereunder. Save as above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no other Shareholder or Directors has a material interest in the Acquisition. Accordingly, save for Mr. Chan and his respective associate(s), no other Shareholder is required to abstain from voting for the resolution to approve the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

J. EGM

Set out on pages EGM-1 to EGM-2 of the circular is a notice convening the EGM to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on 26 November 2014, Wednesday at 9:30 a.m. at which ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder.

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

A form of proxy of the EGM is enclosed with this circular. Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the same to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at EGM or any adjournment thereof if you so wish.

K. RECOMMENDATIONS

Having taken into account of the advice of China Galaxy, the Independent Board Committee considers that the Acquisition Agreement is entered into upon normal commercial terms following arm's length negotiations between the parties thereto, and that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

The Directors (including the independent non-executive Directors, who have expressed their views on the Acquisition Agreement and the transactions contemplated thereunder in the letter from the Independent Board Committee to this circular after taking into account the advice from China Galaxy) consider that the terms of the Acquisition Agreement and the transactions contemplated thereunder, are fair and reasonable and the entering into of the Acquisition Agreement are in the interest of the Company and the Shareholders as a whole, and accordingly, recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

L. GENERAL

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

By order of the Board of
Yunbo Digital Synergy Group Limited
Yau Hoi Kin
Director

* *For identification purpose only*

INDUSTRY OVERVIEW

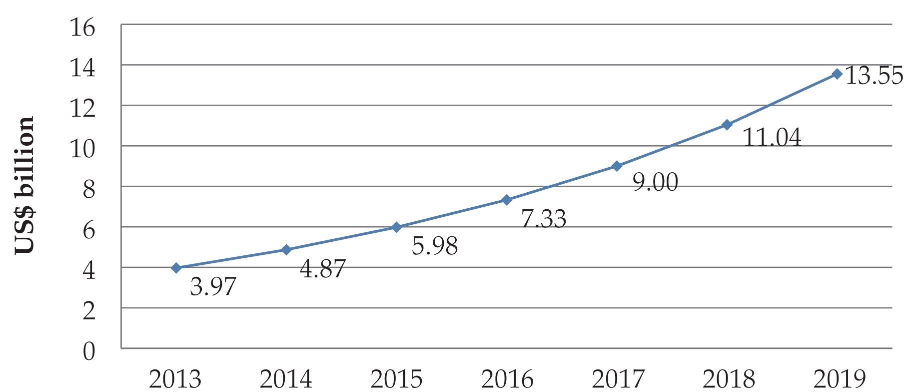
Passive optical network (PON)

According to a research report from Transparency Market Research, a market intelligence company providing global business research reports and consulting services, PON is a point to multipoint telecommunication network. PON is a fiber to home/premises (FFTH/FFTP) architecture which serves multi premises through unpowered optical splitters and a single optical fiber. Optical fiber splitters do not require electricity for signal transmission, which makes it an energy saving technology. The split ratio depends on the structure of the PON used, such as G-PON and E-PON among others.

PON equipment market

According to a research report from Transparency Market Research, global PON equipment market was valued at US$3.97 billion in 2013, and is expected to grow at a compound annual growth rate of approximately 22.7% from 2014 to 2019.

Value of global PON equipment market from 2013 to 2019



Low cost of ownership and high return on investments coupled with higher bandwidth, greater reliability, unmatched security are the major driving forces of the PON equipment market. In addition, environment friendly green solution, scalability and simplified network operations further drives growth in this market. However, high initial investments at the operators interface hamper growth in this market. The high investment in research infrastructure coupled with technological advancements proves to be an opportunistic area for the market.

In addition, the growing demand for higher bandwidth in the Asia Pacific and rest of the world economies is another major opportunity for the PON equipment market growth in the near future. In 2013, the Asia Pacific market was the largest revenue generator for the passive optical network equipment market. The dominance by Asia Pacific is due to large number of countries such as China, India, Japan and Taiwan among others investing heavily in the fiber-to-the-home infrastructure as well as in research and development infrastructure. Similarly, North America and Europe accounted for over half of the market share, as these have been continually using passive optical network equipment for networking purpose and have a strong optical network setup.

G-PON equipment accounted for majority market share in 2013, owing to the continuously increasing demand for higher bandwidth and a number of advantages associated with this technology such as higher bandwidth allocation and less power consumption.

In addition, less number of active switching devices used in the network and advanced security offered are additional advantageous features offered by the G-PON equipment. Thus, G-PON equipment is expected to witness significant growth rate from 2014 to 2019.

G-PON optical network terminals (ONTs) accounted for majority market share in the year 2013 owing to the growth in gigabyte passive optical network. As ONTs are components located at the subscribers end, the number of subscriber is similar to the number of ONTs.

Recent development of the optical network in the PRC

According to China Telecom, as at 31 March 2014, number of FFTH users in the PRC reached approximately 48.1 million, in which China Telecom has approximately 31.1 million FFTH users. China Telecom expects to newly build FFTH network to cover 12 million families in 2014, and expects that new users will amount to approximately 10 million.

Historical price trend of G-PON equipment and E-PON equipment in the PRC

According to the management of the Target Group, the market price range of G-PON equipment and E-PON equipment offered by the Target Group in the PRC for each of the three years ended 31 March 2012, 2013 and 2014 were as follow:

For the year ended	**G-PON equipment**		**E-PON equipment**	
31 March	**Max price**	**Min price**	**Max price**	**Min price**
	(RMB)	*(RMB)*	*(RMB)*	*(RMB)*
2012	365.6	365.6	398.9	398.9
2013	429.0	423.7	498.0	296.5
2014	429.0	327.6	374.0	245.0

Entry barriers and supplier selection process of the three PRC telecommunications operators for centralised managed telecommunications projects and purchase orders

As advised by the management of the Company and according to the relevant centralised purchase and tendering websites of the three PRC telecommunications operators, for the centralised managed telecommunications projects and purchases of the three telecommunications operators in the PRC, suppliers generally need to go through a prequalification process and tendering process. The prerequisites are internally determined by each telecommunications operator. In most cases, the general qualifications which telecommunications operators in the PRC would take into consideration including but not limited to competency, capability, level of quality, and financial assurance, among others. During the prequalification process, suppliers generally need to submit the relevant documents and materials to certify that they can satisfy the prerequisites as determined by each telecommunications company in the PRC. If a supplier passes the prequalification process, it would generally receive a notification of passing the prequalification process and the relevant tendering invitation.

In order to pass the prequalification process, the general industry qualifications guidelines, which maybe adjusted by the telecommunications operators on a case by case basis, are as follows: the bidder (i) should be established in the PRC (excluding Hong Kong, Macau and Taiwan); (ii) should have a registered capital of not less than RMB20 million and total assets of not less than RMB50 million as at the latest financial year; and (iii) should submit, including but not limited to, the following:

1. Quality Management System Certification (ISO9000 series);

2. List of after-sales service outlets showing that the bidder has after-sales services outlets in not less than 10 provinces in the PRC (excluding Hong Kong, Macau and Taiwan), and has service coverage over all 31 provinces in the PRC;

3. Telecommunications Equipment Network License (電信設備進網許可證) for the products to be supplied;

4. China Compulsory Certification (中國國家強制性產品認證證書) for the products to be supplied; and

5. Radio Transmission Equipment Type Approval Certification (無線電發射設備型號核准證) and the relevant testing report for certain specific products to be supplied.

Upon receipt of the bids from the suppliers who had passed the prequalification process, PRC telecommunications operators would generally review the bids, rank suppliers according to their internal standards which generally involve calculating scores of a supplier in different aspects including but not limited to technology, price, business relationship, and select several suppliers who are among the top of the list.

Competitive landscape

As advised by the management of the Target Group, the competition of the annual tendering process of China Telecom is becoming fiercer as indicated by the increasing number of bidders participate in the tendering. In fact, the number of bidders participated in the annual tendering process of China Telecom in 2014 was the highest among all past annual tendering process of China Telecom.

According to the result announcement of the annual process of China Telecom in 2014, FiberHome Technologies Group was the only bidder which received more than 20% of the total bulk purchase quantities of China Telecom, while Hua Qin ranked around number four in terms of the percentage of total bulk purchase quantities received among over twenty bidders who had participated in the tendering.

The major competitors of the Target Group were renowned telecommunications equipment companies including but not limited to Huawei Technologies Co., Ltd, ZTE Corporation, Alcatel-Lucent Shanghai Bell Co., Ltd., FiberHome Technologies Group, Datang Telecom Technology Co.Ltd., POTEVIO Company, Shenghai Dare Techology Co. Ltd. and Raisecom Technology Co., Ltd.

Future opportunities and challenge

In view of the newly build FFTH coverage target and the forecasted number of new users of China Telecom for 2014, the demand for PON equipment, which is a key component of the FFTH, is expected to be increased.

Nevertheless, in view of the emphasis on 4G network development in recent years, China Telecom has devoted more resources to the development of its 4G network, which may result in a reduction in the investment in FFTH network, and in turn reduce its demand for PON equipment.

RISK FACTORS

RISKS RELATING TO THE TARGET GROUP'S BUSINESS

Set out below are the risks and uncertainties which may be associated with the Target Group:

1. **Heavy reliance on China Telecom, being the major customer of the Target Group**

   The continuous growth of the business of the Target Group relies heavily on the ability of the Target Group to (i) retain its largest major customer, being China Telecom, which contributed approximately 70.5%, 91.1%, 95.7% and 52.2% of the total revenue of the Target Group for the three years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014, respectively; and (ii) maintain the ever-changing prerequisites needed to be deemed as one of the Qualified Companies, which are determined by telecommunications operators. As

(i) contracts of telecommunications projects in the PRC are normally entered into for a fixed term with no right of renewal; and (ii) technological preference changes from time to time, it is not guaranteed that existing resources of the Target Group will continue to fulfill the prerequisites to be one of the Qualified Companies and keep up with the market demand and the needs of telecommunications operators at all times. If (i) there are any material changes in technological development or preferences/requirements from national policies and/or telecommunications operators, which could result in the Target Group falling short of the prerequisites needed to be deemed as one of the Qualified Companies and reduce the demand for the G-PON equipment, E-PON equipment and other residential gateway equipment, or (ii) the Target Group is unable to secure new customers with similar sales volume and profit margin, the Target Group's business, results of operations and financial position may be materially and adversely affected.

2. Heavy reliance on SMTC, being a major supplier of the Target Group

The contracted amount of business between the Target Group and SMTC represented approximately 98.8%, 84.6%, 70.4% and 72.3% of the total purchase by the Target Group for the three years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014, respectively. As technological preferences or requirements may change from time to time, the products supplied by SMTC may not meet market demand or the requirements of the telecommunications projects in the PRC. Additionally, in the event that SMTC does not renew the supplier contracts with the Target Group on favourable terms, or if SMTC does not continue to supply to the Target Group at favourable or similar prices, the Target Group may not be able to find another suitable replacement supplier in a timely manner or on terms acceptable to the Target Group, the Target Group's business, results of operations and financial condition may be adversely affected. Since the shareholder of SMTC, Unizyx, indirectly wholly-owns Wuxi Yanqin which has a 49% equity interest in Hua Qin, any change in the shareholding structure of Wuxi Yanqin may also result in adverse impact on the Target Group's business.

3. Non-guaranteed bidding success rate

In addition to the fulfillment of the prerequisites needed to be deemed as one of the Qualified Companies, the Target Group also relies heavily on the competitiveness of G-PON equipment, E-PON equipment and other residential gateway equipments supplied by SMTC and other suppliers, in terms of pricing and product quality. As advised by the management of the Company, large telecommunications operators such as China Telecom normally place all of their annual purchase of equipment under a tendering process to ensure all purchases are facilitated in an open, fair and orderly manner, and that China Telecom is able to purchase the relevant equipment of the highest quality and at the lowest price. As in all tenders, the most competitive bid(s) is/are selected and a formal contract is subsequently entered into between the winning party(ies), China Telecom, and/or China Telecom's related companies. Therefore, there is no guarantee that the past high bidding success rate of the Target Group could be sustained without the relevant equipment products of highest quality and competitive price. Unsuccessful bids resulted from non-competitive product quality and pricing may adversely affect the business of the Target Group.

4. Adverse changes in the PRC's political, social and economic conditions

The growth of the PRC telecommunications service industry is linked to the PRC's political, social and economic conditions. In the event of an economic hard-landing in the PRC or that the growth of the economy in the PRC is at a lesser pace than anticipated, the demand for the G-PON equipment, E-PON equipment and other residential gateway equipments may decline or grow at a lesser pace than anticipated and, therefore, the Target Group's operating results and profitability could be adversely affected.

5. Dependence on government policy in respect of broadband development in the PRC

According to the Broadband China Plan 2013 (寬頻中國2013專項行動) (issued by the Ministry of Industry and Information Technology of the People's Republic of China ("**MIIT**") on 26 February 2013 and the announcement made by the State Council on 18 August 2013, the Chinese government has elevated national broadband development as a national strategy and has announced an implementation timeline for its development over the next eight years. The strategy aims at rolling out Wi-Fi coverage in key public urban areas by 2013 and fixed broadband coverage for half of Chinese households by 2015. It would add more fixed-line broadband households and public Wi-Fi hotspots in 2013 for 4M broadband and aimed to have more than 250 million broadband users while raising access speeds in both urban and rural areas, with service coverage hitting 95 percent by the end of 2015.

Despite the positive industry prospect and favorable government policies in relation to the Target Group's business and potential growth of the demand for G-PON equipment and E-PON equipment in the PRC, there may be changes in technological requirements or implementation hiccups at provincial levels, which may delay the development timeline and result in an adverse impact on the business of the Target Group.

6. Taxation

As set out in Appendix II to this circular, no provision for Hong Kong profits tax or PRC income tax has been made for the Target Group for the three years ended 31 March 2014 and the three months ended 30 June 2014, as the Target Group had incurred losses for taxation purpose. As set out in Appendix II to this circular, revenue of the Target Group has been in an increasing trend from HK$56.3 million for the year ended 31 March 2012 to HK$282.7 million for the year ended 31 March 2014; and loss for the year from continuing operations has also improved from HK$25.1 million for the year ended 31 March 2012 to HK$0.7 million for the year ended 31 March 2014. Considering the improving operating performance of the Target Group in the past three financial years, the management of the Company is confident that Target Group is able to turn over an operating profit in the next 12 months, as the Company would be able to more closely and efficiently supervise the operations of the trading business and effectively reduce unnecessary costs and expenses to produce the desired positive results. Therefore, provision for taxation charges for Hong Kong profits tax or PRC income tax may be necessary upon full utilization of tax losses carried forward when the Target Group turns around with significant profits in the future. This may adversely affect the Target Group's results of operations.

7. Volatility of product prices

The Target Group's results of operations have been largely dependent on its product prices of G-PON equipment, E-PON equipment and other residential gateway products. The product prices of the aforesaid products sold to telecommunication operators in the PRC are volatile due to market supply and demand. Volatility of the product prices driven by market competition may reduce the Target Group's gross profit margin. If the Target Group fails to monitor and manage the volatile product prices, its business operations may be adversely affected.

8. Changes in technological and industry standards and realization of future business development plan

The Target Group's performance depends on its ability to continually adapt its existing services, timely recruitment of personnel with the relevant industry knowledge which keep up with the latest technological trends in relation to product specifications. However, the effect of emerging and future technological changes in relation to product specifications to the Target Group's development plans or the Target Group's competitiveness is unpredictable. The inability to respond to the technological developments and requirements in the market may lead to the loss of customers, hence adversely affecting the Target Group's business operations and profitability. If the Target Group is not able to respond to new developments successfully, the Target Group's operations and financial results could be materially adversely affected.

The Target Group's sales volume largely depends on the demand from the telecommunications services industry in the PRC. There is no assurance that the growth will continue or the growth rate will maintain or increase in the future. If the demand for the products of the Target Group declines, the Target Group's operating results and profitability could be adversely affected.

The Target Group is actively seeking and exploring the business opportunity with other telecommunication services providers other than China Telecom in the PRC.

However, the future business development plan of the Target Group may be hindered by other factors beyond its control. As a result, the Target Group cannot assure that any of its future business development plans will be realized, or that such plan can procure the conclusion or performance of any agreement within designated timeframe, or that all or any goals of the Target Group will be fulfilled.

9. Significant capital and financing requirements

The Target Group currently has no other significant capital and financing needs as it is sufficiently funded with its internal resources. However, any changes from the ever-changing technological environment or any future stringent measures in supplier selection criteria applied by telecommunication operators in the PRC for stable supply of residential gateway products may lead to a higher capital requirement to become one of the Qualified Companies. Therefore, the Target Group may require additional financing to meet the capital requirement and additional expenditures in sourcing high quality residential gateway products or the next-generation products to be supplied to telecommunication operators. If the Target Group fails to obtain sufficient financing from the Enlarged Group upon Completion to meet any higher capital requirements from telecommunications operators in the PRC, the business and operating performance of the Target Group may be adversely affected. As the Target Group has also committed a significant amount of financial resources to a newly confirmed bid for China Telecom in 2014, the Target Group's indebtedness and related obligations could have important future consequences on the Enlarged Group, such as potentially limiting the Target Group's ability to obtain additional financing, exposing the Target Group to the risk of increased interest costs as a result of any rise in interest rates, and potential restrictions on the Target Group's ability to expand its business.

10. Availability of government grants and/or preferential tax treatments

As advised by the management of the Target Group, the Target Group is not aware of any government grants or preferential tax treatments available. If relevant government grants or preferential tax treatments are available to the industry peers and the Target group is unable to obtain such favourable government grants and/or tax treatments in the future, the Target Group's business, financial condition and results of operations may be materially and adversely disadvantaged as compared to its industry peers.

11. Industry competitions

The market for residential gateway products is highly competitive due to the nature of the communication technology business with limited number of telecommunications operators in the PRC. Competition may increase from both existing market players and new market players. Increased competition may have adverse effect on the operating performance of the Target Group and hence affect the value of the business.

12. Credit risk/recoverability risk

The Target Group has established risk management policies and procedures intended to mitigate its exposure to credit risk in its accounts receivables. These policies and procedures are based on past experience, models and assumptions reflecting historical factors, such as default and recovery ratios. However, since the Target Group's operating history coincides with a sustained period of economic expansion and growth in the PRC, the Target Group's historical experience may not provide a sufficient or accurate basis for the Target Group itself (or the Enlarged Group upon Completion) to evaluate the effectiveness of the Target Group's credit assessment, risk pricing and risk management procedures in the event of less robust growth, a general economic downturn or recession in PRC. As a result, the Target Group's risk management policies and procedures may not enable the Target Group itself (or the Enlarged Group upon Completion) to effectively detect and assess risks for managing the risk exposure, allocating resources and addressing market developments; thus, the Target Group's business, financial condition and results of operations may be materially and adversely affected.

13. Change in supplier qualification requirements of China Telecom and/or other PRC telecommunication operators

The growth of the Target Group's business operations largely depends on the satisfaction of prerequisites of being one of the Qualified Companies for China Telecom and/or other PRC telecommunications operators. If there are any changes in the supplier qualification requirements of China Telecom and/or other PRC telecommunications operators that may lead to the failure of the major operating subsidiaries of the Target Group to meet the prerequisites of being one of the Qualified Companies, its business operations could be adversely affected.

14. Operational risk relating to management expertise and loss of key management or employee

Thereafter, the Company intends to manage the Target Group's business and operations on a "hands-ons" basis. The Target Group's existing senior and middle management will all have to report to their counterparts in Hong Kong. All new commercial contracts, irrespective of their nature or amount, will be required to be approved and signed off by at least one person from the Group's senior management. Monthly financial reporting and payment or reimbursement of any and all expenses must go through proper channels in the PRC as well as Hong Kong, and be approved by at least one person from the Group's senior management. Therefore, the growth of the Target Group's business will rely heavily on the Company's expertise to manage the Target Group's business operations. Although the Company has commenced the trading of G-PON equipment in the fourth quarter of 2012, the Group's senior management may lack the proper management expertise or necessary experience in overseeing the major operating subsidiary of the Target Group that is Qualified Company. Hence, the Target Group's business, financial condition and results of operations may be materially and adversely affected.

The growth of the Target Group's business operations has also been largely dependent on its key management personnel with advanced management expertise and technical skills. If the Target Group fails to attract and retain personnel with suitable managerial, technical or marketing expertise or maintain an adequate labour force on a continuous basis, its business operations could be adversely affected.

15. The PRC government may impose administrative punishment on the Target Group with respect to its non-compliance operations

During the course of the legal due diligence, which is one of the conditions precedent to the Acquisition Agreement, the Company noted that Hua Tian who does not have the requisite project designing qualifications had entered into a System Project Designing Subcontracting Contract (the "**Contract I**") with Beijing Zhongke Qilin Information Engineering Co., Ltd. (北京中科麒麟信息工程有限責任公司). The signing date of the Contract I is not specified in the executed version, and as advised by the Target Group, such Contract was executed in December 2013 and has not been terminated. According to the Contract I, (1) the project name is the designing of the intellectual traffic command center system in Urumchi (烏魯木齊市智能交通指揮中心系統設計), (2) the project scale includes one command center, one data center, one integrated platform, nine subsystems and one network, (3) Hua Tian is obliged to deliver the designing plan of the intellectual traffic command center system in Urumchi to Beijing Zhongke Qilin Information Engineering Co., Ltd on 31 October, 2013, including general plan, plan for each subsystem and relevant blueprints, and (4) Hua Tian is entitled to a design fee amounting to RMB7.2 million.

Furthermore, Hua Tian has entered into a System Project Designing Contract (the "**Contract II**") with China Communications Information Co., Ltd. (中國交通信息有限公司). The signing date of the Contract II is not specified in the executed version, and as advised by the Target Group, such Contract was executed in December 2013 and has not been terminated. According to the Contract II, (1) the project name is the designing of the intellectual traffic command center system in Urumchi (烏魯木齊市智能交通指揮中心系統設計), (2) the project scale includes one command center, one data center, one integrated platform and one network, (3) China Communications Information Co., Ltd. is obliged to deliver the designing plan of the intellectual traffic command center system in Urumchi to Hua Tian on 31 December, 2013, including general plan, plan for each subsystem and relevant blueprints, and (4) China Communications Information Co., Ltd. is entitled to a design fee amounting to RMB3.2 million.

Under the relevant PRC laws and regulations, enterprises engaged in construction activities such as designing shall only engage in such construction activities after obtaining the appropriate qualifications. Since Hua Tian does not possess the requisite project designing qualification for the project design work of the intellectual traffic command center system in Urumchi, it is not qualified to engage in or undertake the design project under the Contract I. The execution and performance of the Contract I by Hua Tian may be deemed as a violation of the aforesaid provisions. For any enterprise that undertakes any designing project without obtaining the requisite qualifications, the government authorities may prohibit it from such activities, impose a fine of between 100%-200% of the design fee under the contract, and confiscate its illegal incomes.

In addition, under the relevant PRC laws and regulations, it is prohibited (i) for a contractor to subcontract the project to enterprises that do not possess the requisite qualifications; (ii) for a contractor to sublet the entire project that it has itself undertaken to another party; and (iii) for a subcontractor to further subcontract the project that it has itself been subcontracted, and the aforesaid occurrences under (i) and (iii) shall be regarded as illegal subcontracting and those under (ii) shall be regarded as sublet. The execution and performance of the Contract I may constitute the fact that a contractor subcontracts the project to an enterprise that does not possess the requisite qualifications as referred to under the aforesaid (i), provided that Beijing Zhongke Qilin Information Engineering Co., Ltd. is itself a contractor to the project thereunder; or, the execution and performance of the Contract I may constitute the fact that a subcontractor further subcontracts the project that it has itself been subcontracted as referred to under the aforesaid (iii), provided that Beijing Zhongke Qilin Information Engineering Co., Ltd. is itself a subcontractor to the project thereunder. For any loss caused due to the fact that the project sublet or illegally subcontracted fails to meet the stipulated quality standards, the enterprise which accepts the sublet contract work or subcontract work shall, together with the contractor, bear joint and several liabilities for compensation. Hua Tian may face the above administrative punishment and legal risks for the execution and performance of the Contract I.

Moreover, as to Hua Tian's sub-contracting work under the Contract II, since Hua Tian has itself been subcontracted with the project from Beijing Zhongke Qilin Information Engineering Co., Ltd., the execution and performance of the Contract II by Hua Tian may be deemed to constitute a violation that a subcontractor further subcontracts the project that it has itself been subcontracted as referred to under the aforesaid (iii). As a result, the government authorities may order Hua Tian to rectify the matter, confiscate its illegal incomes, impose a fine of between 25%-50% of the design fee under such contract, and order Hua Tian to suspend business for rectification. For any loss caused due to the fact that the illegally subcontracted project fails to meet the stipulated quality standards, Hua Tian may bear joint and several liabilities for compensation. To the best of the Directors' knowledge, information and belief, any potential suspension of business of Hua Tian will not affect the operation of Hua Qin which is the major operating subsidiary of the Target Group. As such, the Directors are of the view that any potential suspension of business of Hua Tian will not result in material adverse change to the Target Group.

Furthermore, under the relevant PRC laws and regulations, a company shall apply for alteration registration in the event of change of business scope. Hua Tian fails to register the project designing business within its business scope. As a result, the government authorities may order Hua Tian to make the alteration registration on time. If it has failed to get registered within the time limit, a fine from RMB10, 000 to RMB100, 000 may be imposed. According to the management of Hua Tian, the performance obligations of Hua Tian under Contract I and Contract II have been completed as of 1 October 2014 and subject to the remaining 5% installment payment by/to the counterparties.

As at the Latest Practicable Date, no punishment, orders, or claims had been received by the Target Group, and according to the terms of the Acquisition Agreement, the Vendor had undertaken to indemnify fully and keep indemnified fully the Group at all times from and against any losses suffered or incurred by the Group as a result of or in connection with any pending claim, counterclaim, proceeding, investigation, hearing or litigation subsisting on or before Completion to which the Group is a party (whether as plaintiff or defendant), which shall include the non-compliance stated above. Although the Company has not made any enquiry to any government authorities concerning the aforementioned non-compliance, to the best of the Directors' knowledge, information and belief, having consider the indemnity provided by the Vendor, the Directors are of the view that the risks related to the aforesaid non-compliance to the Company have been mitigated.

To prevent any future non-compliance, the Target Group has been requested to immediately set up a company policy which require every contract to be reviewed by the directors of the Target Group to prohibit it from entering into any new contracts or business which Target Group does not possess the necessary, relevant and or related licences, permits, or approvals in relation thereto.

Going forward, upon Completion, as stipulated under the paragraph headed" G. Board composition and proposed management of the Target Group" in the section headed "Letter from the Board" of this circular, the Company intends to appoint Mr. Wang Xiao Qi, who reports directly to the senior management in Hong Kong, to directly oversee and manage the Target Group on behalf of the Company. Mr. Wang Xiao Qi has over 14 years in the telecommunications industry in the PRC. Moreover, as a prior senior employee of the Target Group, he has in-depth and extensive knowledge of the Target Group's overall operations.

In addition, the Target Group's existing senior and middle management will all be required to report to their counterparts in Hong Kong. All new commercial contracts, irrespective of their nature or amount will be required to be approved and signed off by at least one person from the Group's senior management.

LEGAL AND REGULATORY REQUIREMENT

Principal PRC Laws and Regulations of the Target Group's Business

Hua Qin is the major operating subsidiary of the Target Group while Hua Tian basically has no operational activities currently. Hua Qin's telecommunications equipment business is subject to the supervision and administration of the competent PRC government authorities and the applicable PRC laws and regulations.

Principal Administrative Authorities

The PRC government primarily monitors Hua Qin's telecommunications business through the following authorities:

The Ministry of Industry and Information Technology of the PRC ("**MIIT**") and its local counterparts; and

The General Administration of Quality Supervision, Inspection and Quarantine of the PRC ("**GAQSIQ**") and its local counterparts.

The MIIT and its local counterparts are responsible for the implementation and supervision work with respect to the telecommunications equipment network licence and radio transmission equipment type approval in the PRC; the GAQSIQ and its local counterparts, as well as the Certification and Accreditation Administration supervised by the GAQSIQ are responsible for the implementation and supervision work with respect to the compulsory product certification in the PRC.

Telecommunications Equipment Network Connection Licence

According to the Telecommunication Regulations of the People's Republic of China (中華人民共和國電信條例), the Administrative Measures on the Network Connection of Telecommunications Equipment (電信設備進網管理辦法), the telecommunications terminal equipments, radio communication equipments and network interconnection equipment that are to be connected to the public telecommunications networks are subject to a licence system. The Telecommunications Equipment Network Licence must be obtained for the telecommunications equipment subject to the licence system, and those without the Telecommunications Equipment Network Licence shall not be connected to the public telecommunications networks or be sold in the PRC. The MIIT, jointly with the product quality supervision department of the State Council (currently the GAQSIQ, formerly the Administration of Quality and Technology Supervision), formulates and promulgates the catalog of telecommunications equipments subject to the licence system. The requirements and conditions of the application for the Telecommunications Equipment Network Licence mainly include: (1) the telecommunications equipment must meet the state standards, the communications industry standards and the provisions required by the MIIT; (2) the enterprises of telecommunications equipment shall have a comprehensive quality assurance systems and after-sales service measures; (3) the test reports issued by a telecommunications equipment test agency which is recognized by the product quality supervision department of the State Council or the product certificates issued by a certification agency, need to be submitted; (4) for any radio transmission equipment, the Radio Transmission Equipment Type Approval Certificate needs to be submitted. The term of validity for the Telecommunications Equipment Network Licence is three years. Provided that the production and sales of the telecommunications equipment need to be continued, a new application should be made to renew the Telecommunications Equipment Network Licence within three months prior to the expiry date, along with the submission of a sample test report or a product quality selective examination report within the latest year.

According to the First Batch Catalog of the Telecommunications Equipment subject to the Licence System (第一批實行進網許可制度的電信設備目錄) promulgated by the Ministry of Information Industry (currently the MIIT) and the Administration of Quality and Technology Supervision (currently the GAQSIQ) on 9 January, 2001, access network equipment and routers are subject to the licence system.

According to the Administrative Measures on the Network Connection of Telecommunications Equipment and the Interim Measures on the Trial Test Management of the New Telecommunications Equipment into the Network (電信新設備進網試驗檢測管

理暫行辦法), the new telecommunications equipment, which refers to the one that should be subject to the licence system but is in the absence of official state and industry standard, or is not listed in the aforementioned First Batch Catalog, is permitted to connect the public telecommunications network on trial on condition that it complies with the state industry policies and does not affect the safety and transmission of the network, and the approval document for trail implementation shall be issued by the MIIT.

According to the Administrative Measures on the Network Connection of Telecommunications Equipment and the Administrative Measures for the Post-Licence Supervision of Telecommunications Equipment (電信設備證後監督管理辦法), within the valid period of the Telecommunications Equipment Network Licence, the MIIT and its local counterparts are in charge of the supervision on the quality assurance system of the enterprises which have obtained the Telecommunications Equipment Network Licence (including the aforementioned trial approval), as well as the supervision on the quality of telecommunications equipment, after-sales services, use of the network access mark, and continuous conformity with the conditions for network access licence for telecommunications equipment, etc.

Radio Transmission Equipment Type Approval

According to the Regulations of the People's Republic of China on the Management of Radio (中華人民共和國無線電管理條例) and the Provisions on the Administration of the Production of Radio Transmission Equipment (生產無線電發射設備的管理規定), the radio transmission equipment must be subject to the type examination on its transmission characteristics conducted by the Radio Regulation Administration of the MIIT (工業和信息化部無線電管理局) (formerly the State Radio Regulation Administration Office) and the obtaining of the Radio Transmission Equipment Type Approval Certificate issued by the MIIT. To apply for the Radio Transmission Equipment Type Approval Certificate, major technical materials illustrating its functions, and the approval test report issued by a designated test agency with regard to the equipment type within the latest six months, must be submitted.

Compulsory Product Certification

The GAQSIQ is in charge of the administration of the wireless local area networks (WLAN) product quality certification. According to the Regulations of the People's Republic of China on Certification and Accreditation (中華人民共和國認證認可條例), the Provisions on the Administration of Compulsory Product Certification (強制性產品認證管理規定) and the Implementation Rules on the Compulsory Certification of WLAN Products (無線局域網產品強制性認證實施規則), the WLAN products are subject to compulsory certification by the government-designated certification agencies for compliance with various safety and technical standards and requirements. The WLAN products can be sold or used in other business activities only after passing the aforementioned compulsory certification procedures and obtaining a China Compulsory Certificate. This is commonly known as a 3C or CCC certification. Certification procedures regarding the independent WLAN equipment for obtaining the 3C certification mainly include: (1) the WLAN equipment must pass the type test by a designated test agency; and (2) after reviewing the relevant materials and preliminarily examining the factory, the certification agency makes a comprehensive evaluation on the type test and the factory examination results. The term of validity of the China Compulsory Certificate is five years, and an application should be made to renew the China Compulsory Certificate within ninety days prior to the expiry date.

Additional details of the certificates that Hua Qin acquired for its sales of corresponding products are as follows:

No.	Product Name and Type	Certificate Name	Certificate No.	Issuing Authority	Valid Until
1.	ADSL CPE (HGA300) (ADSL用戶端設備 (HGA300))	Telecommunications Equipment Network License (電信設備進網許可證)	19-A243-130331	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2016.01.28
	2.4GHz WLAN equipment (HGA300) (2.4GHz無線局域網設備(HGA300))	Radio Transmission Equipment Type Approval Certification (無線電發射設備型號核准證)	2013-0379	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2018.02.26
	ADSL CPE (HGA300) (ADSL用戶端設備 (HGA300))	China Compulsory Certification (中國國家強制性產品認證證書)	2013011601605089	China Quality Certification Center (中國質量認證中心)	2017.12.28
2.	G-PON (HGG420N v3) (吉比特無源光纖接入用戶端設備(G-PON ONU) (HGG420N v3))	Telecommunications Equipment Network License (電信設備進網許可證)	19-A243-123950	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2015.07.20
	2.4GHz WLAN equipment (HGA300) (2.4GHz無線局域網設備(HGG420N v3))	Radio Transmission Equipment Type Approval Certification (無線電發射設備型號核准證)	2012-4833	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2017.08.24

No.	Product Name and Type	Certificate Name	Certificate No.	Issuing Authority	Valid Until
	PON (HGG420N v3) (HGG420N v3) (無源光纖接入用戶端設備 (GPON ONU) (HGG420N v3) (HGG420N v3))	China Compulsory Certification (中國國家強制性產品認證證書)	2012011608560754	China Quality Certification Center (中國質量認證中心)	2017.05.01
3.	G-PON (H100G) (吉比特無源光纖接入用戶端設備(G-PON ONU) (H100G))	Telecommunications Equipment Network License (電信設備進網許可證)	19-A243-131000	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2016.03.12
	G-PON (H100G) (吉比特無源光纖接入用戶端設備(G-PON ONU) (H100G))	China Compulsory Certification (中國國家強制性產品認證證書)	2013011608608470	China Quality Certification Center (中國質量認證中心)	2018.03.07
4.	G-PON (HGG210 v3) (吉比特無源光纖接入用戶端設備(G-PON ONU) (HGG210 v3))	Telecommunications Equipment Network License (電信設備進網許可證)	19-A243-130845	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2016.03.04
	G-PON (HGG210 v3) (吉比特無源光纖接入用戶端設備(G-PON ONU) (HGG210 v3))	China Compulsory Certification (中國國家強制性產品認證證書)	2014011608690700	China Quality Certification Center (中國質量認證中心)	2019.03.30
5.	E-PON (HGU210 v3) (乙太網無源光纖接入用戶端設備(E-PON ONU) (HGU210 v3))	Telecommunications Equipment Network License (電信設備進網許可證)	19-A243-123148	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2015.06.06
	E-PON (HGU210 v3) (乙太網無源光纖接入用戶端設備(E-PON ONU) (HGU210 v3))	China Compulsory Certification (中國國家強制性產品認證證書)	2012011608552256	China Quality Certification Center (中國質量認證中心)	2017.03.08

No.	Product Name and Type	Certificate Name	Certificate No.	Issuing Authority	Valid Until
6.	ADSL CPE (P100) (ADSL用戶端設備 (P100))	Telecommunications Equipment Network License (電信設備進網許可證)	19-9739-120006	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2015.01.06
	ADSL CPE (P100) (ADSL用戶端設備 (P100))	China Compulsory Certification (中國國家強制性產品認證證書)	2013011601605032	China Quality Certification Center (中國質量認證中心)	2017.09.19
7.	E-PON (HGU421N v3) (乙太網無源光纖接入用戶端設備(E-PON ONU)(HGU421N v3))	Telecommunications Equipment Network License (電信設備進網許可證)	19-A243-123159	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2015.06.06
	2.4GHz WLAN equipment (HGU421N v3) (2.4GHz無線局域網設備(HGU421N v3))	Radio Transmission Equipment Type Approval Certification (無線電發射設備型號核准證)	2012-2945	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2017.06.04
	E-PON (HGU421N v3, HGU421 v3) (乙太網無源光纖接入用戶端設備(E-PON ONU)(HGU421N v3, HGU421 v3))	China Compulsory Certification (中國國家強制性產品認證證書)	2012011608536806	China Quality Certification Center (中國質量認證中心)	2017.03.09

No.	Product Name and Type	Certificate Name	Certificate No.	Issuing Authority	Valid Until
8.	E-PON (HGU421 v3) (乙太網無源光纖接入用戶端設備(E-PON ONU)(HGU421 v3))	Telecommunications Equipment Network License (電信設備進網許可證)	19-A243-123158	the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部)	2015.06.06
	E-PON (HGU421N v3, HGU421 v3) (乙太網無源光纖接入用戶端設備(E-PON ONU)(HGU421N v3, HGU421 v3))	China Compulsory Certification (中國國家強制性產品認證證書)	2012011608536806	China Quality Certification Center (中國質量認證中心)	2017.03.09
9.	Network Tv-set Box (HVB300I) (智能網絡機頂盒(HVB300I))	China Compulsory Certification (中國國家強制性產品認證證書)	2013011609604315	China Quality Certification Center (中國質量認證中心)	2017.08.21

Hua Qin has obtained the Telecommunications Equipment Network Licence (Certificate No. 19-A243-141812, valid until 26 May, 2017) and the China Compulsory Certificate (Certificate No. 2014011608690700, valid until 30 March, 2019) with respect to the product (E-PON ONU, HGU200 v4). The corresponding product has not been produced or sold by Hua Qin yet. Since such product does not have wireless function, the Radio Transmission Equipment Type Approval Certificate is not required.

As confirmed by the management of the Target Company, there is no any relevant licence, permit or certificate that is pending for approval and all the licences mentioned above are subject to renewal application upon expiration. The Target Group is not aware of any actual or potential legal impediments to renew the required licenses, permits and certificates.

The Target Group is not aware of any proposed legislative amendments in the PRC that may have material impact on the operation of the Target Group based on information publicly available.

The PRC Regulation Regarding Bid Invitation and Bidding

Bid Invitation

According to the Law of the People's Republic of China on Bid Invitation and Bidding (中華人民共和國招標投標法), Regulations on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding (中華人民共和國招標投標法實施條例), Provisions on the Scope and Threshold of Construction Projects for Bid Invitation (工程建設項目招標範圍和規模標準規定) and the Measures on the Administration of Bidding for Communications Construction Projects (通信工程建設項目招標投標管理辦法),

for construction projects within the territory of the PRC as well as the purchase of key equipment and materials for such projects, including (1) large infrastructure and public utility projects that concern public interests and security including post and telecommunication projects of postal service, telecommunication hubs, letter correspondence and information networks, or (2) projects invested completely or partly with State-owned funds or financed by the State, a bid invitation must be conducted where one of the following thresholds is reached:

(1) the estimated value of a separate construction contract exceeds RMB2,000,000;

(2) the estimated value of a separate contract for the purchase of important equipment and materials exceeds RMB1,000,000;

(3) the estimated value of a separate contract for the purchase of prospecting, design and supervision services exceeds RMB500,000; and

(4) the estimated value of a separate contract does not reach the thresholds specified in item (1), (2) or (3), but the total investment of the project exceeds RMB30,000,000.

The MIIT and its competent counterparts are responsible for the supervision of the bidding activities regarding communications projects.

Bid invitation is classified into two categories: public invitation and invited bidding. Public invitation means that the bid inviter, in the form of announcement for bidding, invites unspecified legal persons or other organizations to bid. Invited biding means that the bid inviter, in the form of written invitation, to invite specified legal persons or other organizations to bid. Where a bid inviter adopts invited bidding, it shall send written invitations to at least three specified legal persons or other organizations that are capable of undertaking the project for bidding and have a good reputation and qualification.

With regard to projects put out to public bid invitation, bid invitation announcements shall be published and bid invitation documents shall be prepared in accordance with the provisions of the Law of the People's Republic of China on Bid Invitation and Bidding and Regulations on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding.

Pre-qualification Review

If a bid inviter intends to examine the qualification of a potential bidder in accordance with the pre-qualification measures, the bid inviter shall publish the pre-qualification announcement and prepare pre-qualification documents.

Pre-qualification shall be conducted according to the criteria and methods stipulated in the pre-qualification documents. After the completion of pre-qualification, the bid inviter shall issue the notice on the pre-qualification results to the pre-qualification applicants in a timely manner. Applicants that fail the pre-qualification review are not eligible for participating in bidding.

Bidding

A bidder shall have the capability of undertaking the projects that are subject to bidding invitation. Where in relevant State regulations or bid invitation documents there are provisions governing qualifications of bidders, a bidder shall meet such qualifications.

A bidder that is involved in any material change, such as a merger, division or bankruptcy shall inform the bid inviter of the relevant situation in writing in a timely manner. If a bidder no longer meets the qualification conditions prescribed in the pre-qualification documents or tender documents or its bidding affects the impartiality of the tender, its bid shall be rendered as void.

Award of Bidder

The standards of bid evaluation with respect to the purchase of key equipment and materials for telecommunications projects basically include as follows: (1) qualifications, business achievements, financial status and performance of the bidder; (2) bidding price; (3) technical and quality standards; (4) supply plans; and (5) after-sales services.

The bid offered by a winner shall satisfy one of the following requirements: (1) it meets, to the maximum extent, all the comprehensive evaluation criteria specified in the bid invitation documents; (2) it meets the substantive requirements specified in the bid invitation documents and offers the lowest of the bid prices evaluated, with the exception of the bid price that is below cost.

As soon as the bid winner is decided on, the bid inviter shall notify the winner of the fact in writing and, at the same time, inform all the unsuccessful bidders of the result. The notification is legally binding on both the bid inviter and the bid winner. Where after the notification is sent out, the bid inviter changes the bidding result or the bid winner gives up the bid won, it shall bear legal liability in accordance with law.

The PRC Regulation Regarding Construction Activities

According to the Contract Law of the People's Republic of China (中華人民共和國合同法), the Construction Law of the People's Republic of China (中華人民共和國建築法) and the Regulations on the Administration of Construction Project Quality (建設工程質量管理條例), enterprises engaged in construction activities such as construction, surveying, designing and construction supervision shall be graded, in terms of their qualifications, on the basis of their registered capital, specialized technicians, technologies, equipment and the construction projects completed, and they may only engage in construction activities within the scope specified for them in terms of their grades after passing qualification examination and obtaining the appropriate qualification grade certificates. The contract letting enterprise shall allow the enterprise that is appropriately qualified to undertake the contract for the project. The enterprise that undertakes a whole construction project may subcontract part of the project to an enterprise with the necessary qualifications.

The construction enterprise that undertakes a whole construction project may subcontract part of the project to a qualified enterprise; however, for any subcontract that is not provided in the general contract agreement, the consent to subcontract part of the project by the project owner shall be necessary. Where the construction enterprise undertakes the whole of a project, it shall, by itself, complete the construction of the main structure of the project. The contractor that has undertaken the project shall not sublet the entire project to another enterprise or divide the project into several parts and sublet them to other enterprises. It is prohibited for the contractor that has undertaken the project to subcontract the project to enterprises which have no necessary qualifications. No sub-contractor may further subcontract the project it has itself been subcontracted again.

Yunbo Digital Synergy Group Limited
雲博產業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8050)

10 November 2014

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

We refer to the circular dated 10 November 2014 issued by the Company (the "**Circular**"), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee to consider the Acquisition Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to whether the terms of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to recommend how the Independent Shareholders should vote at the EGM. China Galaxy has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of China Galaxy's advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 53 to 76 of this Circular. Your attention is also drawn to the letter from the Board set out on pages 6 to 30 to this Circular and the additional information set out in the appendices of this Circular.

Having taken into account of the advice of China Galaxy, we consider that the Acquisition Agreement is entered into upon normal commercial terms following arm's length negotiations between the parties thereto, and that the terms of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
the Independent Board Committee

Dr. Chow Ka Ming, Jimmy	**Dr. Wong Wing Lit**	**Mr. Ngan Yu Loong**	**Mr. Tse Yee Hin, Tony**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text from China Galaxy International Securities (Hong Kong) Co., Limited to the Independent Board Committee and the Independent Shareholders, prepare for the purpose of inclusion in this circular.

中國銀河國際
CHINA GALAXY INTERNATIONAL

Room 3501-3507, 35/F
Cosco Tower
183 Queen's Road Central
Hong Kong

10 November 2014

*To: The Independent Board Committee and
The Independent Shareholders of Yunbo Digital Synergy Group Limited*

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Acquisition, details of which are contained in the letter from the board (the "**Letter from the Board**") circular of the Company (the "**Circular**") to the Shareholders dated 10 November 2014, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

On 20 August 2014 (after trading hours), the Purchaser, an indirectly wholly-owned subsidiary of the Company, and the Vendor entered into the Acquisition Agreement. Pursuant to the Acquisition Agreement, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase all of the equity interest of the Target Company at a consideration of HK$3.0 million (subject to adjustments).

As certain applicable percentage ratios (as defined under Chapter 19 of the GEM Listing Rules) in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company.

As at the Latest Practicable Date, Mr. Chan, the Vendor and is also a controlling shareholder of the Company. Therefore, the Acquisition also constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. According, the Acquisition is subject to the requirements of reporting, announcement and Independent Shareholders' approval by way of poll at the EGM.

THE INDEPENDENT BOARD COMMITTEE

As at the Latest Practicable Date, the Independent Board Committee comprising Dr. Chow Ka Ming, Jimmy, Dr. Wong Wing Lit, Mr. Ngan Yu Loong and Mr. Tse Yee Hin, Tony, being the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Acquisition. We, China Galaxy, have been appointed to advise the Independent Board Committee and the Shareholders in connection with the Acquisition, in particular as to whether the terms of the Acquisition Agreement are fair and reasonable and on normal commercial terms so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Group.

BASIS OF OUR OPINION

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company are true and accurate at the time they were made and will continue to be accurate as at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, information contained in the 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 contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs or the prospects of the Company, the Group or any of their respective associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of China Galaxy International Securities (Hong Kong) Co., Limited is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

I. Information on the Group

The Group has been listed on the GEM board of the Stock Exchange since 24 July 2000. It is principally engaged in provision of system integration services and other value-added technical consultation services, as well as hardware-related business in Hong Kong and the PRC, including big data, unified communications, cloud computing, network security SDN, 4G new media, top-level designs for e-finance platforms, the software and hardware maintenance and operation in respect of the back end network support systems, design, development, production and manufacturing of the network front end products as well as the business operation of the online and offline payment.

Financial results and position of the Group

Set out below is the consolidated financial information of the Group extracted from the audited consolidated financial statements of its annual reports for each of the financial years ended 31 March 2012, 2013 and 2014.

	For the year ended 31 March		
	2012	**2013**	**2014**
	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Revenue	15,727	53,729	36,572
(Loss)/profit before Income tax	6,379	(11,865)	(10,419)
(Loss)/profit for the year	6,379	(11,896)	(10,427)

	As at 31 March		
	2012	**2013**	**2014**
	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Total assets	68,367	61,206	131,505
Total liabilities	63,864	29,730	8,870
Net assets	4,503	31,476	122,635

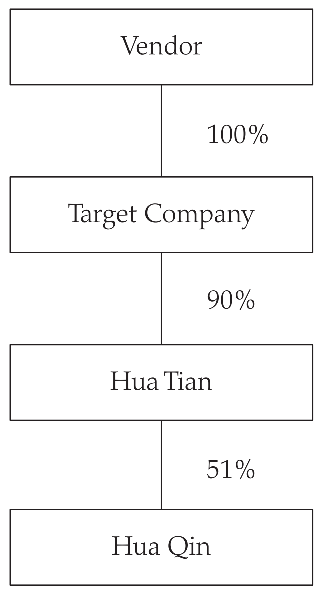
As disclosed in the Group's annual reports for the years ended 31 March 2012, 2013 and 2014, the Group's revenue increased approximately 241.6% from HK$15.7 million for the year ended 31 March 2012 to HK$53.7 million for the year ended 31 March 2013, mainly due to approximately HK$35.0 million revenue generated from the sale of G-PON equipment. The Group's revenue decreased by approximately 31.9% to HK$36.6 million for the year ended 31 March 2014 as compared to HK$53.7 million in the same period in 2013, principally due to the absence of the abovemention one-off G-PON equipment sale which did not recur for the year ended 31 March 2014. Total assets of the Group decreased 10.5%, or 7.2 million, from HK$68.4 million as at 31 March 2012 to HK$61.2 as at 31 March 2013, then increased by approximately 114.9%, or HK$70.3 million, to HK$131.5 million as at 31 March 2014. Net assets of the Group increased 599.0%, or 27.0 million, from HK$4.5 million as at 31 March 2012 to HK$31.5 as at 31 March 2013, then increased by approximately 289.6%, or HK$91.2 million, to HK$122.6 million as at 31 March 2014. The increase of total assets and net assets was mainly due to the approximately HK$100 million fund raised by the issue of 450,000,000 new Shares at a subscription price of HK$0.225 each to Happy On Holdings Limited, the Group's single largest shareholder, on 5 August 2013.

II. The acquisition of 100% equity interest of Target Group

Background information of the Target Group

As stated in the Letter from the Board, the Target Company is an investment holding company incorporated in the BVI for the sole purpose of holding 90% shareholding interest in Hua Tian. Hua Tian, established in the PRC, is principally engaged in the research and development of computer software auxiliary equipment, broadband network equipment, communications transmission equipment, multimedia communications systems; production of computer software, system integration, sale of the self-manufactured products and provision of technical consulting services. Hua Qin, incorporated in the PRC, is approved to conduct licensed business activities of manufacturing communications equipment (only branches), and general business activities of provision of technical advice and transfer, research and development of computer software and auxiliary equipment; sales of communications equipment, computer auxiliary equipment (excluding retail sales); production of computer software; provision of computer systems services and sales of the self-manufactured products. As stated in the Letter from the Board, during the three years ended 31 March 2014 and the three months ended 30 June 2014, the Target Company had interests in certain indirectly-owned subsidiaries, namely, 51% equity interest in Yun Tai, 65% equity interest in Yunbo Zhong Ruan, 100% equity interest in Fu Song, 100% equity interest in Hua Tong and 100% equity interest in Hua Xin (collectively, the "Disposed Companies"). The disposal of Yunbo Zhong Ruan, Yun Tai, Fu Song, Hua Tong and Hua Xin had been completed on 12 September 2014, 29 July 2014, 9 May 2014, 12 August 2013 and 16 September 2011 respectively. Upon the completion of the aforesaid disposals, the

Disposed Companies have ceased to be subsidiaries of the Target Company. Based on our discussion with the management of the Target Group, the Disposed Companies were all incorporated in the PRC and were dormant before the disposal. In addition, the completion of the Reorganisation in relation to the disposal of the Disposed Companies is one of the conditions precedent for Completion. As the date of this letter, the Target Group's operating subsidiaries consist of Hua Tian and Hua Qin as shown in the chart below.



Financial overview of the Target Group

Set out below is the consolidated financial information of the Target Group extracted from the Appendix II to the Circular:

	For the year ended 31 March			For the three months ended 30 June	
	2012	**2013**	**2014**	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	56,342	223,388	282,695	73,318	51,288
Loss before taxation from continuing	(25,115)	(16,022)	(731)	(244)	(355)
Loss before taxation from discontinued operation	(5)	(50)	(50)	(5)	(2)
Loss for the year/period	(25,120)	(16,072)	(781)	(249)	(357)

	As at 31 March			As at 30 June
	2012	2013	2014	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	132,778	295,322	366,921	330,762
Total liabilities	149,572	310,224	365,606	329,802
Net assets/(Liabilities)	(16,794)	(14,902)	1,315	960

As shown in the table above, the Target Group's revenue increased by 296.5% from HK$56.3 million for the year ended 31 March 2012 to HK$223.4 million for the year ended 31 March 2013 and further increased to HK$282.7 million for the year ended 31 March 2014 with a growth of 26.5%. For the three months ended 30 June 2014, the Target Group's revenue decrease by 30% on a quarter to quarter basis to approximately HK$51.3 million (for the three months period ended 30 June 2013: HK$73.3 million), the decrease in revenue was primarily due to the delivery time of 2013 Annual Tendering Process in which the majority of revenue was recognised during June to December 2013. The Target Group's loss was HK$25.1 million for the year ended 31 March 2012, then decreased by 36.0% to HK$16.1 million for the year ended 31 March 2013, and further narrowed to HK$0.8 million for the year ended 31 March 2014. For the three months ended 30 June 2014, the Target Group's loss was approximately HK$0.4 million increased by 43.4% compared to the same period in 2013 due to the same timing reason as described above. Based on the audited financial statements of the Target Group as set out in Appendix II to the Circular, approximately HK$3.3 million and HK$11.7 million were accounted for the provision of impairment of loss on inventories for the year ended 31 March 2012 and 2013 with reference to the latest market value and current market conditions for these inventories. The Target Group assessed the carrying amounts of inventories of residential gateway product by reviewing the inventory listing and aging analysis on a product-by-product basis at each reporting date, and makes impairment for those obsolete, slow-moving inventories and items that are no longer suitable for use in production. As advised by the management of the Target Group, certain internal control measures on inventory cost system were implemented since 2014, which resulted in an absence of impairment loss of inventory for the year ended 31 March 2014 and the three months ended 30 June 2014. We also noted that the inventory turnover days (after impairment loss adjustments) for the Target Group was 156 days and 155 days for the year ended 31 March 2013 and 2014, respectively. The unadjusted inventory turnover days (after removal of the impairment loss adjustments as stated above) was 170 days and 163 days for the two years ended 31 March 2013 and 2014, in view of such improvement, we concur with the Directors that the Target Group has implemented substantial measures to control the turnover days of its inventories in order to mitigate the risk of short product life cycle. For the three months ended 30 June 2014, the inventory turnover days was increased for approximately 26 days to 181 days from 155 days for the year ended 31 March 2014. As advised by the management of the Target Group, the increase in inventory turnover days in the second quarter of 2014 was due to the pile-up of inventory in expecting the delivery of 2014 Annual Tendering Process in the second half of 2014.

Trade receivables turnover days improved significantly from 220 days for the year ended 31 March 2012 to 160 days for the year ended 31 March 2013, and further down to 71 days for the year ended 31 March 2014, due to the implementation of the trade receivable internal controls which encouraged the customers to settle their outstanding balances upon delivery. Trade receivables turnover days increased from 71 days for the year ended 31 March 2014 to 108 days for the three months ended 30 June 2014 was mainly due to the prolonged credit term which being granted to some telecommunication equipment companies during the period. Trade payables turnover days were nil for the year ended 31 March 2012 was due to the nil balance of payable. Trade payables turnover days decreased from 55 days for the year ended 31 March 2013 to 42 days for the year ended 31 March 2014 which generally in line with the credit terms received by the Target Group. Trade payable turnover days increased from 42 days for the year ended 31 March 2014 to 59 days for the three months ended 30 June 2014 was mainly due to a delayed payment to one of the suppliers for a batch of substandard products to be returned. The Target Group's gearing ratio, which was defined as total long term other payables as percentage of total assets, was increased slightly to approximately 16.9% as at 30 June 2014 from approximately 15.3% as at 31 March 2014 primarily due to the repayment to related parties. The Target Group's cash and bank balance as at 30 June 2014 amounted approximately HK$110.0 million, decreased by approximately HK$39.9 million from HK$149.9 million as at 31 March 2014. As at 30 June 2014, the Target Group has long term other payables of approximately HK$55.9 million (As at 31 March 2014: approximately HK$56.1 million) at a maturity dated 30 September 2015 provided by three Independent Third Parties which are interest-free and unsecured.

For the three years ended 31 March 2014, we are of the view that the Target Group has improved its profitability and financial performance not only due to the growth of sales of G-PON equipment and E-PON equipment, but also the successful implementation of the internal control systems. We also noted that the Target Group's financial performance for the three months ended 30 June 2014 has deteriorated on a quarter to quarter basis compared to the same period 2013, due to the delivery time of 2013 Annual Tendering Process in which majority of income was recognised during June to December 2013.

Based on the information set out in the Appendix III to the Circular and our further discussion with the reporting accountants of the Group, the Target Group's major assets mainly comprised of inventories, trade receivables and cash and cash equivalents, and its liabilities mainly comprised of trade payables and amount due to related parties. We are given to understand that these assets and liabilities are short term in nature, therefore the carrying values of these assets and liabilities are reasonable approximation of fair values at the Completion Date. The carrying amount of the Target Group's property, plant and equipment are considered to be an approximation to the fair values as majority of them are office and computer equipment. In respect of its goodwill impairment, according to the Group's accounting policy, after initial recognition, the goodwill will be measured at cost less any accumulated impairment losses. The goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. According to the Group's accounting policy, impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (groups of cash-generating units) is less than the carrying amount, an impairment loss will be recognised. An impairment loss recognised for the goodwill will not be reversed in a subsequent period. As stated in the Appendix III to the Circular, the Directors had performed an impairment assessment of the Goodwill in accordance with HKAS 36 Impairment of Assets ("**HKAS 36**") and the Group's accounting policy. We have reviewed the impairment assessment prepared by the Target Group, and further confirmed with the Directors and the reporting accountants of the Group that no pro forma adjustment in respect of goodwill impairment is made to the Enlarged Group.

Major customer overview

We were given to understand that China Telecom Corporation Limited (stock code: 0728, "**China Telecom**") is the Target Group's major customer which accounted for 71%, 91%, 96% and 52% of the Target Group's revenue for the three years ended 31 March 2014 and the three months ended 30 June 2014, respectively. As set out in the Letter from the Board, the business cooperation between the Target Group and China Telecom commenced in 2011. The Target Group had submitted bids on three categories of the purchase order, namely DSL, G-PON equipment and E-PON equipment, to supply approximately 0.5 million, 3.1 million and 2.8 million units, respectively. We have reviewed the bidding result announced by China Telecom at the end of August 2014, and noted that the percentage of the purchase quantities allocated to Hua Qin were approximately 0%, 5.1% and 11.4%, respectively for the three categories. The framework agreement for 2014 Annual Tendering Process was signed at the end of August 2014 accordingly.

Set out below is the breakdown of Target Group's revenue by customers:

	For the year ended 31 March						For the three months ended 30 June	
	2012		2013		2014		2014	
	(HK$ million)	%	*(HK$ million)*	%	*(HK$ million)*	%	*(HK$ million)*	%
China Telecom	39.7	70.5	203.5	91.1	270.6	95.7	26.8	52.2
Others	16.6	29.5	19.9	8.9	12.1	4.3	24.5	47.8
Total	56.3	100	223.4	100	282.7	100	51.3	100

As set out in the Letter from the Board, large telecommunications operators in the PRC such as China Telecom normally place all of their annual purchase of equipment under a tendering process to ensure all purchases are facilitated in an open, fair and orderly manner. As stated in the Letter from the Board, as in all tenders, the telecommunications operators in the PRC will make bid invitation documents according to the specifications and requirements of each telecommunication project. The bid invitation documents include all substantial requirements and all key terms for the conclusion of contracts, including the project's technical requirements, the criteria for examination of the contractors, the requirements for the bid price and the standard of evaluation of the bid, etc. We have inspected the bidding and tendering procedures and requirements on Internet of the three largest telecommunications operators in the PRC. Our findings are consistent with the Director's view that only companies possess with the prerequisite qualifications, industry experiences and proven track records are qualified to submit bids for telecommunication projects in the PRC.

We have also (i) obtained and reviewed the Target Group's ISO9001 certification (valid till January 2016), ISO14001 certification (valid till January 2016), the Telecommunications Equipment Network Licenses, China Compulsory Certifications and Radio Transmission Equipment Type Approval Certifications; (ii) reviewed and confirmed the registered capital and total assets of the Target Group were not less than RMB20 million and RMB50 million, respectively, as at the latest financial statements; (iii) obtained the tenancy agreements of the existing after-sales services outlets of the Target

Note: For samples of bidding and tendering requirements of the three largest telecommunications operators in the PRC, more information can be found in:

– http://www.bidcenter.com.cn/newscontent-15792540-1.html

– http://www.bidcenter.com.cn/newscontent-12692478-1.html

– http://es.b2b.10086.cn/homePage.html

Group in 10 provinces in the PRC; and (iv) contacted the sales representatives of the Target Group on a sampling basis in the list of service points covered 31 provinces in the PRC which had been submitted and approved by China Telecom.

Regarding the qualification requirements of the Target Group, we were given to understand that the Target Group's products currently sold have obtained (i) eight Telecommunications Equipment Network Licenses with expiry dates ranging from January 2015 to March 2016; (ii) three Radio Transmission Equipment Type Approval Certifications with expiry dates ranging from June 2017 to February 2018 and (iii) nine China Compulsory Certifications with expiry dates ranging from March 2017 to March 2019. According to the PRC legal opinion, except for the two non-compliance cases identified under the section headed "Risk factors" in this letter, the Target Group's products currently sold have obtained all necessary qualifications and approvals in the PRC and as advised by the Company's legal counsel, all these qualifications are subject to renewal application upon expiration.

Based on the above, we believe the Target Group is a qualified company to submit bids and provide products and/or services to China Telecom as well as other large telecommunications operators in the PRC. We are of the view that the Target Group has been a qualified company to submit bids to China Telecom since 2011, we do not foresee any obstacle for the Target Group to continue meeting the general industry qualifications after Completion. However, Shareholders should note that there is no assurance that the Target Group can always fulfil the supplier qualification requirements of China Telecom and/or other PRC telecommunications operators. Please refer to section headed "Risk factors" below for details.

Major supplier overview

As set out in the Letter from the Board, the major supplier of the Target Group is Shanghai Monetics Telecommunications Corporation ("**SMTC**"). The purchase from SMTC represented approximately 99%, 85%, 70% and 72% of the total purchase by the Target Group for the three years ended 31 March 2014 and the three months ended 30 June 2014. SMTC is indirectly wholly-owned by Unizyx Holding Corporation ("**Unizyx**"), a company listed on the Taiwan Stock Exchange (stock code: 3704) which is principally engaged in the provision of network communication products, broadband access solution and its products are mainly used in computer network communications. We were also given to understand that Wuxi Yanqin Information Technology Limited ("**Wuxi Yanqin**"), which currently owns 49% shareholding interest in Hua Qin, is also an indirectly wholly-owns subsidiary of Unizyx. As confirmed by the management of the Group, SMTC and Wuxi Yanqin are all Independent Third Parties. We were also given to understand that Target Group is currently one of the largest customers of SMTC and SMTC has intention to maintain the business relationship with the Target Group in the future.

Future business plan of the Target Group

As stated in the Letter from the Board, the Target Group consists of Hua Tian and Hua Qin. Hua Tian is principally engaged in the research and development of computer software auxiliary equipment, broadband network equipment, communications transmission equipment, multimedia communications systems; production of computer software, system integration, sale of the self-manufactured products and provision of technical consulting services. Hua Qin, incorporated in the PRC, is approved to conduct licensed business activities of manufacturing communications equipment (only branches), and general business activities of provision of technical advice and transfer, research and development of computer software and auxiliary equipment; sales of communications equipment, computer auxiliary equipment (excluding retail sales); production of computer software; provision of computer systems services and sales of the self-manufactured products. China Telecom is the Target Group's single largest customer which accounted for approximately 71%, 91%, 96% and 52% of the total revenue of the Target Group for the three years ended 31 March 2014 and the three months ended 30 June 2014. We were advised by the management of the Group that, after Completion, the Company has intention to maintain the existing business model of the Target Group and to continue to focus on the trading of residential gateway products. Going forward, the Company intends to expand the market shares of the Target Group by broadening its customer base by reaching out to other telecommunications operators or telecommunication equipment companies while strike to increase the percentage of allocation from China Telecom in the annual tenders, and to shortlist more qualified suppliers to reduce its reliance on SMTC. The Directors do not expect any material capital expenditures and commitments in relation to the Target Group's future business development and the working capital requirement for the daily operation would be funded by internal resources of the Company.

Having considered (i) the Target Group's long-term business relationship with China Telecom and SMTC; (ii) the positive outlook of the PRC IT industry which induced the strong demand of the Target Group's residential gateway products and (iii) the Target Group's asset-light trading business model, we envisaged the future business development of the Target Group will not create material financial burdens for the Company and would be in the interests of the Company and the Shareholders as a whole.

Shareholders should however note that the Directors have identified a number of risks associated with the Acquisition which are set out in the section headed "Risk factors" in the Letter from the Board. We are of the view that Independent Shareholders should bear in mind all of those risk factors when considering the Acquisition as they may have different risk preference and are of varied risk tolerance level.

Reasons for and benefits of the Acquisition

With reference to the Letter from the Board, the Directors consider that the Acquisition is in line with the Group's long term strategic development and will create synergetic effects with its existing businesses, and believe that the Acquisition will not only broaden the income source and customer base of the Group but will also enhance the turnover and profit of the Group as well as bringing long-term strategic benefits to the Group. The Group has been delivering comprehensive IT services (including big data, unified communications, cloud computing, network security SDN, 4G new media, top-level network designs for e-finance platforms) to a well-established client base across various industries. The Group also involved in trading ancillary high-tech software and hardware equipment.

The outlook of the PRC IT industry market

To assess the business outlook of the Target Group, we have conducted research from the public domain on the PRC's information technology ("**IT**") service industry. According to《軟體和資訊技術服務業「十二五」發展規劃》(the Twelfth Five Year Plan for the Software and IT Service Industry*, the "**IT Industry Plan**") issued by the PRC Government in April 2012, the software and IT service industry in the PRC has achieved an average annual growth rate of about 28.3% from 2006 to 2010, with aggregate revenue reaching RMB1.36 trillion in 2010, which is over three times of that in 2005, reflecting the increasing demand from enterprises in the PRC seeking automation and improvement in business operation efficiency alongside the economic development of the PRC. The IT Industry Plan sets out the government's target for the software and IT service industry to achieve aggregate revenue of RMB4.0 trillion by 2015, representing an average annual growth rate of over 24.5%, of which revenue from the IT service sector amounts to over RMB2.5 trillion. To facilitate the IT Industry Plan for the software and IT service industry, being a strategic step to attain modernisation and greater efficiency of the country's economy, the PRC Government intends to attract investment in the software and IT service Industry and encourage enterprises to achieve computerisation and automation in business operation, by means of export subsidy, interest allowance for loan financing, establishment of equity funds by local government, risk compensation for investment funds and other administrative measures.

According to《寬頻中國2013專項行動》(the Broadband China Plan 2013*, the "**Broadband China 2013**") issued by the Ministry of Industry and Information Technology of the People's Republic of China ("**MIIT**") on 26 February 2013 and the announcement made by the State Council on 18 August 2013, the Chinese government has elevated national broadband development as a national strategy and has announced an implementation timeline for its development over the next eight years. The strategy aims at rolling out Wi-Fi coverage in key public urban areas by 2013 and fixed broadband coverage for half of Chinese households by 2015. Homes in some developed cities will also enjoy a broadband speed of 1GB per second in 2020. The plan will also be carried out in three different stages, with fiber optic networks and 3G mobile coverage to be facilitated in 2013, while broadband coverage will be expanded from 2014 to 2015. Broadband network and technology updates will be the key task from 2016 to 2020. It would add more fixed-line broadband households and public Wi-Fi hotspots in 2013 for 4M broadband and aimed to have more than 250 million broadband users while raising access speeds in both urban and rural areas, with service coverage hitting 95 percent by the end of 2015. In considering the rapid development of broadband and Internet services in the PRC, we concur with the Directors' view on the significant future demand of the telecommunication devices in relation to broadband connection, such as G-PON equipment and E-PON equipment. Based on our understanding, both G-PON equipment and E-PON equipment are referring to "Passive Optical Network or PON" technology that connect point-to-multipoint fiber to the premises in which unpowered optical splitters are used to enable a single optical fiber to serve multiple premises. An innovative technology for Fiber to the Home ("**FFTH**") implementation, G-PON equipment and E-PON equipment provide unprecedented bandwidth, and a greater distance from a central office, allowing Internet service providers to enable bandwidth-intensive applications and establish a long-term strategic position in the broadband market. G-PON equipment and E-PON equipment deliver high-speed voice, data and video services to residential and business users and provide a reliable, long-reach last-mile connection by extending the public high-bandwidth network to those living and working in remote homes and offices.

From our discussion with the management of the Company, we were given to understand that the Acquisition is expected to create the following synergies and competitive advantages for the Group:

— Market expansion: We note that the Target Group has proven track records in the industry by serving China Telecom, being one of the leading telecommunications operators in the PRC, for more than three years. In addition, as stated in the Letter from the Board, the Target Company has also fulfilled the general qualifications of the PRC telecommunication industry, the Directors are of the view that the Target Group should also be capable of being qualified as a supplier of other leading telecommunications operators such as China Mobile and China Unicom in the future. Moreover, as the Group has not currently obtained the prescribed qualifications to be the equipment supplier of these telecommunications operators in the PRC, the Directors believe the Acquisition would allow the Group to tap into the market by leveraging on the existing business of the Target Group.

— Leveraging on the Target Group's after-sales service network: We were advised that one of the China Telecom's internal requirements of its qualified equipment suppliers is that such equipment supplier must be able to provide after-sales services for all of China Telecom's branch companies. According to the Directors, in order for the Company to build such an after-sales service network and obtain all the necessary license(s), approval(s), certification(s) and/or registration(s), the process may take a relatively long period and they are uncertain about the finishing time. In addition, the Company will be required to invest on the initial startup cost for these outlets (including basic equipment, rental deposits and leasehold improvements) and incur other daily operation expenditures, such as rental expenses, salaries and wages and administrative expenses. Having taken into consideration the above, the Directors are of the view that the total opportunity cost of building such an after-sales service network may already exceed the Consideration. As such, we concur with the Directors' view that even if the Group will be qualified as a supplier for China Telecom in the future for other IT services or products, it may be very capital intensive and time consuming for the Group to build such an after-sales services network from scratch. Therefore it is much more efficient, cost effective, and less time consuming for the Company to simply acquire the Target Group and leverage on its well established after-sales service network.

— The expected improvement of the Target Group: We have reviewed each of the bid invitation for 2012 and 2013 Annual Tendering Process and the corresponding purchase contracts entered by the Target Group and China Telecom. The Target Group had been successful in participating the tendering process and secured the purchase allocation from the 2012 and 2013 Annual Tendering Process, in aggregate of 9.6% and 8.6% of the entire tender in the two years, respectively, and representing a 100% successful rate in historical annual tendering participation. As stated in the Letter from the Board, for the 2014 Annual Tendering Process, the Target Group had submitted bids on three categories of the purchase order, namely DSL, G-PON equipment and E-PON equipment, to supply approximately 0.5 million, 3.1 million and 2.8 million units, respectively. We have obtained and reviewed the bidding result announced by China Telecom at the end of August 2014, the percentage of the purchase quantities allocated to the Target Group were approximately 0%, 5.1% and 11.4%, respectively, for the three product categories (or in aggregate 7.5% for the entire tender of 2014 which amounted for approximately RMB95.9 million). Having considered the above and the improving financial performance of Target Group for the three years ended 31 March 2014, the Directors estimate that the Target Group will start generating positive operating profit for the year ending 31 March 2015. Upon Completion, the Company intends to implement series of cost control measures in order to more closely and efficiently supervise the operations of the trading business and to reduce unnecessary or overlapped costs and expenses of both the Company and the Target Group. In addition, based on the management accounts of the Target Group, the Target Group has already recorded a positive net income for the five months ended 31 August 2014 of approximately HK$3.9 million.

Through the Acquisition, the Directors envisage that it will not only be able to expand its business in the trading of telecommunications products (with the qualification that the operating subsidiaries of the Target Company currently have to submit bids for telecommunications projects in the PRC in the future) but also enhance the Group's overall market position as well as its competitiveness within the PRC telecommunications industry.

Having considered that (i) the positive industry prospect and favourable government policies in relation to the Target Group's business; (ii) potential growth of the demand for G-PON equipment and E-PON equipment in the PRC; (iii) the potential synergetic effects to be generated from the Acquisition; and (iv) the improving financial performance of the Target Group, the Acquisition would help the Group expand its existing market share and business with China Telecom, one of the only three mobile network operators in the PRC, and would bring in additional revenue stream to the Group, we are of the view that the entering into of the Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

Principal terms of the Acquisition

Pursuant to the Acquisition Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase all of the equity interest of the Target Company at a consideration of HK$3 million (subject to adjustment). The consideration will be settled by way of cash upon Completion and funded by the internal resources of the Company. As set out in the Letter from the Board, the Consideration was arrived at after arm's length negotiations between the parties to the Acquisition Agreement with reference to (i) historical operating and financial performance of the Target Group including but not limited to the unaudited net asset value and net loss of the Target Group of approximately HK$1.3 million and HK$0.8 million as at 31 March 2014 and for the year ended 31 March 2014, respectively; and (ii) the growth potential of the business of the Target Group together with the synergies that may be derived with the businesses of the Group in the telecommunications industry in the PRC.

Under the Acquisition Agreement, the Vendor has undertaken to the Group that the consolidated net profit (after taxation and excluding any profit (loss) deriving from the discontinued operation(s) of the Target Group and activities not within the ordinary and usual course of business of the Target Group as shown in the audited accounts which shall be prepared in accordance with Hong Kong Financial Reporting Standard for the year ending 31 March 2015 (the "**2015 Audited Accounts**") of the Target Group for the financial year ending 31 March 2015 shall not be less than HK$3 million (the "**Guaranteed Profit**"), and has undertaken to indemnify the Group for an amount equivalent to the shortfall if the actual consolidated net profit of the Target Group for the financial year ending 31 March 2015 (the "**Actual Profit**") is below the Guaranteed Profit. As stated in the Letter from the Board, the Guarantee Profit is determined with reference to (i) the bid winning ability of the Target Group; (ii) the historical financial performance of the Target Group; and (iii) the synergetic effect with the Company.

In assessing the fairness and reasonableness of the consideration for the Acquisition, we have adopted the trading multiple analysis on companies that are selected based on the following criteria: (i) of companies listed on the Stock Exchange; (ii) generating revenue from trading of IT applications and/or components of not less than 90% of the total revenue of the latest financial year and of a profit-making position; (iii) have more than 90% of the segment revenue derived from the PRC (excluding Hong Kong, Macau and Taiwan). In considering the trading multiple analysis for appraising information technology companies, we note that price to earnings ratio (the "**P/E Ratio**") is one of most commonly adopted one for valuing profitable information technology companies after independently reviewing relevant recent sector specific research reports issued by research analysts of leading international securities firms. Even though the Target Group recorded loss for the past three financial years, it is feasible for the Target Group to use forward P/E ratio of one time calculated by the Guaranteed Profit of HK$3 million divided by the Consideration. We have, to our best effort, identified and made references to, so far as we are aware, three companies that meet the aforesaid criteria which is exhaustive. However, we have deselected Peking University Resources (Holdings) Company Limited (SEHK: 618) due to its relatively large market capitalisation compare to the Target Group. We thus consider that the remaining two companies (the "**Comparables**") are fair and representative samples for comparison as the principal businesses and geographical source of revenue of the Comparables are similar to those of the Target Group. Details of our analyses are set out in the following table:

Company Name (stock code)	**Principal Business**	**Market Cap** *(HK$ million)* *(Note 1)* *(1)*	**Profit After Taxation** *(HK$ million)* *(Note 2)* *(2)*	**P/E ratio** *(3)=(1)/(2)*
Jiangsu Nandasoft Technology Company Limited (8045)	Develop, manufacture, and market network security, Internet application, education, and business application software solutions primarily in the People's Republic of China.	347.76	8.49	41.0x
Futong Technology Development Holdings Limited (465)	Engage in the distribution of enterprise information technology (IT) products in the People's Republic of China. It distributes various enterprise hardware and software products, including enterprise servers, system storage products, and software in association with servers and system storage products.	333.04	52.58	6.3x
Maximum				41.0x
Minimum				6.3x
Average				23.7x
Target Company *(Note 3)*				1.0x

Notes:

1. Based on the closing share price and the number of outstanding shares on 19 August 2014, being the last trading day immediately prior to the date of the Acquisition Agreement.

2. Based on the financial information as published in their respective latest annual report.

3. The P/E ratio of Target Company represented by the Guaranteed Profit of HK$3 million divided by the Consideration.

4. Figures in RMB have been converted into HK$ using the approximate exchange rates of RMB1 to HK$1.25.

As set out in the table above, the P/E Ratio of the Comparables ranged from approximate 6.3 times to approximate 41.0 times with a mean of approximately 23.7 times. The P/E Ratio represented by the consideration for the Acquisition is one time, which is lower than the minimum of the Comparables. We also noted that the Guaranteed Profit is equivalent to the Consideration of the Acquisition and represents approximately 128.1% of the net assets value of the Target Group for the year ended 31 March 2014. We are of the view that while the Guaranteed Profit is equivalent to the Consideration, the provision of the Guaranteed Profit offers sufficient downside protection to the Group and the Shareholders in case the Actual Profit is less than the Guaranteed Profit. Worst comes to worst, if the Actual Profit is equal or less than zero, the Group would have acquired the Target Group at zero consideration. Even so, the Group would still be able to utilize the Target Group to commence business with China Telecom, and may also leverage on its existing operation to develop business with other PRC mobile network operators. Hence, we are of the view that the consideration for the Acquisition is fair and reasonable to the Group and the Shareholders and in the interest of the Company and the Shareholders as a whole.

III. Financial effects of the Acquisition

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company, and the financial results of the Target Group will be consolidated into the Group's accounts. The following illustrates the financial effects on the Group upon Completion:

Net asset value

Based on the unaudited pro forma consolidated statement of financial information of the Enlarged Group as set in Appendix III to the Circular, the unaudited net assets of the Enlarged Group as at 31 March 2014 would increase by approximately 10.7% to approximately HK$135.8 million from approximately HK$122.6 million as if the Acquisition has been completed on 31 March 2014.

Earnings

Based on the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group as set in Appendix III to the Circular, the Group recorded a loss of approximately HK$10.4 million for the year ended 31 March 2014. On the assumption that Completion had taken place on 1 April 2013, the Enlarged Group would record a loss of approximately HK$13.8 million for the year ended 31 March 2014, representing a further decrease of approximately 31.9%.

Working capital

The total consideration under the Acquisition Agreement is HK$3 million which will be settled upon Completion by way of cash. Based on the annual report for the year ended 31 March 2014, the Group's working capital (i.e. total current assets of approximately HK$129.2 million less total current liabilities of approximately HK$8.9 million) amounted to approximately HK$120.4 million, representing a current ratio of approximately 14.6 times. While the cash and cash equivalents of the Group as at 31 March 2014 stood at HK$112.1 million, we were given to understand that the consideration for the Acquisition will be financed by the Company's internal resources. As such, the immediate cash outflow of HK$3 million, representing approximately 2.7% of the cash and cash equivalent of the Group as at 31 March 2014, would not exert considerable pressure on the working capital of the Group.

As set out in Appendix III to the Circular, the unaudited pro forma consolidated statements of financial position of the Enlarged Group is prepared based on the audited consolidated statement of financial position of the Target Group and as if the Acquisition had been completed on 31 March 2014. The Acquisition is subject to the completion of the Reorganisation involving the disposal of Disposed Companies. As stated in Appendix III to the Circular and advised by the management of the Company, the sales proceeds are calculated as the net book values of the Disposed Companies as at the corresponding disposal dates, as such we are of the view that no gain or loss on disposals is resulted and therefore no material financial impact to the Company upon Completion. We also noted from Appendix III to the Circular that the loss of Disposed Companies for the year ended 31 March 2014 amounted approximately HK$50,000 which would not recurrent after the disposal.

In light of the aforesaid financial effects of the Acquisition on the net asset value, earnings, as well as working capital of the Group, and the conclusion that the disposal of Disposed Companies would not have material financial impact on the Acquisition we are of the view that the Acquisition would have no material changes on the Group's financial position, save and except for the reduction in earnings and working capital. Although the Group's earnings would be reduced, having considered that (i) the positive industry prospect and favourable government policies in relation to the Target Group's business; (ii) potential growth of the demand for G-PON equipment and E-PON equipment in the PRC; and (iii) the Acquisition would bring in additional revenue stream to the Group, we are of the view that in the long run, the Acquisition is expected to benefit the Company and the Shareholders as a whole.

Risk factors

The Directors have identified a number of risks associated with the Acquisition which are set out in the section headed "Risk factors" in the Letter from the Board in the Circular. We are of the view that Independent Shareholders should bear in mind all of those risk factors when considering the Acquisition as they may have different risk preference and are of varied risk tolerance level. In this regard, we have considered the three most significant risks and set out below our views as follows:

1. *Heavy reliance on China Telecom and non-guaranteed bidding success rate*

The continuous growth of the business of the Target Group relies heavily on the ability of the Target Group to retain China Telecom, being the largest customer of the three years ended 31 March 2014 and the three months ended 30 June 2014. As (i) contracts of telecommunications projects in the PRC are normally entered into for a fixed term with no right of renewal; and (ii) technological preference changes from time to time, it is not guaranteed that existing resources of the Target Group will continue to fulfill the prerequisites to be one of the Qualified Companies and keep up with the market demand and the needs of telecommunications operators at all times.

Having considered that only companies possess the prerequisite industry experience and proven track records are qualified to submit bids for telecommunication projects in the PRC, Target Group has participated and successfully won certain proportion of bidding in the Annual Tendering Process of China Telecom from 2011 to 2014. We do not foresee any reasons or obstacles which the Target Group could not continue to be a qualified supplier of the China Telecom after Completion. However, Shareholders should note that there is no assurance that the Group would be able to (i) retain China Telecom or to secure other telecommunications operators with similar sales volume and profit margin; (ii) submit bids in the Annual Tendering Process and to substantiate a meaningful allocation of purchase; and (iii) maintain the ever-changing prerequisites needed to be deemed as one of the Qualified Companies for telecommunications operators in the PRC, the Target Group's business, results of operations and financial position may be materially and adversely affected.

2. *Heavy reliance on SMTC, being a major supplier of the Target Group*

The contracted amount of business between the Target Group and SMTC represented approximately 99%, 85%, 70% and 72% of the total purchase by the Target Group for the three years ended 31 March 2014 and the three months ended 30 June 2014, respectively. Given the Target Group is currently one of the largest customers of SMTC, we are of the view that SMTC also has intention to secure the business relationship with the Target Group on a mutually beneficial prospect.

However, Shareholders should note that there is no assurance that SMTC would always supply products to the Target Group at prevailing market price or in terms and conditions which are no less favorable to the third party buyers making similar purchases.

3. Volatility of product price

The Target Group's results of operations have been largely dependent on its product prices of G-PON equipment, E-PON equipment and other residential gateway products. The product prices of the aforesaid products sold to telecommunications operators in the PRC are volatile due to market supply and demand. Volatility of the product prices driven by market competition may reduce the Target Group's gross profit margin. We are of the opinion that such risk factor is general to companies operated in the same industry. As the historical gross profit margins of the Target Group were relatively stable and that the Target Group would normally scrutinize the availability of products and the corresponding unit cost from SMTC before submitting bids to China Telecom in order to maintain a reasonable level of profitability.

4. Historical non-compliance operations

During the course of the legal due diligence, which is one of the conditions precedent to the Acquisition Agreement, the Company noted that Hua Tian who does not have the requisite project designing qualifications and had entered into a System Project Designing Subcontracting Contract (the "**Contract I**") with Beijing Zhongke Qilin Information Engineering Co., Ltd. (北京中科麒麟信息工程有限責任公司). The signing date of the Contract I is not specified in the executed version, and as advised by the Target Group, such Contract was executed in December 2013 and has not been terminated. According to the Contract I, (1) the project name is the designing of the intellectual traffic command center system in Urumchi (烏魯木齊市智能交通指揮中心系統設計), (2) the project scale includes one command center, one data center, one integrated platform, nine subsystems and one network, (3) Hua Tian is obliged to deliver the designing plan of the intellectual traffic command center system in Urumchi to Beijing Zhongke Qilin Information Engineering Co., Ltd on 31 October, 2013, including general plan, plan for each subsystem and relevant blueprints, and (4) Hua Tian is entitled to a design fee amounting to RMB7.2 million.

Furthermore, Hua Tian has entered into a System Project Designing Contract (the "**Contract II**") with China Communications Information Co., Ltd. (中國交通信息有限公司). The signing date of the Contract II is not specified in the executed version, and as advised by the Target Group, such Contract was executed in December 2013 and has not been terminated. According to the Contract II, (1) the project name is the designing of the intellectual traffic command center system in Urumchi (烏魯木齊市智能交通指揮中心系統設計), (2) the project scale includes one command center, one data center, one integrated platform and one network, (3) China Communications Information Co., Ltd. is obliged to deliver the designing plan of the intellectual traffic command center system in Urumchi to Hua Tian on 31 December, 2013, including general plan, plan for each subsystem and relevant blueprints, and (4) China Communications Information Co., Ltd. is entitled to a design fee amounting to RMB3.2 million.

Under the relevant PRC laws and regulations, enterprises engaged in construction activities such as designing shall only engage in such construction activities after obtaining the appropriate qualifications. Since Hua Tian does not possess the requisite project designing qualification for the project design work of the intellectual traffic command center system in Urumchi, it is not qualified to engage in or undertake the design project under the Contract I. The execution and performance of the Contract I by Hua Tian may be deemed as a violation of the aforesaid provisions. For any enterprise that undertakes any designing project without obtaining the requisite qualifications, the government authorities may prohibit it from such activities, impose a fine of between 100%-200% of the design fee under the contract, and confiscate its illegal incomes.

In addition, under the relevant PRC laws and regulations, it is prohibited (i) for a contractor to subcontract the project to enterprises that do not possess the requisite qualifications; (ii) for a contractor to sublet the entire project that it has itself undertaken to another party; and (iii) for a subcontractor to further subcontract the project that it has itself been subcontracted, and the aforesaid occurrences under (i) and (iii) shall be regarded as illegal subcontracting and those under (ii) shall be regarded as sublet. The execution and performance of the Contract I may constitute the fact that a contractor to subcontract the project to a enterprise that does not possess the requisite qualifications as referred to under the aforesaid (i), provided that Beijing Zhongke Qilin Information Engineering Co., Ltd. is itself a contractor to the project thereunder; or, the execution and performance of the Contract I may constitute the fact that a subcontractor to further subcontract the project that it has itself been subcontracted as referred to under the aforesaid (iii), provided that Beijing Zhongke Qilin Information Engineering Co., Ltd. is itself a subcontractor to the project thereunder. For any loss caused due to the fact that the project sublet or illegally subcontracted fails to meet the stipulated quality standards, the enterprise which accepts the sublet contract work or subcontract work shall, together with the contractor, bear joint and several liabilities for compensation. Hua Tian may be faced with the above administrative punishment and legal risks for the execution and performance of the Contract I.

Moreover, as to Hua Tian's sub-contracting work under the Contract II, since Hua Tian has itself been subcontracted with the project from Beijing Zhongke Qilin Information Engineering Co., Ltd., the execution and performance of the Contract II by Hua Tian may be deemed to constitute a violation that a subcontractor to further subcontract the project that it has itself been subcontracted as referred to under the aforesaid (iii). As a result, the government authorities may order Hua Tian to rectify the matter, confiscate its illegal incomes, impose a fine of between 25%-50% of the design fee under such contract, and order Hua Tian to suspend business for rectification. For any loss caused due to the fact that the project illegally subcontracted fails to meet the stipulated quality standards, Hua Tian may bear joint and several liabilities for compensation. To the best of the Directors' knowledge, information and belief, any potential suspension of business of Hua Tian will not affect the operation of Hua Qin which is the major operating subsidiary of the Target Group. As such, the Directors are of the view that any potential suspension of business of Hua Tian will not result in material adverse change to the Target Group.

Furthermore, under the relevant PRC laws and regulations, a company shall apply for alteration registration in the event of change of business scope. Hua Tian fails to register the project designing business within its business scope. As a result, the government authorities may order Hua Tian to make the alteration registration on time. If it has failed to get registered within the time limit, a fine from RMB10,000 to RMB100,000 may be imposed. According to the management of Hua Tian, the performance obligations of Hua Tian under Contract I and Contract II have been completed as of 1 October 2014 and subject to the remaining 5% installment payment by/to the counterparties.

As advised by the Company's PRC legal counsel to the Directors, the total maximum potential penalties against the Target Group in relation to the above non-compliance operations are estimated of RMB16.1 million. As at the Latest Practicable Date, we understand from the management of the Target Group that no punishment, orders, or claims had been received by the Target Group, and according to the terms of the Acquisition Agreement, the Vendor had undertaken to indemnify fully and keep indemnified fully the Group at all times from and against any losses suffered or incurred by the Group as a result of or in connection with any pending claim, counterclaim, proceeding, investigation, hearing or litigation subsisting on or before Completion to which the Group is a party (whether as plaintiff or defendant), which shall include the non-compliance stated above. To the best of the Directors' knowledge, information and belief, having consider the indemnity provided by the Vendor, we concur with the Directors' view that the risk of the aforesaid non-compliance operations has been full indemnified by the Vendor and therefore no material legal and financial implications with respect to the aforesaid non-compliance and Acquisition.

As set out in the Letter from the Board, the Target Group has immediately adopted an internal policy which require entry new contract to be reviewed by the directors of the Target Group in order to prevent any future non-compliance events in relation to entering into new contracts and/or business which the Target Group does not possess the necessary, relevant and/or related licenses, permits and approvals. As advised by the

Directors, upon Completion, the Company intends to appoint Mr. Wang Xiao Qi, who will oversee and manage the Target Group and report directly to the senior management of the Group. Given Mr. Wang Xiao Qi has over 14 years experiences in telecommunications industry in the PRC and a prior senior management of the Target Group, we are of the view that he has in-depth and extensive knowledge to monitor the overall operation of the Target Group and to ensure the new contracts and/or business to be entered by the Target Group will fully compliant with the relevant laws and regulations in the PRC.

RECOMMENDATIONS

In arriving at our recommendation, we have taken into account the factors and reasons, as well as our independent analysis as presented in this letter, including:

- the Acquisition provides a new business opportunity for the Enlarged Group, as the Target Group possess with prerequisite industry qualifications and experiences and proven track records and is qualified to submit bids for China Telecom, being one of the leading telecommunications operators in the PRC, for more than three years;

- upon Completion, the Group can leverage on the Target Group's well established after-sales services network to expand its business in a more efficient and cost effective manner;

- the rapid development of telecommunications and Internet industry and the favourable government policies in relation to the Target Group's business as well as the potential growth of the demand for the G-PON equipment and E-PON equipment in the PRC; and

- limited downside risk with reference to the overall assessments of the implied valuation of the Considerations and the Guaranteed Profit.

On the basis of the foregoing, we are of the opinion that taken as a whole, the Acquisition Agreement is on normal commercial terms, in the ordinary and usual course of business of the Group, and is fair and reasonable and in the interests of the Company and Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Acquisition Agreement and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
China Galaxy International Securities (Hong Kong) Co., Limited
Steven Chiu
Managing Director
Investment Banking

A. FINANCIAL SUMMARY

Financial information on the Group for each of the three years ended 31 March 2012, 2013 and 2014 are set out in the audited consolidated financial statements of the Group for the years ended 31 March 2012, 2013 and 2014 respectively, which are included in the annual reports of the Company for the respective years and are published on both the GEM website (www.hkgem.com) and the website of the Company (www.ybds.com.hk) respectively.

B. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 September 2014, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this Circular, the Enlarged Group had unsecured advances from independent third parties which were non-trade nature amounting to approximately HK$67,774,000 included in current liabilities and total future minimum lease payments under non-cancellable operating leases in respect of rented premises and equipment amounting to approximately HK$21,663,000.

Save as aforesaid, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Enlarged Group did not have any other outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30 September 2014.

The Directors are not aware of any material changes in the indebtedness, contingent liabilities and commitments of the Enlarged Group since 30 September 2014, the date of which the statement of indebtedness is made and up to the Latest Practicable Date.

C. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that the Enlarged Group will, taking into account the financial resources available to the Enlarged Group, including internally generated funds, the available banking facilities, have sufficient working capital for its present operating requirements and for the next twelve months from the date of this Circular in the absence of unforeseen circumstances.

D. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 March 2014, being the date to which the latest audited financial statements of the Group were made up.

E. BUSINESS OUTLOOK AND PROSPECTS OF THE ENLARGED GROUP

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the audited revenue and gross profit from continuing operation of the Group for the year ended 31 March 2014 were approximately HK$36.6 million and HK$8.5 million respectively, and the unaudited pro forma revenue and gross profit from continuing operation of the Enlarged Group will be approximately HK$319.3 million and HK$33.3 million, respectively after Completion.

Thereafter, the Company intends to manage the Target Group's business and operations on a "hands-ons" basis. The Company will fully merge and integrate the Target Group's day-to-day operations as well as their management and financial reporting lines into the Group's system of management and financial control in Hong Kong. Although the Company anticipates that there will be minimal change to the daily physical operation of the Target Group's business, the Target Group's existing senior and middle management nonetheless will all have to report to their counterparts in Hong Kong. All new commercial contracts, irrespective of their nature or dollar amount will be required to be approved and signed off by at least one person from the Group's senior management. Monthly financial reporting and payment or reimbursement of any and all expenses must go through proper channels in the PRC as well as Hong Kong, and be approved by at least one person from the Group's senior management.

With regard to the Target Group's trading business, given (i) their excellent relationship with China Telecom, (ii) their historical track record in respect of winning bids, (iii) their current preparation to submit a bid to supply China Telecom, in part or in whole, with their 2014 requirements of approximately 6.37 million residential gateway products including E-PON equipment and G-PON equipment, (iv) expected business volume, (v) profit margins to be generated, and (vi) tighter management over costs and expenses, at this particular juncture, the management of the Company is confident and sees no reason why the Target Group will not be able to achieve a net profit of at least HK$3,000,000 over the next 12 months.

Furthermore, in planning ahead of Completion, the Company, through Guangzhou YBDS, has entered into discussions with a branch company of China Telecom to supply it with not less than 105,000 sets of E-PON equipment subject to the Group's successful endeavor to acquire the Target Group since it presently does not have the qualifications required to be a E-PON/G-PON equipment supplier to China Telecom. The proposed equipment supply contract is exclusive of the required 6.37 million gateway products mentioned in the above paragraph.

Once the Target Group's business has been successfully merged into the Company operating framework, the Company will then consider appointing director(s) and/or representative(s) to the board of directors and management team of the Target Group, or, to appoint director(s) and/or representative(s) of the Target Group onto the board of directors and management team of the Company. At the time when such an appointment(s) is warranted, the candidate(s) to be recommended will be put forth to our nomination committee for them to decide whether it is appropriate based on his or her qualifications and the commercial reasons for doing so.

Although the Target Group's trading business with China Telecom represents good value in consideration, the management of the Company believes that the intangible goodwill inherited in the Acquisition in terms of the Target Group's registered capital, track record, and relevant licences have greater potential value and synergetic effect with the Group as a whole. The prerequisites of the Target Group may offer an invaluable entry point for many of the Group's proposed and ongoing value added projects with the telecommunications operators in the PRC. Even if the proposed project necessitates the Group partnering with one or more independent third parties, the Group will be in a stronger position when negotiating the general and specific terms and conditions of the written agreement(s).

The following is the text of our accountant's report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Solormark (HK) C.P.A. Company Limited, Certified Public Accountants, Hong Kong.

ACCOUNTANT'S REPORT ON MAGIC HOUR HOLDINGS LTD

10 November 2014

The Board of Director
Yunbo Digital Synergy Group Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman KY1-1111,
Cayman Islands

Dear Sir:

We report on the financial information on Magic Hour Holdings Ltd (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group"), including the consolidated statements of financial position as at 31 March 2012, 2013, 2014 and 30 June 2014 the statements of financial position of the Target Company as of 31 March 2012, 2013, 2014 and 30 June 2014, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Target Group for each of the three years ended 31 March, 2012, 2013, 2014 and three months ended 30 June 2014 (the "Relevant Period") and a summary of significant accounting policies and other explanatory notes (the "Financial Information") for inclusion in the circular (the "Circular") dated 10 November 2014 issued by Yunbo Digital Synergy Group Limited in connection with the proposed acquisition of the 100% equity interest in the Target Group (the "Proposed Acquisition"). Details of the Proposed Acquisition were set out in the Circular.

The Target Company was incorporated in the British Virgin Islands with limited liability on 1 July 2009. The principal subsidiaries of the Target Company are listed in note 13 of this report.

As the Target Company has adopted 31 March as its financial year end date, up to the date of this report, no statutory financial statements of the Target Company have been prepared.

The directors of the Target Company have prepared the financial statements of the Target Company and its subsidiaries for the Relevant Periods, in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have carried out independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have also carried out additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountants" issued by the HKICPA. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Directors' Responsibility for the Financial Information

The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline AG3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have also performed a review of the comparative information in accordance with Hong Kong Standard on Review Engagement HKSRE 2400 "Engagements to Review Financial Statements" issued by the HKICPA. A review consists principal of making enquires of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets and liabilities and transactions. It is subsequently less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the comparative information.

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the Target Group's and the Target Company state of affairs as at 31 March 2012, 2013, 2014 and 30 June 2014 and of the Target Group results and cash flows for the Relevant Period then ended.

Review conclusion

The comparative statement of comprehensive income and statement of changes in equity of the Target Group's and the Target company for the three months ended 30 June 2013 together with the notes thereon have been extracted from the financial statement for the three months ended 30 June 2013 (the "30 June 2013 financial information") which were prepared by the directors of the company solely for the purpose of this report.

Accordingly, we do not express an audit opinion on the 30 June 2013 financial information.

CONSOLIDATED STATEMENTS OF PROFIT OF LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March			Three months ended 30 June	
		2014	2013	2012	2014	2013
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
						(Unaudited)
Revenue	5	282,694,957	223,387,991	56,341,688	51,287,782	73,318,327
Cost of sales and service		(257,896,341)	(203,960,062)	(50,995,689)	(45,812,967)	(67,963,929)
Gross profit		24,798,616	19,427,929	5,345,999	5,474,815	5,354,398
Other income	6	1,732,778	331,464	4,666,518	753,619	57,393
Distribution costs		(16,837,724)	(11,948,158)	(4,844,482)	(3,902,583)	(3,714,839)
Administrative expenses		(10,392,946)	(23,772,852)	(30,264,192)	(2,662,687)	(1,935,344)
Interest expenses		(31,620)	(60,504)	(19,118)	(18,279)	(5,278)
Loss before income tax	7	(730,896)	(16,022,121)	(25,115,275)	(355,115)	(243,670)
Income tax expenses	8	–	–	–	–	–
Loss for the year/period from continuing operations		(730,896)	(16,022,121)	(25,115,275)	(355,115)	(243,670)
Loss for the year/period from discontinued operations	23	(49,880)	(50,128)	(4,560)	(1,634)	(5,451)
Loss for the year/period	9	(780,776)	(16,072,249)	(25,119,835)	(356,749)	(249,121)
Other comprehensive expenses that may be reclassified subsequently to profit or loss						
Release of translation reserve upon disposal of a subsidiary		(7,353)	–	–	(291,685)	–
Exchange differences arising on translation of foreign operations		(220,129)	(19,378)	16,828	292,470	(248,029)
Total comprehensive expenses for the year/period		(1,008,258)	(16,091,627)	(25,103,007)	(355,964)	(497,150)

		Year ended 31 March			Three months ended 30 June	
		2014	2013	2012	2014	2013
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
						(Unaudited)
Loss attributable to:						
Owners of the Target company		(1,218,741)	(9,414,190)	(19,649,779)	(242,815)	(131,286)
Non-controlling interests		437,965	(6,658,059)	(5,470,056)	(113,934)	(117,835)
		(780,776)	(16,072,249)	(25,119,835)	(356,749)	(249,121)
Loss attributable to owners of the Target company arising from:						
Continuing operations		(1,194,601)	(9,366,244)	(19,645,219)	(241,181)	(125,835)
Discontinued operations	23	(24,140)	(47,946)	(4,560)	(1,634)	(5,451)
		(1,218,741)	(9,414,190)	(19,649,779)	(242,815)	(131,286)
Profit/(Loss) attributable to non-controlling interests arising from:						
Continuing operations		463,705	(6,655,877)	(5,470,056)	(113,362)	(119,743)
Discontinued operations	23	(25,740)	(2,182)	–	(572)	1,908
		437,965	(6,658,059)	(5,470,056)	(113,934)	(117,835)
Total comprehensive income/ (expenses) for the year/period attributable to						
Owners of the Target company		(1,676,901)	(9,569,060)	(19,841,084)	(291,343)	(559,236)
Non-controlling interests		668,643	(6,522,567)	(5,261,923)	(64,621)	62,086
		(1,008,258)	(16,091,627)	(25,103,007)	(355,964)	(497,150)

		Year ended 31 March			Three months ended 30 June	
		2014	2013	2012	2014	2013
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
						(Unaudited)
Total comprehensive income/ (expenses) for the year/period attributable to owners of the Target Company arising from:						
Continuing operations		(1,632,060)	(9,579,861)	(19,840,668)	(303,322)	(764,388)
Discontinued operations		(44,841)	10,801	(416)	11,979	205,152
		(1,676,901)	(9,569,060)	(19,841,084)	(291,343)	(559,236)
Total comprehensive income/ (expenses) for the year/period attributable to non-controlling interests arising from:						
Continuing operations		654,588	(6,524,506)	(5,261,923)	(77,105)	59,495
Discontinued operations		14,055	1,939	–	12,484	2,591
		668,643	(6,522,567)	(5,261,923)	(64,621)	62,086

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 March 2014 HK$	2013 HK$	2012 HK$	As at 30 June 2014 HK$
ASSETS					
Non-current assets					
Property, plant and equipment	12	3,253,103	110,777	87,548	3,084,017
		3,253,103	110,777	87,548	3,084,017
Current assets					
Inventories	14	89,348,895	129,405,449	45,508,153	92,675,598
Trade receivables	15	54,612,834	98,180,865	33,934,072	60,910,030
Other receivables	16	9,551,029	5,484,597	3,552,734	15,218,751
Amount due from related parties	24	4,590,324	91,117	78,237	4,510,681
Prepaid tax		7,800,293	21,557,339	7,295,431	9,030,297
Cash and cash equivalents	17	149,858,370	27,510,437	41,713,409	110,007,087
		315,761,745	282,229,804	132,082,036	292,352,444
Assets of disposal group classified as held for sale	23	47,906,295	12,981,780	608,548	35,325,469
Total current assets		363,668,040	295,211,584	132,690,584	327,677,913
TOTAL ASSETS		366,921,143	295,322,361	132,778,132	330,761,930
LIABILITIES					
Non-current liabilities					
Other payables	19	56,079,344	56,536,860	26,147,803	55,898,664
		56,079,344	56,536,860	26,147,803	55,898,664
Current liabilities					
Trade payables	18	32,680,115	33,806,229	–	33,360,324
Other payables	19	14,255,204	8,213,916	7,070,058	16,622,087
Amount due to related parties	24	262,527,195	211,234,458	115,985,838	223,920,450
		309,462,514	253,254,603	123,055,896	273,902,861
Liabilities of disposal group classified as held for sale	23	63,810	432,526	368,285	894
Total current liabilities		309,526,324	253,687,129	123,424,181	273,903,755
TOTAL LIABILITIES		365,605,668	310,223,989	149,571,984	329,802,419

		As at 31 March			As at 30 June
		2014	**2013**	**2012**	**2014**
	Note	*HK$*	*HK$*	*HK$*	*HK$*
NET CURRENT ASSETS		54,141,716	41,524,455	9,266,403	53,774,158
TOTAL ASSETS LESS CURRENT LIABILITIES		57,394,819	41,635,232	9,353,951	56,858,175
NET ASSETS/ (LIABILITIES)		1,315,475	(14,901,628)	(16,793,852)	959,511
EQUITY					
Equity attributable to owners of the Target Company					
Share capital	*20*	16	16	16	16
Reserves		(31,558,177)	(29,881,275)	(20,312,215)	(31,849,520)
		(31,558,161)	(29,881,259)	(20,312,199)	(31,849,504)
Non-controlling interests		32,873,636	14,979,631	3,518,347	32,809,015
TOTAL EQUITY/ (CAPITAL DEFICIENCY)		1,315,475	(14,901,628)	(16,793,852)	959,511

STATEMENTS OF FINANCIAL POSITION

		As at 31 March			As at 30 June
		2014	2013	2012	2014
	Note	*HK$*	*HK$*	*HK$*	*HK$*
ASSETS					
Non-current assets					
Investment in subsidiary	*13*	103,203	103,203	103,203	103,203
		103,203	103,203	103,203	103,203
Current assets					
Cash and cash equivalents	*17*	21,757	22,552	17,784,515	20,960
		21,757	22,552	17,784,515	20,960
Total assets		124,960	125,755	17,887,718	124,163
LIABILITIES					
Current liabilities					
Amount due to a related party	*24*	180,532	180,532	17,924,630	180,532
Other payables	*19*	100,000	75,000	50,000	100,000
		280,532	255,532	17,974,630	280,532
Net current liabilities		(258,775)	(232,980)	(190,115)	(259,572)
Total assets less current liabilities		(155,572)	(129,777)	(86,912)	(156,369)
Net liabilities		(155,572)	(129,777)	(86,912)	(156,369)
EQUITY					
Equity attributable to owners of the Target Company					
Share capital	*20*	16	16	16	16
Reserves		(155,588)	(129,793)	(86,928)	(156,385)
Capital deficiency		(155,572)	(129,777)	(86,912)	(156,369)

CONSOLIDATED CASH FLOW STATEMENTS

		Year ended 31 March			Three months ended 30 June	
		2014	2013	2012	2014	2013
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
						(Unaudited)
Cash flows from operating activities						
Loss before tax from continuing operations		(730,896)	(16,022,121)	(25,115,275)	(355,115)	(243,670)
Loss before tax from discontinued operations	23	(49,880)	(50,128)	(4,560)	(1,634)	(5,451)
Adjustment for:						
Depreciation of property, plant and equipment		290,523	54,592	42,081	181,238	17,391
Provision for impairment of other receivables		850,275	–	12,504,188	–	–
Provision for impairment loss on inventory		–	11,698,409	3,259,534	–	–
Gain on disposal of subsidiary		(6,256)	–	(487,887)	–	–
Waiver of other payables		–	–	(3,759,408)	–	–
Interest income		(1,726,522)	(331,464)	(400,057)	(744,382)	(57,393)
Interest expenses		31,620	60,504	19,118	20,015	7,951
Operating profit/(loss) before working capital changes		(1,341,136)	(4,590,208)	(13,942,266)	(899,878)	(281,172)
Decrease/(Increase) in inventory		40,056,555	(95,529,494)	(47,530,367)	(3,259,193)	34,002,789
Decrease/(Increase) in trade receivables		43,568,031	(64,246,794)	(28,108,805)	(6,255,932)	41,089,708
Increase in other receivables		(5,149,738)	(14,647,856)	(16,131,089)	(5,660,505)	(28,617,024)
Decrease/(Increase) in amount due from related parties		(39,472,992)	(12,880)	(78,237)	83,113	–
Decrease/(Increase) in prepaid tax		13,559,898	(14,261,908)	(6,752,303)	(1,224,111)	8,561,480
Decrease in tax payables		–	–	(322,984)	–	–
Increase in trade payables		(1,126,114)	33,806,229	(5,320,057)	718,481	(5,769,995)
Increase/(Decrease) in accrued liabilities and other payable		6,050,073	1,208,099	7,565,627	2,293,148	2,605,828
Increase in amount due to related parties		51,292,737	95,248,620	52,829,536	(38,805,103)	(56,746,187)
Cash generated from/(used in) operations		107,437,314	(63,026,192)	(57,790,945)	(53,009,980)	(5,154,573)
Interest expenses		(31,620)	(60,504)	(19,118)	(20,015)	(7,951)
Net cash generated from/(used in) operating activities		107,405,694	(63,086,696)	(57,810,063)	(53,029,995)	(5,162,524)

		Year ended 31 March			Three months ended 30 June	
		2014	2013	2012	2014	2013
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
						(Unaudited)
Cash flows from investing activities						
Interest received		1,726,522	331,464	400,057	744,382	57,393
Purchase of property, plant and equipment		(3,434,587)	(77,109)	(7,151)	(9,903)	(10,995)
Contribution by non- controlling interests of a subsidiary		17,225,361	17,983,851	42,998	–	–
Net cash (outflow)/inflow form disposal of a subsidiary	*21*	(13,955)	–	2,485,320	12,238,223	–
Net cash (used in)/generated from investing activities		15,503,341	18,238,206	2,921,224	12,972,702	46,398
Cash flow from financing activities						
Increase/(decrease) in other payables		(457,516)	30,389,057	18,087,111	–	–
Net cash generated from financing activities		(457,516)	30,389,057	18,087,111	–	–
Net increase/(decrease) in cash and cash equivalents		122,451,519	(14,459,433)	(36,801,728)	(40,057,293)	(5,116,126)
Effect on foreign exchange rate changes		(217,377)	(86,301)	22,021	181,976	430,301
Cash and cash equivalents at the beginning of year/period		27,776,223	42,321,957	79,101,664	150,010,365	27,776,223
Cash and cash equivalents at the end of year/period		150,010,365	27,776,223	42,321,957	110,135,048	23,090,398
Cash and cash equivalents included in assets of disposal group classified as held for sale		(151,995)	(265,786)	(608,548)	(127,961)	(264,787)
Cash and cash equivalents of continuing operations		149,858,370	27,510,437	41,713,409	110,007,087	22,825,611

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Target Company					
	Share capital HK$	Translation reserve HK$	Retained earnings HK$	Total HK$	Non-controlling interests HK$	Total Equity HK$
Balance at 1 April 2011	16	14,282,610	(14,753,741)	(471,115)	8,737,272	8,266,157
Loss for the year	–	–	(19,649,779)	(19,649,779)	(5,470,056)	(25,119,835)
Other comprehensive expenses						
Exchange difference arising on translation of foreign operations	–	(191,305)	–	(191,305)	208,133	16,828
Total comprehensive income/(expenses) for the year	–	(191,305)	(19,649,779)	(19,841,084)	(5,261,923)	(25,103,007)
Contribution by non-controlling interest of a subsidiary	–	–	–	–	42,998	42,998
	–	(191,305)	(19,649,779)	(19,841,084)	(5,218,925)	(25,060,009)
As at 31 March 2012 and 1 April 2012	16	14,091,305	(34,403,520)	(20,312,199)	3,518,347	(16,793,852)
Loss for the year	–	–	(9,414,190)	(9,414,190)	(6,658,059)	(16,072,249)
Other comprehensive expenses						
Exchange difference arising on translation of foreign operations	–	(154,870)	–	(154,870)	135,492	(19,378)
Total comprehensive income/(expenses) for the year	–	(154,870)	(9,414,190)	(9,569,060)	(6,522,567)	(16,091,627)
Contribution by non-controlling interests of a subsidiary	–	–	–	–	17,983,851	17,983,851
	–	(154,870)	(9,414,190)	(9,569,060)	11,461,284	1,892,224
As at 31 March 2013 and 1 April 2013	16	13,936,435	(43,817,710)	(29,881,259)	14,979,631	(14,901,628)

	Attributable to equity holders of the Target Company					
	Share capital	Translation reserve	Retained earnings	Total	Non-controlling interests	Total Equity
Loss for the year	–	–	(1,218,741)	(1,218,741)	437,965	(780,776)
Other comprehensive expenses						
Release of translation reserve upon disposal of a subsidiary	–	(7,353)	–	(7,353)	–	(7,353)
Exchange difference arising on translation of foreign operations	–	(450,807)	–	(450,807)	230,678	(220,129)
Total comprehensive income/ (expenses) for the year	–	(458,160)	(1,218,741)	(1,676,901)	668,643	(1,008,258)
Contribution by non-controlling interests of a subsidiary	–	–	–	–	17,225,361	17,225,361
	–	(458,161)	(1,218,741)	(1,676,901)	17,894,005	16,217,103
As at 31 March 2014 and 1 April 2014	16	13,478,274	(45,036,451)	(31,558,161)	32,873,636	1,315,475
Loss for the period	–	–	(242,815)	(242,815)	(113,934)	(356,749)
Other comprehensive expenses						
Release of translation reserve upon disposal of a subsidiary	–	(291,685)	–	(291,685)	–	(291,685)
Exchange difference arising on translation of foreign operations	–	243,157	–	243,157	49,313	292,470
Total comprehensive income/ (expenses) for the period	–	(48,528)	(242,815)	(291,343)	(64,621)	(355,964)
As at 30 June 2014	16	13,429,746	(45,279,266)	(31,849,504)	32,809,015	959,511
As at 1 April 2013	16	13,936,435	(43,817,710)	(29,881,259)	14,979,631	(14,901,628)
Loss for the period	–	–	(131,286)	(131,286)	(117,835)	(249,121)
Other comprehensive expenses						
Exchange difference arising on translation of foreign operations	–	(427,950)	–	(427,950)	179,921	(248,029)
Total comprehensive income/ (expenses) for the period	–	(427,950)	(131,286)	(559,236)	62,086	(497,150)
As at 30 June 2013 (unaudited)	16	13,508,485	(43,948,996)	(30,440,495)	15,041,717	(15,398,778)

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Magic Hour Holdings Ltd (the "Target Company") was incorporated in the British Virgin Islands on 1 July 2009 as an investment holding company. The address of the Company's registered office is P.O Box 3136, Road Town Tortola, British Virgin Islands.

The Target Company is an investment holding company. The activities of the subsidiaries are set out in note 13 to the financial statements.

The Financial Information is presented in Hong Kong dollars ("HKD") which is different from the functional currency of the Target Company which is Reminbi (RMB).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

The financial statements on page 3 to 46 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The significant accounting policies that have been used in preparation of the financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Target Group's financial statements, if any, are disclosed in note 3 to the financial statements.

The financial statements have been prepared under the historical cost basis. The measurement basis is fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4 to the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Target Company and its subsidiaries (together referred to as "the Target Group") made up to 31 March each year.

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

Subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between Target Group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Target Group's perspective.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Target Company, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Target Company.

Changes in the Target Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Target Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Target Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate.

In the Target Company's statement of financial position, subsidiaries are carried at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal target Group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post acquisition profits are recognised in the Target Company's profit or loss.

Foreign currency translation

Items included in the accounts are measured by using the currency of the primary economics in which the Target Company operates the functional currency. The financial statements are presented in Hong Kong Dollars (HK$) which is difference to the functional currency of the Target Company (RMB).

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Target Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

On the disposal of a foreign operation (i.e. a disposal of the Target Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a joint venture that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Target Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

Property, plant and equipment

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives or lease term, at the following rates per annum:

Plant and machinery	33.33%
Office equipments	20%
Leasehold improvement	20%

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Other assets held for sale and discontinued operations

Assets are classified as held for sale if it is highly probable that their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Target Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Target Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary Target Company acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the profit and loss account, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out cost method. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Financial instruments

The Target Group classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) available-for-sale financial assets and, (iv) derivative financial instruments. The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of its financial assets on initial recognition and reevaluates this designation at every reporting date.

Purchases and sales of all categories financial assets are recognised on their trade-date — the date on which the Target Group commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except financial assets carried at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been legally transferred and the Target Group has transferred substantially all risks and rewards of ownership.

The Target Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Target Group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this sub-category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the profit and loss account in the period in which they arise.

ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Target Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, unless maturity is greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in debtors, accounts receivable, deposits and prepayments in the balance sheet.

Loans and receivables and held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

iii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale investments are carried at fair value, or cost less impairment loss if their fair value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in investment revaluation reserve. On the disposal of the investment or when an investment is determined to be impaired, the cumulative gain or loss previously recognised in investment revaluation reserve will be transferred to the profit and loss account.

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becomes probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– The disappearance of an active market for that financial assets because of financial difficulties; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a Target Group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the Target Group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the Target Group and, national or local economic conditions that correlate with defaults on the assets in the Target Group.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

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

Impairment losses on financial assets other than trade receivables that are stated at amortised cost are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Target Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities

The Target Group's financial liabilities include trade and other payables. They are recognized when the Target Group becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges as the lessee

Where the Target Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

Provisions

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, rendering of services and the use by others of the Target Group's assets yielding interest, net of returns and discounts. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

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

(b) Maintenance and consultancy service income is recognised over the life of the agreement on a straight-line basis. The unearned portion of the maintenance service income received is stated as deferred income in the statement of financial position.

(c) Interest income is recognised on a time-proportion basis using the effective interest method.

Impairment on non-financial assets

Property, plant and equipment and investments in subsidiaries are subject to impairment testing.

Intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest Target Group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The employees of the Target Group's subsidiaries which operate in the PRC are required to participate in the central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Target Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented net if, and only if,

a) the Target Group has the legally enforceable right to set off the recognised amounts; and

b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

    i) the same taxable entity; or

    ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Related parties

(a) A person, or a close member of that person's family is related to the Target Group if that person:

i) has control or joint control over the Target Group;

ii) has significant influence over the Target Group; or

iii) is a member of the key management personnel of the Target Group or of the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

vi) The entity is controlled or jointly controlled by a person identified in (a).

vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family or a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Target Group and the Target Company. Of these, the following developments are relevant to the Target Group's financial statements:

Amendments to HKAS 1	Presentation of items of other comprehensive income
HKFRS 10	Consolidated financial statements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities

The Target Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The Target Group's presentation of other comprehensive income has been modified accordingly.

HKFRS 10 Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12, Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Target Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Target Group in respect of its involvement with other entities as at 1 April 2013.

HKFRS 12 Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's investments in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those required by the respective standards. To the extent that the requirements are applicable to the Target Group, the Target Group has provided those disclosures in note 13.

HKFRS 13 Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Target Group's assets and liabilities. To the extent that the requirements are applicable to the Target Group, the Target Group has provided those disclosures in note 25.

Amendments to HKFRS 7 Disclosure – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and liabilities. Those new disclosures are required for all recognised financial instruments that are set off under HKAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Target Group's consolidated financial statements because the Target Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

The following new standards, amendments and interpretations which have been issued by the HKICPA and may be relevant to the Target Group in future years but are not yet effective for the year ended 31 March 2014 and for the three month ended 30 June 2014:

Effective for the annual period beginning on 1 July 2014 or after

Amendments to HKFRS 32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities
HKFRS 9	Financial instruments

The above standards, amendments and interpretations, if they are relevant to the Target Group, will be adopted in the annual periods listed. The Target Group is in the process of making an assessment of the impact of the above standards, amendments and interpretations but is not yet in a position to their impact on its results of operations and financial position.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Useful lives of property, plant and equipment

The Target Group has significant investments in property, plant and equipment. The Target Group is required to estimate the useful lives of property, plant and equipment in order to ascertain the amount of depreciation charges for each reporting period.

Useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Target Group's strategies. The Target Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology.

Estimated useful economics lives and impairment of property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Target Company assesses annually the residual value and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be not recoverable. The recoverable amounts have been determined based on fair value less costs to sell calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Target Company's financial position and results of the operations.

Impairment of receivables

Management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of the counterparties and the current market condition. Management reassesses the provision at each date of the statement of financial position.

Significant judgement is exercised on the assessment of the collectability of trade and other receivables from each counterparty.

Impairment of inventories of residential gateway products

The Target Group assesses the carrying amounts of inventories of residential gateway product by reviewing the inventory listing and aging analysis on a product-by-product basis at each reporting date, and makes impairment for those obsolete, slow-moving inventories and items that are no longer suitable for use in production. Provision for impairment is made by reference to the latest market value and current market conditions for those inventories identified. The assessment requires the use of judgment and estimates.

Income taxes

There are transactions and calculations relating to the Target Company's ordinary business activities for which the ultimate tax determination is uncertain and judgment is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

5 REVENUE

An analysis for the Target Group's turnover for the year/period is as follows:

a) From continuing operations

	Year ended 31 March			Three months ended 30 June	
	2014	**2013**	**2012**	**2014**	**2013**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)
Revenue					
Sales of residential gateway products	282,638,093	223,348,284	56,092,846	51,287,782	73,318,327
Provision of IT network consultation service	56,864	39,707	248,842	–	–
	282,694,957	223,387,991	56,341,688	51,287,782	73,318,327

b) From discontinued operations

	Year ended 31 March			Three months ended 30 June	
	2014	**2013**	**2012**	**2014**	**2013**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)
Revenue					
Sales of residential gateway products	–	–	–	–	–
Provision of IT network consultation service	–	–	–	–	–
	–	–	–	–	–

6 OTHER INCOME

An analysis for the Target Group's other revenue for the year/period is as follows:

a) From continuing operations

		Year ended 31 March			Three months ended 30 June	
		2014	**2013**	**2012**	**2014**	**2013**
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Other income						
Interest income		1,726,522	331,464	400,057	744,280	57,393
Gain on disposal on a subsidiary	*21*	6,256	–	487,887	–	–
Waiver of other payables		–	–	3,759,408	–	–
Sundry income		–	–	19,166	9,339	–
		1,732,778	331,464	4,666,518	753,619	57,393

A formerly shareholder of Hua Strong Network Science and Technology Limited Company was ceased business on 1 April 2012. Formerly shareholder signed an agreement to waive HK$3,759,408 (RMB3,097,000).

b) From discontinued operations

	Year ended 31 March			Three months ended 30 June	
	2014	**2013**	**2012**	**2014**	**2013**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Other income					
Interest income	6,257	673	818	102	–
	6,257	673	818	102	–

7 LOSS BEFORE INCOME TAX

Loss before income tax for the year is arrived at:

a) From continuing operations

	Year ended 31 March			Three months ended 30 June	
	2014	**2013**	**2012**	**2014**	**2013**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)
After crediting the following items:					
Gain on disposal of subsidiary	6,256	–	487,887	–	–
Waiver of other payables	–	–	3,759,408	–	–
And after charging the following items:					
Auditor remuneration	25,000	25,000	25,000	–	–
Depreciation of property, plant and equipment	290,523	54,592	42,081	181,238	17,391
Provision for impairment of other receivables	850,275	–	12,504,188	–	–
Provision for impairment loss on inventory *(Note 14)*	–	11,698,409	3,259,534	–	–
Employee benefit expenses *(note 10)*	7,399,475	5,039,329	3,673,690	2,281,595	1,715,943
Operating lease charges in respect of rented premises	2,295,114	4,723,829	1,327,174	539,487	533,784

b) From discontinued operations

	Year ended 31 March			Three months ended 30 June	
	2014	**2013**	**2012**	**2014**	**2013**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)
After crediting the following items:					
Gain on disposal of subsidiary	–	–	–	–	–
And after charging the following items:					
Depreciation of property, plant and equipment	–	–	–	–	–

8. INCOME TAX EXPENSES

No provision for Hong Kong profits tax or PRC income tax has been made for the year ended 31 March 2014, 2013, 2012 and for the three months ended 30 June 2014 and 2013 as the Target Group had incurred losses for taxation purpose.

9. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE TARGET COMPANY

The Target Company loss attributable to owners of the Target Company includes a loss of for the year ended 31 March 2014 approximately HK$25,795 (2013: loss of approximately HK$42,865; 2012: loss of approximately HK$23,718) and for the three months ended 30 June 2014 loss of approximately HK$797 (2013 unaudited: loss of approximately HK$5) which has been dealt with in the financial statements of the Target Company.

10. EMPLOYEE BENEFIT EXPENSES

a) From continuing operations

	Year ended 31 March			Three months ended 30 June	
	2014	**2013**	**2012**	**2014**	**2013**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)
Salaries, wages and other benefits	6,579,683	4,352,982	3,130,977	1,826,250	1,428,873
Pension costs	819,792	686,347	542,713	455,345	287,070
	7,399,475	5,039,329	3,673,690	2,281,595	1,715,943

b) From discontinued operations

	Year ended 31 March			Three months ended 30 June	
	2014	**2013**	**2012**	**2014**	**2013**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)
Salaries, wages and other benefits	–	–	–	–	–
Pension costs	–	–	–	–	–
	–	–	–	–	–

11 DIRECTORS' REMUNERATION

The directors do not receive any directors' remuneration disclosed for the year ended 31 March 2014, 2013 and 2012 and for the three months ended 30 June 2014 and 2013 (unaudited).

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement *HK$*	Plant and machinery *HK$*	Office equipment *HK$*	Total *HK$*
At 1 April 2011				
Cost	–	119,055	10,453	129,508
Accumulated depreciation	–	(10,428)	(431)	(10,859)
Net book amount	–	108,627	10,022	118,649
Year ended 31 March 2012				
Opening net book amount	–	108,627	10,022	118,649
Additions	–	7,151	–	7,151
Depreciation	–	(40,025)	(2,056)	(42,081)
Exchange alignment	–	3,495	334	3,829
Closing net book amount	–	79,248	8,300	87,548
At 31 March 2012 and April 1 2012				
Cost	–	130,525	10,826	141,351
Accumulated depreciation	–	(51,277)	(2,526)	(53,803)
Net book amount	–	79,248	8,300	87,548
Year ended 31 March 2013				
Opening net book amount	–	79,248	8,300	87,548
Additions	–	74,493	2,616	77,109
Depreciation	–	(52,492)	(2,100)	(54,592)
Exchange alignment	–	654	58	712
Closing net book amount	–	101,903	8,874	110,777
At 31 March 2013 and April 1 2013				
Cost	–	206,312	13,529	219,840
Accumulated depreciation	–	(104,409)	(4,655)	(109,064)
Net book amount	–	101,903	8,874	110,777
Year ended 31 March 2014				
Opening net book amount	–	101,903	8,874	110,777
Additions	3,344,174	90,413	–	3,434,587
Depreciation	(219,705)	(68,198)	(2,620)	(290,523)
Exchange alignment	(3,736)	1,833	165	(1,738)
Closing net book amount	3,120,733	125,951	6,419	3,253,103
At 31 March 2014				
Cost	3,340,176	300,381	13,776	3,654,333
Accumulated depreciation	(219,443)	(174,430)	(7,357)	(401,230)
Net book amount	3,120,733	125,951	6,419	3,253,103

	Leasehold improvement HK$	Plant and machinery HK$	Office equipment HK$	Total HK$
Three months ended 30 June 2014				
Opening net book amount	3,120,733	125,951	6,419	3,253,103
Additions	–	9,903	–	9,903
Depreciation	(166,946)	(13,638)	(654)	(181,238)
Exchange alignment	2,170	75	4	2,249
Closing net book amount	2,955,957	122,291	5,769	3,084,017
At 30 June 2014				
Cost	3,342,700	310,505	13,786	3,666,991
Accumulated depreciation	(386,743)	(188,214)	(8,017)	(582,974)
Net book amount	2,955,957	122,291	5,769	3,084,017

13 INVESTMENT IN SUBSIDIARY – TARGET COMPANY

	As at 31 March 2014 HK$	2013 HK$	2012 HK$	As at 30 June 2014 HK$
Unlisted share, at cost	103,203	103,203	103,203	103,203
Less: Provision for impairment	–	–	–	–
	103,203	103,203	103,203	103,203

Particulars of the principal subsidiaries at 30 June 2014 are as follows:

Name of Company	Place of incorporation	Particulars of issued and paid up capital	Effective percentage of holding	Principal activities, place of operation
Subsidiary held directly:				
Hua Strong Network Science and Technology Limited Company (華天網絡科技有限公司)	The People Republic of China (PRC)	US$800,000	90%	Investment holding in PRC, trading of residential gateway products and IT network consultation service

Name of Company	Place of incorporation	Particulars of issued and paid up capital	Effective percentage of holding	Principal activities, place of operation
Subsidiary held indirectly:				
Beijing Yun Tai Tian Cheng Investment Limited (北京雲泰天成投資有限公司)	The People Republic of China (PRC)	RMB28,000,000	51%	Dormant
Beijing Yunbo Zhong Ruan International Technology Limited (北京雲博中軟國際科技有限公司)	The People Republic of China (PRC)	RMB10,000	65%	Dormant
Beijing Huaqin World Technology Limited Company (北京華勤天地科技有限公司)	The People Republic of China (PRC)	RMB50,000,000	51%	Trading of residential gateway products

Details of the Target Group's subsidiaries that have material non-controlling interests are set out below:

	As at 31 March 2014			As at 30 June
	2014	2013	2012	2014
Percentage of equity interest held by non-controlling interests:				
Hua Strong Network Science and Technology Limited Company	10%	10%	10%	10%
Beijing Huaqin World Technology Limited Company	49%	49%	49%	49%
Beijing Yun Tai Tian Cheng Investment Limited	49%	–	–	49%
Beijing Yunbo Zhong Ruan International Technology Limited	35%	35%	35%	35%

	Year ended 31 March			Three months ended 30 June	
	2014	2013	2012	2014	2013
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)
Profit/(loss) for the year/period allocated to non-controlling interests:					
Hua Strong Network Science and Technology Limited Company	(208,274)	(301,015)	(1,749,951)	(20,526)	(115,036)
Beijing Huaqin World Technology Limited Company	671,979	(6,354,862)	(3,720,105)	(92,836)	(891)
Beijing Yun Tai Tian Cheng Investment Limited	(24,682)	–	–	–	–
Beijing Yunbo Zhong Ruan International Technology Limited	(1,058)	(2,182)	–	(572)	(1,908)

	As at 31 March 2014 HK$	2013 HK$	2012 HK$	As at 30 June 2014 HK$
Accumulated balances of non-controlling interests at the reporting dates:				
Hua Strong Network Science and Technology Limited Company	(1,913,496)	(1,589,841)	(1,545,315)	(1,911,115)
Beijing Huaqin World Technology Limited Company	17,807,673	16,829,429	5,020,664	17,728,186
Beijing Yun Tai Tian Cheng Investment Limited	17,239,723	–	–	17,252,750
Beijing Yunbo Zhong Ruan International Technology Limited	(260,264)	(259,957)	42,998	(260,806)

The following table illustrates the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company elimination:

	Hua Strong Network Science and Technology Limited Company	Beijing Huaqin World Technology Limited Company	Beijing Yun Tai Tian Cheng Investment Limited	Beijing Yunbo Zhong Ruan International Technology Limited
For the three months ended 30 June 2014				
Revenue	20,460	52,020,939	–	102
Total expenses	(185,314)	(52,210,402)	–	(1,736)
Profit/(Loss) for the period	(164,854)	(189,463)	–	(1,634)
Other comprehensive income/(loss)	188,675	27,244	26,583	86
Total comprehensive income/(loss) for the period	23,821	(162,219)	26,583	(1,548)
Current assets	16,151,751	278,199,769	35,210,587	114,882
Non-currents assets	48,350,107	3,084,015	–	–
Current liabilities	30,532,549	245,103,814	(894)	–
Non-current liabilities	55,898,664	–	–	–
For the year ended 31 March 2014				
Revenue	68,566	284,352,910	–	86
Total expenses	(2,151,308)	(282,981,523)	(50,372)	(3,108)
Profit/(Loss) for the year	(2,082,742)	1,371,387	(50,372)	(3,022)
Other comprehensive income/(loss)	(1,153,813)	625,029	79,684	2,144
Total comprehensive income/(loss) for the year	(3,236,555)	1,996,416	29,312	(878)
Current assets	4,066,394	313,692,103	35,184,003	116,430
Non-currents assets	60,650,230	3,253,103	–	–
Current liabilities	30,597,474	280,603,017	893	–
Non-current liabilities	56,079,344	–	–	–

	Hua Strong Network Science and Technology Limited Company	Beijing Huaqin World Technology Limited Company	Beijing Yun Tai Tian Cheng Investment Limited	Beijing Yunbo Zhong Ruan International Technology Limited
For the year ended 31 March 2013				
Revenue	250,306	223,705,131	–	454
Total expenses	(3,260,456)	(236,674,236)	–	(6,689)
Profit/(Loss) for the year	(3,010,150)	(12,969,105)	–	(6,235)
Other comprehensive income/(loss)	(445,255)	366,887	–	693
Total comprehensive income/(loss) for the year	(3,455,405)	(12,602,218)	–	(5,542)
Current assets	3,001,936	281,187,655	–	117,309
Non-currents assets	42,840,038	110,777	–	–
Current liabilities	8,028,752	246,952,658	–	–
Non-current liabilities	56,536,860	–	–	–
For the year ended 31 March 2012				
Revenue	6,449,232	56,272,061	–	–
Total expenses	(23,948,738)	(63,864,113)	–	–
Profit/(Loss) for the year	(17,499,506)	(7,592,052)	–	–
Other comprehensive income/(loss)	(517,738)	530,421	–	–
Total comprehensive income/(loss) for the year	(18,017,244)	(7,061,631)	–	–
Current assets	7,033,070	109,233,649	–	122,850
Non-currents assets	11,822,029	87,548	–	–
Current liabilities	7,975,529	99,074,944	–	–
Non-current liabilities	26,147,803	–	–	–

14 INVENTORY

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Finished goods	107,612,151	147,341,447	51,638,620	111,338,888
Less: Provision for impairment on inventory	(18,263,256)	(17,935,998)	(6,130,467)	(18,663,290)
	89,348,895	129,405,449	45,508,153	92,675,598

Movements of provision for impairment on inventory are as follows:

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
At beginning of the year	(17,935,998)	(6,130,467)	(2,736,693)	(18,263,256)
Charged to the combined statement of comprehensive income	–	(11,698,409)	(3,259,534)	–
Exchange alignment	(327,258)	(107,122)	(134,240)	(400,034)
At end of the year	(18,263,256)	(17,935,998)	(6,130,467)	(18,663,290)

Impairment loss

Provision for impairment amount to HK$11,698,409 and 3,259,534 for the year ended March 31 2013 and 2012 on EPONS, GPONS and other residential equipment are made by reference to the latest market value and current market conditions for those inventories.

15 TRADE RECEIVABLES

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Trade receivables – third parties	54,612,834	98,180,865	33,934,072	60,910,030
	54,612,834	98,180,865	33,934,072	60,910,030

The credit period granted by the Target Group to its customers generally ranged from 120 to 180 days. At the reporting date, the ageing analysis of the Target Group's trade receivables (net of provision for impaired receivables) based on invoice date is as follows:

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Current to 30 days	2,788,246	13,157,304	24,165,817	14,308,652
31 to 60 days	24,064,889	25,177,233	9,242,740	5,661,069
61 to 90 days	958,194	15,506,061	–	17,094,544
91 to 180 days	6,288,900	36,020,769	525,515	3,245,196
180 to 360 days	7,676,102	8,255,436	–	7,091,359
More than 360 days	12,836,503	64,062	–	13,509,210
	54,612,834	98,180,865	33,934,072	60,910,030

The ageing analysis of the Target Group's trade receivables based on due date is as follows:

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Neither past due nor impaired	–	–	–	–
1 to 30 days past due	2,788,246	13,157,304	24,165,817	14,308,652
31 to 60 days past due	24,064,889	25,177,233	9,242,740	5,661,069
61 to 90 days past due	958,194	15,506,061	–	17,094,544
91 to 180 days past due	6,288,900	36,020,769	525,515	3,245,196
180 to 360 days past due	7,676,102	8,255,436	–	7,091,359
Over 360 days past due	12,836,503	64,062	–	13,509,210
	54,612,834	98,180,865	33,934,072	60,910,030

The carrying amounts of the Target Group's trade receivables are denominated in Renminbi (RMB).

Trade receivables that were neither past due nor impaired related to customers for whom there were no recent history of default. Receivables that were past due but not impaired related to customers that have a good track record of credit with the Target Group.

Over 360 days past due of trade receivables was related to a major customer. Since the Target Company has a good relationship with the customer, the management believes that the major customer will settle the outstanding and no impairment of trade receivable were made.

As at 31 March 2014, 2013, 2012 and 30 June 2014, no trade receivables were impaired and no provision for impairment was recognised for the years ended 31 March 2014, 2013, 2012 and for the three months ended 30 June 2014 respectively. The impairment was firstly assessed individually for individual significant or long outstanding balances, and the remaining balances were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk characteristics.

All amounts are short term and hence the carrying values of the Target Group's trade receivables are considered to be a reasonable approximation of fair values. The Target Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

16 OTHER RECEIVABLES

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Other receivables	1,260,344	1,210,438	2,832,696	13,511,401
Deposit paid pertained to the Target Company's deposit paid required by certain sales contract	7,471,676	2,036,949	550,330	629,644
Deposit paid for operating usages	819,009	143,021	151,515	1,077,706
Advance to supplier	–	2,094,189	18,193	–
	9,551,029	5,484,597	3,552,734	15,218,751

Other receivables, deposits and advance to supplier are neither past due nor impaired.

The carrying amounts of the Target Group's other receivables are denominated in Renminbi (RMB).

Impairment loss

The Target Group assesses the carrying amounts of other receivables by reviewing the other receivable listing and aging analysis at each reporting date, and makes impairment for those other receivables. Provision for impairment amount to HK$850,275 and HK$12,504,188 for the year ended 31 March 2014 and 31 March 2012 respectively.

The Target Company's subsidiary, namely Hua Strong Network Science and Technology Limited Company, entered into sales and purchase agreement with independent third parties to dispose the entire equity interest of its subsidiary, Beijing Hua Xin Tian Rui Technology Limited was an indirect wholly-own subsidiary of the Target Group immediately before the sales and purchase agreement on 16 September 2011. In line with the sales and purchase agreement, the consideration HK$12,138,868 (RMB10,000,000) will be received by the Target Company once Hua Strong Network Science and Technology Limited Company has completed for the application of the Security Licenses issued by China Information Technology Security Evaluation Center. The impairment loss of HK$12,138,868 on other receivables was made by the management for the year ended 31 March 2012 in a condition that Beijing Hua Xin Tian Rui Technology Limited has not completed the registration of the Security Licenses as of 31 March 2014.

17 CASH AND CASH EQUIVALENTS

The Target Group

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Cash at bank and in hand	149,858,370	27,510,437	41,713,409	110,007,087

The Target Company

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Cash at bank and in hand	21,757	22,552	17,784,515	20,960

The carrying amounts of the Target Group's cash at bank and in hand are denominated in Renminbi (RMB). The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

18 TRADE PAYABLES

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Trade payables – third parties	32,680,115	33,806,229	–	33,360,324

The aging analysis of trade payables based on invoice dates is as follows:

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Current to 30 days	6,743,058	31,224,558	–	7,615,828
31 to 60 days	3,962,927	764	–	3,895,005
61 to 90 days	2,152,591	8,489	–	5,976,892
90 to 180 days	10,976,308	2,543,612	–	5,877,454
180 to 360 days	8,815,899	28,806	–	9,965,791
More than 360 days	29,332	–	–	29,354
	32,680,115	33,806,229	–	33,360,324

All amounts are short term and hence the carrying values of the Target Group's trade payables are considered to be a reasonable approximation of fair values.

The carrying amounts of the Target Group's trade payables are denominated in Renminbi (RMB).

19 OTHER PAYABLES

The Target Group

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Other payables – third parties	70,334,548	64,750,776	33,222,861	72,520,751
Less: Non-current portion	(56,079,344)	(56,536,860)	(26,147,803)	(55,898,664)
Current portion	14,255,204	8,213,916	7,075,058	16,622,087

The Target Company

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Other payables	100,000	100,000	100,000	100,000

The carrying values of the Target Group's other payables are considered to be a reasonable approximation of fair values.

The carrying amounts of the Target Group's other payables are denominated in Renminbi (RMB).

20 SHARE CAPITAL

	As at 31 March			As at 30 June
	2014	2013	2012	2014
	HK$	*HK$*	*HK$*	*HK$*
Authorised				
50,000 ordinary shares of US$1 each	388,000	388,000	388,000	388,000
Issued and fully paid				
2 ordinary shares of US$1 each	16	16	16	16

21 DISPOSAL OF A SUBSIDIARY

a) Fu Song Hua Tian Property Development Limited (撫松華天投資有限公司)

On 9 May 2014, the Target Group disposed of its subsidiary, Fu Song Hua Tian Property Development Limited, with its 100% equity interest directly held by the Target Group.

The carrying amount of the net assets of Fu Song Hua Tian Property Development Limited at the disposal date of 9 May 2014 was as follows:

	HK$
Cash and cash equivalents	22,513
Other receivables	12,592,872
Other payables	(62,964)
Net assets disposed of	12,552,421
Release of translation reserve upon disposal	(291,685)
Gain on disposal on subsidiary	–
Total	(12,260,736)
Satisfied by:	
Cash consideration	12,260,736
Net cash inflow arising on disposal	
Cash consideration	12,260,736
Cash and cash equivalents disposed of	22,513
Net inflow of cash and cash equivalents	12,238,223
Gain on disposal of Fu Song Hua Tian Property Development Limited	–

b) Beijing Hua Tong Tian Bo Network Technology Limited (北京華通天博網絡技術有限公司)

On 12 August 2013, the Target Group disposed of its subsidiary, Beijing Hua Tong Tian Bo Network Technology Limited, with its 100% equity interest directly held by the Target Group.

The carrying amount of the net assets of Beijing Hua Tong Tian Bo Network Technology Limited at the disposal date of 12 August 2013 were as follows:

	HK$
Cash and cash equivalents	132,200
Other receivables	364,644
Other payables	(377,502)
Net assets disposed of	119,342
Release of translation reserve upon disposal	(7,353)
Gain on disposal on subsidiary	6,256
Total	118,245
Satisfied by:	
Cash consideration	118,245
Net cash inflow arising on disposal	
Cash consideration	118,245
Cash and cash equivalents disposed of	132,200
Net outflow of cash and cash equivalents	13,955
Gain on disposal of Beijing Hua Tong Tian Bo Network Technology Limited	6,256

c) **Beijing Hua Xin Tian Rui Technology Limited (北京華信天瑞科技有限公司)**

On 16 September 2011, the Target Group disposed of its subsidiary, Beijing Hua Xin Tian Rui Technology Limited, with its 100% equity interest directly held by the Target Group.

The carrying amount of the net assets of Beijing Hua Xin Tian Rui Technology Limited at the disposal date of 16 September 2011 were as follows:

	HK$
Cash and cash equivalents	9,555,619
Other receivables	2,226,953
Other payables	(6)
Net assets disposed of	11,782,566
Release of translation reserve upon disposal	(229,514)
Gain on disposal on subsidiary	487,887
Total	12,040,939
Satisfied by:	
Cash consideration	12,040,939
Net cash inflow arising on disposal	
Cash consideration	12,040,939
Cash and cash equivalents disposed of	(9,555,619)
Net inflow of cash and cash equivalents	2,485,320
Gain on disposal of Beijing Hua Xin Tian Rui Technology Limited	487,887

22. OPERATING LEASE

The Target Company leases an office under a non-cancellable operating lease agreement.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Leasehold land and buildings				
Not later than 1 year	–	2,039,792	1,114,228	–
Later than 1 year but not later than 5 years	–	–	276,209	–
Later than 5 years	–	–	–	–
	–	2,039,792	1,390,437	–

23. DISCONTINUED OPERATIONS

The board of directors approving and announcing a formal disposal plan made between subsidiary companies of the company and Magic Hour Holdings Ltd, the ultimate holding company on 30 June 2014 to dispose 51% interest in Beijing Yun Tai Tian Cheng Investment Limited (北京雲泰天成投資有限公司) ("**Yun Tai**"), 65% interest in Beijing Yunbo Zhong Ruan International Technology Limited(北京雲博中軟國際科技有限公司) ("**Yunbo Zhong Ruan**"), 100% interest in Fu Song Hua Tian Property Development Limited (撫松華天房地產開發有限公司) ("**Fu Song**") (collectively, the "Discontinued Group"). Discontinued Group engaged in business other than continuing operations and was dormant during the Relevant Period. The management expects that the Discontinued Group will complete on or before completion date of the very substantial acquisition. Since then, the Discontinued Group have or will be ceased to be subsidiaries of the Target Company. Therefore, the Discontinued Group are treated as discontinued operations for 2014, 2013 and 2012. The comparative of the consolidated statement of comprehensive income has been presented to reflect the changes.

a) Analysis of the loss of discontinued operations is as follows:

	Year ended 31 March 2014			Three months ended 30 June	
	2014	**2013**	**2012**	**2014**	**2014**
	HK$	*HK$*	*HK$*	*HK$*	*HK$* (Unaudited)
Interest income	6,257	673	818	102	–
Expenses	(56,137)	(50,801)	(5,378)	(1,736)	(5,451)
Loss before tax of discontinued operations	(49,880)	(50,128)	(4,560)	(1,634)	(5,451)
Taxation	–	–	–	–	–
Loss for the year/period from discontinued operations	(49,880)	(50,128)	(4,560)	(1,634)	(5,451)
Loss for the year/period from discontinued operations attributable to:					
– Ordinary shareholders of the Target Company	(24,140)	(47,946)	(4,560)	(1,062)	(3,543)
– Non-controlling interests	(25,740)	(2,182)	–	(572)	(1,908)
	(49,880)	(50,128)	(4,560)	(1,634)	(5,451)

b) **Assets of Discontinued Group classified as held for sale:**

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Cash and cash equivalent	151,995	265,786	608,548	127,961
Other receivables	12,780,515	12,715,994	–	197,299
Amount due from a related party – Miao Qiao Li	34,973,785	–	–	35,000,209
	47,906,295	12,981,780	608,548	35,325,469

c) **Liabilities of Discontinued group classified as held for sale**

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Other payables	63,810	432,526	368,285	894
Total current liabilities	63,810	432,526	368,285	894

d) **Cash flow from discontinued operations**

	As at 31 March			As at 30 June	
	2014	**2013**	**2012**	**2014**	**2013**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Operating cash flows	(34,719,469)	(12,830,363)	124,295	12,520,550	(5,451)
Investing cash flows	–	–	–	(12,300,225)	–
Financing cash flows	–	–	–	–	–
Total cash flows	(34,719,469)	(10,474,928)	368,152	220,326	(5,451)

24. RELATED PARTIES TRANSACTION

Parties are considered to be related to the Target Group if the party has the ability, directly or indirectly, to exercise control or significant influence over the Target Group in making financial and operating decisions, or vice versa. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Target Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

a) **Transaction with related parties**

	Year ended 31 March 2014			Three months ended 30 June	
	2014	**2013**	**2012**	**2014**	**2013**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(Unaudited)
Purchases of goods:					
Controlled by certain parties among the Controlling Shareholders					
Shanghai Monetics Telecommunications Corporation	179,260,160	291,580,576	106,398,505	49,176,050	16,956,566
Operating lease charges in respect of rented premises:					
Key Management personnel					
Liu Jing Jing	1,793,884	4,049,577	1,066,856	448,302	446,002

These transactions are carried out on terms agreed with the counterparties in the ordinary course of business.

b) **Balances with related parties – Target Group and Target Company**

The Target Group

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Amount due from related parties:				
Key management personnel:				
Liu Jing Jing	2,516,586	91,117	78,237	2,435,375
He XuChu	2,073,738	–	–	2,075,306
	4,590,324	91,117	78,237	4,510,681

The amounts due from a related party are unsecured, interest-free and are repayable on demand. The fair values of these balances approximate their carrying values.

The Target Group

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Amount due to related parties:				
Liu Jing Jing – Key management personnel	78,017	81,315	552,418	–
Miao Qiao Li – Non controlling interest of a subsidiary of the Target Group	17,969,045	–	–	17,982,623
Shanghai Monetics Telecommunications Corporation – Controlled by certain parties among the Controlling Shareholders	244,299,601	210,972,611	97,508,790	205,757,295
Chan Foo Wing – Director of the Company	180,532	180,532	17,924,630	180,532
	262,527,195	211,234,458	115,985,838	223,920,450

The amount due to related parties – Shanghai Monetics Telecommunications Corporation is non-interest-bearing and is normally settled 20% of goods purchased at the date of delivery. The remaining amount is settled upon received on accounts received from telecommunications operators in the PRC.

The Target Company

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Amount due to a related party:				
Chan Foo Wing – Director of the Target Company	180,532	180,532	17,924,630	180,532

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

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

Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

		As at 31 March		**As at 30 June**
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Financial assets				
Trade receivables	54,612,834	98,180,865	33,934,072	60,910,030
Other receivables	9,551,029	5,484,597	3,552,734	15,218,751
Amount due from related parties	4,590,324	91,117	78,237	4,510,681
Cash and cash equivalents	149,858,370	27,510,437	41,713,409	110,007,087
	218,612,557	131,267,016	79,278,452	190,646,549
Financial liabilities				
Financial liabilities measured at amortised cost				
Trade payables	32,680,115	33,806,229	–	33,360,324
Other payables	70,334,548	64,750,776	33,217,861	72,520,751
Amount due to related parties	262,527,195	211,234,458	115,985,838	223,920,450
	365,541,858	309,791,463	149,203,699	329,801,525

Foreign risk factors

Exposure to market risk (including foreign exchange, interest rate and price risks), credit risk and liquidity risk arises in the normal course of business. The risks are minimised by the financial management policies and practices described below:

Market risk

(i) Foreign exchange risk

The Target Group purchases and sells in Renminbi, that exposes it to currency risk arising from such purchases and sales and the resulting receivables and the payables.

The Target Group closely and continuously monitors the exposure on currency risk. Even HK dollars is not pegged to Renminbi, the historical exchange rate fluctuation on Renminbi is insignificant. Thus, there is no significant exposure expected on Renminbi transactions and balances. In case of any significant fluctuation expected, the Renminbi transactions and balances would also be monitored and controlled in the same manner as other foreign currencies.

(ii) Price risk

The Target Group is not exposed to significant price risk.

(iii) Interest rate risk

Other than deposits held in banks, the Target Group does not have significant interest-bearing assets. Fluctuation of market rates does not have a significant impact to the Target Group's performance.

Credit risk

The Target Group is exposed to credit risk on financial assets, mainly attributable to trade and other receivables. It sets credit limit on each individual customers and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit.

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Trade receivables	54,612,834	98,180,865	33,934,072	60,910,030
Other receivables	9,551,029	5,484,597	3,552,734	15,218,751
	64,163,863	103,665,462	37,486,806	76,128,781

At 31 March 2014, 2013, 2012 and 30 June 2014 and 2013, the Target Group has no concentration of risk and the maximum exposure to credit risk is represented by the carrying amount of each financial asset.

	As at 31 March			As at 30 June
	2014	**2013**	**2012**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
1 to 30 days past due	2,788,246	13,157,304	24,165,817	14,308,652
31 to 60 days past due	24,064,889	25,177,233	9,242,740	5,661,069
61 to 90 days past due	958,194	15,506,061	–	17,094,544
91 to 180 days past due	6,288,900	36,020,769	525,515	3,245,196
180 to 360 days past due	7,676,102	8,255,436	–	7,091,359
Over 360 days past due	12,836,503	64,062	–	13,509,210
	54,612,834	98,180,865	33,934,072	60,910,030

Liquidity risk

The Target Group is exposed to liquidity risk on financial liabilities. It manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Various banking facilities and credit lines have also been arranged with different banks in order to fund any emergency liquidity requirements.

	On demand	Less than 3 months	More than 3 months to 1 year	Total
	HK$	*HK$*	*HK$*	*HK$*
As at 30 June 2014				
Trade payables	33,360,324	–	–	33,360,324
Other payables	16,622,087	–	–	16,622,087
Amount due to related parties	223,920,450	–	–	223,920,450
	273,902,861	–	–	273,902,861
As at 31 March 2014				
Trade payables	32,680,115	–	–	32,680,115
Other payables	14,255,204	–	–	14,255,204
Amount due to related parties	262,527,195	–	–	262,527,195
	309,462,514	–	–	309,462,514
As at 31 March 2013				
Trade payables	33,806,229	–	–	33,806,229
Other payables	8,213,916	–	–	8,213,916
Amount due to related parties	211,234,458	–	–	211,234,458
	253,254,603	–	–	253,254,603
As at 31 March 2012				
Trade payables	–	–	–	–
Other payables	7,070,058	–	–	7,070,058
Amount due to related parties	115,985,838	–	–	115,985,838
	123,055,896	–	–	123,055,896

26 SUBSEQUENT EVENTS

The Target Company's subsidiary, HUA STRONG Network Science and Technology Limited Company (華天網絡科技有限公司) , entered into an agreement with an independent third party to dispose of its 51% equity owned subsidiary Beijing Yun Tai Tian Cheng Investment Limited. The disposals of Beijing Yun Tai Tian Cheng Investment Limited had been completed on 29 July 2014. The basis of consideration for these disposal companies is based on net identifiable value at the disposal date.

The Target Company's subsidiary, HUA STRONG Network Science and Technology Limited Company (華天網絡科技有限公司) , entered into an agreement with an independent third party to dispose of its 65% equity subsidiary Beijing Yunbo Zhong Ruan International Technology Limited. The disposals of Beijing Yunbo Zhong Ruan International Technology Limited had been completed on 12 September 2014. The basis of consideration for these disposal companies is based on net identifiable value at the disposal date.

A. Unaudited pro forma financial information of the Enlarged Group

The following is an illustrative and unaudited pro forma financial information comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group ("Unaudited Pro Forma Financial Information"), in connection with the proposed Acquisition of the Target Group by Able Bloom Technology Limited, an indirect wholly-owned subsidiary of the Company.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2014 as extracted from the published annual report of the Company for the year ended 31 March 2014 and the audited consolidated statement of financial position of the Target Group as at 30 June 2014 as extracted from the accountants' report set out in Appendix II to the Circular as if the Acquisition has been completed on 31 March 2014.

The unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on the audited results and cash flows of the Group for the year ended 31 March 2014 as extracted from the published audited consolidated financial statements for the year ended 31 March 2014 set out in its annual report and the audited results and cash flows of the Target Group for the year ended 31 March 2014 as extracted from the accountants' report set out in Appendix II to the Circular as if the Acquisition has been completed on 1 April 2013.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in the Circular.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of the Group as set out in the annual report of the Company for the year ended 31 March 2014.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Enlarged Group had the Acquisition been completed as at 31 March 2014 or 1 April 2013, where applicable, or at any future date.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 31 March 2014 (Audited) *HK$'000* *(Note 1)*	Target Group as at 30 June 2014 (Audited) *HK$'000* *(Note 2)*	Pro forma adjustments (Unaudited) *HK$'000*	*Notes*	The Enlarged Group (Unaudited) *HK$'000*
Non-current assets					
Property, plant and equipment	1,234	3,084	–		4,318
Intangible assets	1,025	–	–		1,025
Goodwill	–	–	34,850	3	34,850
	2,259	3,084	34,850		40,193
Current assets					
Inventories	–	92,676	–		92,676
Trade and other receivables	17,134	80,639	–		97,773
Taxation recoverable	–	9,030	–		9,030
Cash and cash equivalents	112,112	110,007	(3,000)	3	234,852
			(2,600)	4	
			18,333	7(i)	
	129,246	292,352	12,733		434,331
Assets of disposal group classified as held for sale	–	35,326	(35,326)	7(i)	–
	129,246	327,678	(22,593)		434,331
Current liabilities					
Trade and other payables	8,870	273,903	–		282,773
Liabilities of disposal group classified as held for sale	–	1	(1)	7(i)	–
	8,870	273,904	(1)		282,773
Net current assets	120,376	53,774	(22,592)		151,558
Total assets less current liabilities	122,635	56,858	12,258		191,751

	The Group as at 31 March 2014 (Audited) *HK$'000* *(Note 1)*	Target Group as at 30 June 2014 (Audited) *HK$'000* *(Note 2)*	Pro forma adjustments (Unaudited) *HK$'000*	*Notes*	The Enlarged Group (Unaudited) *HK$'000*
Non-current liabilities					
Other payables	–	55,899	–		55,899
	–	55,899	–		55,899
Net assets	122,635	959	12,258		135,852
Equity					
Equity attributable to the owners of the Company					
Share capital	135,625	–	–		135,625
Reserves	(13,177)	(31,850)	31,850	*5*	(15,777)
			(2,600)	*4*	
	122,448	(31,850)	29,250		119,848
Non-controlling interests	187	32,809	(16,992)	*7(i)*	16,004
Total equity	122,635	959	12,258		135,852

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

For the year ended 31 March 2014

	The Group for the year ended 31 March 2014 (Audited) *HK$'000* *(Note 1)*	Target Group for the year ended 31 March 2014 (Audited) *HK$'000* *(Note 2)*	Pro forma adjustments (Unaudited) *HK$'000*	*Notes*	The Enlarged Group (Unaudited) *HK$'000*
Continuing operations					
Revenue	36,572	282,695	–		319,267
Cost of sales and services	(28,055)	(257,896)	–		(285,951)
Gross profit	8,517	24,799			33,316
Other income	419	1,733	–		2,152
Distribution costs	(720)	(16,838)	–		(17,558)
Administrative expenses	(18,622)	(10,393)	(2,600)	*4*	(31,615)
Finance costs	(13)	(32)	–		(45)
Loss before income tax from continuing operations	(10,419)	(731)	(2,600)		(13,750)
Income tax expense	(8)	–	–		(8)
Loss for the year from continuing operations	(10,427)	(731)	(2,600)		(13,758)
Discontinued operations					
Loss for the year from discontinued operations	–	(50)	50	*7(ii)*	–
Loss for the year	(10,427)	(781)	(2,550)		(13,758)

	The Group for the year ended 31 March 2014 (Audited) *HK$'000* *(Note 1)*	Target Group for the year ended 31 March 2014 (Audited) *HK$'000* *(Note 2)*	Pro forma adjustments (Unaudited) *HK$'000*	*Notes*	The Enlarged Group (Unaudited) *HK$'000*
Other comprehensive income/(expense)					
Items that will be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	336	(220)	–		116
Release of translation reserve upon disposal of a subsidiary	–	(7)	–		(7)
Other comprehensive income/(expense) for the year, net of tax	336	(227)	–		109
Total comprehensive expense for the year	(10,091)	(1,008)	(2,550)		(13,649)
Loss for the year attributable to:					
Owners of the Company	(10,481)	(1,219)	(2,576)		(14,276)
Non-controlling interests	54	438	26		518
	(10,427)	(781)	(2,550)		(13,758)
Total comprehensive expense for the year attributable to:					
Owners of the Company	(10,145)	(1,677)	(2,576)		(14,398)
Non-controlling interests	54	669	26		749
	(10,091)	(1,008)	(2,550)		(13,649)

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

For the year ended 31 March 2014

	The Group for the year ended 31 March 2014 (Audited) *HK$'000* *(Note 1)*	Target Group for the year ended 31 March 2014 (Audited) *HK$'000* *(Note 2)*	Pro forma adjustments (Unaudited) *HK$'000*	*Notes*	The Enlarged Group (Unaudited) *HK$'000*
Cash flows from operating activities					
Loss before income tax from continuing and discontinued operations	(10,419)	(781)	(2,600)	*4*	(13,750)
			50	*7(ii)*	
Adjustments for:					
Depreciation of property, plant and equipment	348	290	–		638
Provision for impairment of other receivables	–	850	–		850
Gain on disposal of a subsidiary	–	(6)	–		(6)
Interest income	(227)	(1,726)	–		(1,953)
Interest expense	13	32	–		45
Operating loss before working capital changes	(10,285)	(1,341)	(2,550)		(14,176)
Decrease in inventories	–	40,057	–		40,057
Decrease in trade and other receivables	15,301	12,505	766	*7(ii)*	28,572
(Decrease)/Increase in trade and other payables	(10,829)	56,217	(816)	*7(ii)*	44,572
Cash (used in)/generated from operations	(5,813)	107,438	(2,600)		99,025
Interest paid	(13)	(32)	–		(45)
Income tax paid	(39)	–	–		(39)
Net cash generated from operating activities	(5,865)	107,406	(2,600)		98,941

	The Group for the year ended 31 March 2014 (Audited) *HK$'000* *(Note 1)*	Target Group for the year ended 31 March 2014 (Audited) *HK$'000* *(Note 2)*	Pro forma adjustments (Unaudited) *HK$'000*	*Notes*	The Enlarged Group (Unaudited) *HK$'000*
Cash flows from investing activities					
Purchase of property, plant and equipment	(960)	(3,434)	–		(4,394)
Purchase of intangible assets	(1,025)	–	–		(1,025)
Net cash inflow from disposal of subsidiaries	–	(14)	12,543	*7(ii)*	12,529
Acquisition of subsidiaries	–	–	24,776	*6*	24,776
Contribution by non-controlling interest of a subsidiary	–	17,225	–		17,225
Interest received	227	1,726	–		1,953
Net cash generated from investing activities	(1,758)	15,503	37,319		51,064
Cash flows from financing activities					
Repayment of bank borrowings	(10,000)	–	–		(10,000)
Proceeds from issuance of share capital	101,250	–	–		101,250
Decrease in other payables	–	(458)	–		(458)
Net cash generated from financing activities	91,250	(458)	–		90,792
Net increase in cash and cash equivalents	83,627	122,451	34,719		240,797
Cash and cash equivalents at beginning of year	28,158	27,776	(27,776)	*6*	28,158
Effect on foreign exchange rates changes, on cash held	327	(217)	114	*7(ii)*	224
Cash and cash equivalents at end of year	112,112	150,010	7,057		269,179
Cash and cash equivalents included in assets of disposal group classified as held for sale	–	(152)	152	*7(ii)*	–
Cash and cash equivalents of continuing operations at end of year, represented by cash at banks and in hand	112,112	149,858	7,209		269,179

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

(1) The audited consolidated statement of financial position of the Group as at 31 March 2014, and the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 March 2014, have been extracted from the published annual report of the Company for the year ended 31 March 2014.

(2) The amounts are derived from the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income and the consolidated cash flow statement for the year ended 31 March 2014 of the Target Group as set out in the accountants' report of the Target Group in Appendix II to the Circular, in which unqualified opinion was expressed by Solarmark (HK) C.P.A. Company Limited, Certified Public Accountants. The amounts have been rounded to the nearest thousand and certain items have been combined to conform to the presentation format of the Group's financial statements.

(3) Under Hong Kong Financial Reporting Standard 3 (Revised) Business Combination issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Group will apply the purchase method to account for the acquisition of the entire issued capital of the Target Company in the consolidated financial statements of the Group. The recognition of goodwill arising from the Acquisition as if the Acquisition were completed on 31 March 2014 are as follows:

	Notes	**Calculated on the basis without taking into account of adjustment no. 7 below** *HK$'000*	**Calculated on the basis after taking into account of adjustment no. 7 below** *HK$'000*
Cash consideration	*(a)*	3,000	3,000
Less: Net assets acquired/Add: Net liabilities acquired	*(b)*	(959)	16,033
Add: Non-controlling interests arising on acquisition		32,809	15,817
Net liabilities acquired attributable to equity holder		31,850	31,850
Goodwill arising from the Acquisition (the "Goodwill")	*(c)*	34,850	34,850

Notes:

(a) In accordance with the Acquisition Agreement, the consideration for the Acquisition of HK$3,000,000 (subject to Consideration Adjustment) will be satisfied by way of cash payable by the Company to the Vendor. For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, it is assumed that the Guaranteed Profit has been fulfilled.

(b) For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, it is assumed that (i) the Target Group has fulfilled the conditions to the Acquisition and the Acquisition will not be reversed; and (ii) the fair values of the identifiable assets and liabilities of the Target Group approximate their carrying amounts as at 30 June 2014.

For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had assessed whether there is material fair value adjustment of the assets and liabilities being acquired based on their knowledge of the business of the Target Group. Based on the currently available information, the Directors had assumed that the fair values of all assets and liabilities of the Target Group to be their respective carrying values at the Completion Date. The Target Group's major assets mainly comprised of inventories, trade receivables and cash and cash equivalents, and its liabilities mainly comprised of trade payables, other payables and amount due to related parties. The Directors considered that since these assets and liabilities are short term in nature, therefore the carrying values of these assets and liabilities are reasonable approximation of fair values at the Completion Date. The carrying amount of the Target Group's property, plant and equipment are considered to be an approximation to the fair values because of the office and computer equipment nature of such property, plant and equipment. The Directors have also assessed whether any additional intangible assets are required to be recognised from the acquisition of the Target Group and concluded that either do not meet the definition of an intangible asset under HKAS 38 Intangible Assets (the separability criterion) or the values are not significant to the Enlarged Group. The fair values of the assets and liabilities being acquired may be subject to change after further assessment by the Directors at the Completion Date.

(c) According to the Group's accounting policy, after initial recognition, the Goodwill will be measured at cost less any accumulated impairment losses. The Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, the Goodwill is, from the acquisition date, allocated to one of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Further, according to the Group's accounting policy, impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units) to which the Goodwill relates. Where the recoverable amount of the cash-generating unit (groups of cash-generating units) is less than the carrying amount, an impairment loss will be recognised. An impairment loss recognised for the Goodwill will not be reversed in a subsequent period.

In the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had performed an impairment assessment of the Goodwill in accordance with HKAS 36 Impairment of Assets ("HKAS 36") and the Group's accounting policy. Based on the impairment test, the recoverable amount of the cash-generating unit in which the Target Group was assigned exceeds its carrying amount and accordingly, no pro forma adjustment in respect of goodwill impairment is made by the Directors in the Unaudited Pro Forma Financial Information of the Enlarged Group. Such assessment assumed that (i) there are no major material adverse changes in the fair values of the assets and liabilities; and (ii) the identifiable assets and liabilities can be realised at their book values. However, should there be any adverse changes to the business of the Target Group, including but not limited to, any subsequent adverse changes in the operation, impairment may be required to be recognised against the Goodwill in accordance with HKAS 36 and the Group's accounting policy. The reporting accountant has reviewed the impairment assessment prepared by the Directors including the assumptions, inputs and the basis and agreed with the Directors that no impairment on the Goodwill is required.

The Directors confirmed that they will apply consistent accounting policies, principal assumptions and valuation method to assess impairment of the Goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36. The Company's auditors has also confirmed that they will review the impairment assessment prepared by the Directors on the Goodwill adopting consistent accounting policies and principal assumptions as used in valuation report (if applicable) and the pro forma financial information in subsequent periods.

(4) The adjustment represents the estimated acquisition-related legal and professional expenses amounting to HK$2,600,000 which would be recognised in profit or loss upon Completion.

(5) The adjustment represents the elimination of pre-acquisition deficit of the Target Group amounting to HK$31,850,000.

(6) Net cash inflow as if the Acquisition was completed on 1 April 2013 is as follows:

	HK$'000
Cash and cash equivalents acquired	27,776
Cash consideration	(3,000)
Net cash inflow	24,776

(7) The Acquisition is subject to the completion of the Reorganisation involving the disposal of Disposed Companies. The considerations/sales proceeds are calculated as the net book values of the Disposed Companies and therefore no gain or loss on disposals is resulted. The consideration will be settled by cash. The adjustments on the effect of the disposal of Disposed Companies (excluding Hua Tong and Fu Song which were disposed on 12 August 2013 and 9 May 2014 respectively):

(i) As if the Reorganisation were completed on 31 March 2014

The adjustment represents the sales proceeds from the disposals calculated as follows:

	HK$'000
Assets of disposal group classified as held for sale as at 30 June 2014	35,326
Liabilities of disposal group classified as held for sale as at 30 June 2014	(1)
Non-controlling interests attributable to the Disposed Companies as at 30 June 2014	(16,992)
Considerations/Sales proceeds	18,333

(ii) As if the Reorganisation were completed on 1 April 2013

(A) The adjustment represents the sales proceeds and net cash inflow arising on disposal of Disposed Companies calculated as follows:

	HK$'000
Net assets of the Disposed Companies as at 1 April 2013	12,549
Non-controlling interests attributable to the Disposed Companies as at 1 April 2013	260
Sales proceeds	12,809
Sales proceeds	12,809
Cash and cash equivalents disposed	(266)
Net cash inflow	12,543

(B) The adjustment represents the effect of elimination of the loss from discontinued operations in the statement of comprehensive income and the relevant cash flow items related to the discontinued operations in the statement of cash flows.

(8) No adjustment included in the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows is expected to have any continuing effect on the financial statements of the Enlarged Group in subsequent years.

(9) Apart from the above, no other adjustments have been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 March 2014.

B. Independent reporting accountant's assurance report on the compilation of unaudited pro form financial information

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountant, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.

Grant Thornton
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INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR

TO THE DIRECTORS OF YUNBO DIGITAL SYNERGY GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yunbo Digital Synergy Group Limited (the "Company") and its subsidiaries (collectively the "Group"), and Magic Hour Holdings Limited and its subsidiaries (the "Target Group") (collectively the "Enlarged Group") prepared by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 March 2014, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro form consolidated statement of cash flows for the year ended 31 March 2014, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-10 of the Company's circular dated 10 November 2014 (the "Circular"), in connection with the proposed acquisition of the Target Group (the "Transaction") by Able Bloom Technology Limited, an indirect wholly-owned subsidiary of the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in the notes set out on pages III-8 to III-10 in Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 31 March 2014 and the Group's financial performance and cash flows for the year ended 31 March 2014 as if the Transaction had taken place at 31 March 2014 and 1 April 2013 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows for the year ended 31 March 2014 has been extracted by the Directors from the Group's audited consolidated financial statements for the year ended 31 March 2014 set out in its annual report. The same information about the Target Group has been extracted by the Directors from the Target Group's financial statements for the year ended 31 March 2014 and for the three months ended 30 June 2014, on which an accountant's report was published in Appendix II to the Circular.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purposes of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for the purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 March 2014 or for the year ended 31 March 2014, respectively, would have been as presented.

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

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and

- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors 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 7.31(1) of the GEM Listing Rules.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong
10 November 2014

Shaw Chi Kit
Practising Certificate No.: P04834

A. MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL RESULT AND POSITION OF THE GROUP

Set out below are the management discussion and analysis of the Company mainly extracted from the annual reports for each of the three years ended 31 March 2012, 2013, and 2014 of the Company which are published on both the GEM website (www.hkgem.com) and the website of the Company (www.ybds.com.hk) respectively. Terms used in this section below shall have the same meanings as those defined in the aforesaid reports.

For the year ended 31 March 2012

Business Review

Due to the macro economic conditions, the challenging business environment in Hong Kong prevailed throughout the year under review. The overall environment has moderately improved as business activities gradually pick up. The proposed larger-scale IT projects had increased the number of business opportunities in the market. To capitalise on these opportunities, the Group reinforced its sales efforts and deployed additional resources to enhance our product offerings. However, the intense competition and inflationary pressure constituted unforeseen difficulties which inhibited the Group's ability to continue to grow and improve profits. In retrospect, the Group disposed of the business of development and sale of enterprise software and provision of maintenance services and directed its resources towards the business of provision of system integration services and other value-added technical consultation services and hardware-related business. Please refer to section headed "Significant Investments and Acquisitions and Disposal" below for details.

Financial Review

During the year ended 31 March 2012, the Group recorded revenue of approximately HK$15,727,000, representing a decrease of approximately 85% when compared with the last corresponding year. The significant drop in revenue was principally due to the Group having disposed of its subsidiaries and associated companies (save and except Norray Professional Computer Limited) to SomaFlex Holdings Inc., the former ultimate holding company of the Company. The transaction was completed on 13 April 2011. Profits attributable to owners for the year were approximately HK$6,233,000 as compared to a loss of HK$6,814,000 for the year ended 31 March 2011.

Financial Resources and Liquidity

As at 31 March 2012, the shareholders' funds of the Group amounted to approximately HK$4,503,000. Current assets were approximately HK$68,341,000, mainly comprising cash and cash equivalents of approximately HK$65,795,000 and trade and other receivables of approximately HK$2,546,000. Current liabilities mainly comprised trade and other payables of approximately HK$3,864,000 and bank borrowings of HK$60,000,000. The net asset value per share was approximately HK$0.008. The Group's gearing ratio, expressed as a percentage of bank borrowings and long-term debts over total equity, was 13.32 times. The liquidity ratio of the Group, determined as a ratio of current assets over current liabilities, was 1.07:1 (as at 31 March 2011: 1.7:1).

Exposure to Exchange Rate Fluctuation

During the year ended 31 March 2012, the Group was only exposed to limited currency exchange rate fluctuation risks as virtually all of the Group's monetary assets and liabilities were denominated in Hong Kong dollars as it conducts its business transactions principally in this currency. The currency exchange rate risk of the Group is therefore considered to be immaterial, and the Group did not engage in any hedging activity.

Significant Investments and Acquisitions and Disposal

The Share Agreement

Pursuant to the sale and purchase agreement dated 5 January 2011 (the "**Share Agreement**") entered into among Excel Score Limited (the "**Offeror**"), Mr. Lok Wai Man ("**Mr. Lok**"), a former executive director of the Company and Mr. Pong Wai San, Wilson ("**Mr. Pong**"), the guarantor of the Offeror under the Share Agreement, Mr. Lok had conditionally agreed to sell and procure the sale of, and the Offeror had conditionally agreed to acquire, an aggregate of 479,298,000 shares of the Company (the "**Sale Shares I**") at a total consideration of HK$126,400,000.

The Disposal Agreement

On 5 January 2011, the Company entered into the disposal agreement (the "**Disposal Agreement**") with SomaFlex Holdings Inc. ("**SomaFlex Holdings**") pursuant to which SomaFlex Holdings had conditionally agreed to purchase and the Company had conditionally agreed to sell the entire issued share capital of SomaFlex International Inc. at a consideration of HK$40 million (the "**Disposal**").

As the applicable percentage ratios in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to the GEM Listing Rules. SomaFlex Holdings is approximately 98.27% beneficially owned by Mr. Lok and thus the Disposal also constitutes a connected transaction for the Company pursuant to the GEM Listing Rules and is subject to the approval of the independent shareholders of the Company.

Completion of the Share Agreement and Disposal Agreement

Completion of both the sale and purchase of Sale Shares I and the Disposal took place on 13 April 2011. The Offeror, Mr. Pong and parties acting in concert with any of them acquired 479,298,000 shares of the Company, representing approximately 79.88% of the issued share capital of the Company.

Details of the transactions have been published in the Company's announcements dated 18 February, 11 March, 15 March, 13 April, 15 April and 6 May 2011 and the Company's circular dated 16 March and 15 April 2011.

The Sale and Purchase Agreement

On 29 December 2011, Happy On Holdings Limited ("**Happy On Holdings**"), and Mr. Pong and Excel Score Limited ("**Excel Score**") entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") pursuant to which Happy On Holdings agreed to acquire and Mr. Pong and Excel Score agreed to sell an aggregate of 420,000,000 shares of the Company (which are beneficially owned by Mr. Pong as to 114,000,000 shares and Excel Score as to 306,000,000 shares), representing in aggregate 70.00% of the entire issued share capital of the Company (the "**Sale Shares II**") for a total consideration of HK$133,000,000.

Pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"), Happy On Holdings was required to make an unconditional mandatory general offer in cash (the "**Offer**") for all the issued shares of the Company other than those already owned or agreed to be acquired by Happy On Holdings and parties acting in concert with it (the "**Offer Shares**"). Quam Securities Company Limited had made the Offer on behalf of Happy On Holdings in compliance with the Takeovers Code at the Offer price of HK$0.3167 per Offer Share, which is the same as the price per Sale Share II paid by Happy On Holdings under the Sale and Purchase Agreement.

Completion of the Sale and Purchase Agreement

Completion of the Sale and Purchase Agreement took place immediately after the entering into of the Sale and Purchase Agreement on 29 December 2011 with Happy On Holdings having paid the full consideration to Mr. Pong and Excel Score in cash; while the Offer closed on 17 February 2012. Immediately following completion of the Offer, Happy On Holdings and parties acting in concert with it are interested in 420,002,000 shares of the Company, representing approximately 70.00% of the entire issued share capital of the Company.

Details of the transaction have been published in the Company's announcements dated 6 January, 27 January and 17 February 2012; and the composite document dated 27 January 2012.

Save as disclosed in this report, during the year ended 31 March 2012, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies or material investment.

Commitments

As at 31 March 2012, the Group had operating lease commitments in respect of rented office premises of approximately HK$162,000 (2011: HK$4,023,000). As at 31 March 2012 and 2011, the Group had no significant capital commitment and has no immediate plans for material investment.

Contingent Liabilities

As at 31 March 2012 and 2011, the Group had no material contingent liabilities.

Charges on the Group's Assets

As at 31 March 2012, the Group had no charges on the Group's assets.

Employees and Remuneration Policies

As at 31 March 2012, the Group had 14 employees (2011: 332 employees). The total remuneration paid to employees, including directors, for the year ended 31 March 2012 was approximately HK$3,116,000 (2011: HK$71,576,000). Remuneration is determined by reference to market terms and the performance, qualification and experience of each individual employee. Annual year-end double paid is paid based on each individual employee's performance as recognition of and reward for their contributions. Other benefits accruing to the employees include contributions made to statutory mandatory provident fund scheme and a group medical scheme.

Segmental Information

Business segments

During the year under review, the revenue of maintenance services has decreased by approximately 94% as disposal of subsidiaries took place on 13 April 2011. Moreover, the revenue of software sales has also decreased by approximately 96% due to disposal of subsidiaries on 13 April 2011.

Geographical segments

The provision of system integration services and other value-added technical consultation services and hardware-related business mainly caters to the local market. As such, virtually all revenue is derived from Hong Kong (2011: 79%).

Future plans for material investments or capital assets

The senior management of the Company had conducted a detailed review of the operations of the Group with a view to develop a corporate strategy that would broaden our income base and enhance the growth potential of the Group. To achieve this target, it is believed that the Company should consider expanding into the China market in the areas of manufacturing of ancillary high-tech software products specifically designed for smart phones; developing and establishing an integrated platform for distribution of mobile products and provision of value-added services; and setting up joint ventures with multinational companies to introduce and procure mobile application services, among others.

In this connection, the Company is in the process of applying with the relevant PRC government authority for the relevant licenses to operate the two wholly foreign owned enterprises ("**WFOEs**"). The business scope of these two WFOEs would include computer software or hardware system integration, external equipment, financial and electronic equipment, automated control systems and related equipment, smart modems, research and development of educational software and hardware; sale of computer software, hardware and ancillary equipment, electronic products, general machinery, specialised equipment, and procurement of technical services and support.

After the 2012 reporting period, on 4 June 2012, the Company completed a placing for an aggregate of 15,000,000 new shares of HK$0.1 each in the capital of the Company at a share placing price of HK$0.185 each to independent third parties, and 30,000,000 warrants at a warrant issue price of HK$0.01 each and subscription price of HK$0.185 per new ordinary share to independent third parties. The net proceeds raised from the share placement and warrant placement was approximately HK$2,706,000 and HK$293,000 respectively. The majority part of the net proceeds from the share and warrant placements would be applied towards the Company's initial paid-in capital requirements in respect of the two aforementioned WFOEs.

For the year ended 31 March 2013

Business Review

Due to the macro economic conditions, the challenging business environment in Hong Kong prevailed throughout the year under review.

The Company experienced a change in senior management in the first quarter of 2012. The new senior management of the Company, after having conducted a detailed review of the operations of the Group, adopted a new corporate strategy to broaden its income base and enhance the growth potential of the Group. As such, the Company expanded into the market in the PRC in the areas of manufacturing of ancillary high-tech software products specifically designed for smart phones; developing and establishing an integrated platform for distribution of mobile products and provision of value-added services; and setting up joint ventures with multinational companies to introduce and procure mobile application services, among others.

Guangzhou YBDS and Beijing Yunbo, both of which are wholly foreign owned enterprises ("**WFOEs**") in the PRC, were established to facilitate the Group business endeavors in the PRC.

Guangzhou YBDS

Guangzhou YBDS was approved for establishment on 13 August 2012. The entire equity interests of Guangzhou YBDS are held by Pacific Honour Development Limited, a wholly-owned subsidiary of the Company. The business licence of Guangzhou YBDS was issued on 18 September 2012. The total investment and registered capital of Guangzhou YBDS are RMB40 million and RMB20 million, respectively. More than 63.25% of the registered capital (or equivalent to approximately RMB12.65 million) of Guangzhou YBDS has been paid up with the remaining 36.75% (or equivalent to approximately RMB7.35 million) due to be paid on or before 18 September 2013. The scope of business of Guangzhou Yunbo includes computer software or hardware system integration, external equipment, financial and electronic equipment, automated control systems and related equipment, new models of electronic devices, smart modems, research and development of educational software and hardware, sale of computer software, hardware and ancillary equipment, electronic products, general machinery, specialized equipment, and provision of technical services and support.

Beijing Yunbo

Beijing Yunbo was approved for establishment on 21 November 2012. The entire equity interests of Beijing Yunbo are held by Able Bloom Technology Limited, a wholly-owned subsidiary of the Company. The business licence of Beijing Yunbo was issued on 19 December 2012. The total investment and registered capital of Beijing Yunbo are RMB40 million and RMB20 million, respectively. According to the business licence of Beijing Yunbo, approximately 20% of the registered capital (or equivalent to approximately RMB4 million) of Beijing Yunbo has been paid up with the remaining approximately 80% (or equivalent to approximately RMB16 million) due to be paid on or before 18 December 2014. The scope of business of Beijing Yunbo includes technology development and system integration of computer hardware and software, communication system, network system and automatic control system, educational software development, sale of self-developed products, technical services and technical consultancy.

On 4 June 2012, the Company completed a placing for an aggregate of 15,000,000 new shares of HK$0.10 each in the capital of the Company at a share placing price of HK$0.185 each to independent third parties, and 30,000,000 warrants at a warrant issue price of HK$0.01 each and subscription price of HK$0.185 per warrant share to independent third parties ("**May 2012 Placing**").

On 26 July 2012, the Company completed a placing for an aggregate of 10,000,000 new shares of HK$0.10 each in the capital of the Company at a share placing price of HK$0.141 each to independent third parties, and 60,000,000 warrants at a warrant issue price of HK$0.01 each and subscription price of HK$0.141 per warrant share to independent third parties ("**July 2012 Placing**").

The net proceeds raised from the share placement and warrant placement in May 2012 Placing were approximately HK$2,706,000 and HK$293,000 respectively, and approximately HK$1,375,000 and HK$585,000 respectively from the share placement and warrant placement in July 2012 Placing. The majority part of the net proceeds from the aforesaid share and warrant placements has been applied towards the Company's initial paid-in capital requirements in respect of the two aforementioned WFOEs.

On 13 December 2012, 156,250,000 offer shares of par value of HK$0.10 each of the Company were issued under an open offer at a subscription price of HK$0.10 each ("**Open Offer**"). The gross proceeds raised from the Open Offer were approximately HK$15,625,000 which has been used for paying up the registered capital of Guangzhou YBDS, settling the payment for purchase of certain wireless internet network equipment and for general working capital purpose.

On 27 March 2013, the Company completed a placing for an aggregate of 125,000,000 new shares of HK$0.10 each in the capital of the Company at a share placing price of HK$0.145 each to independent third parties ("**March 2013 Placing**"). The net proceeds raised from the share placement in March 2013 Placing were approximately HK$17,672,000.

Financial Review

For the year ended 31 March 2013, the Group recorded a revenue of approximately HK$53,729,000, representing an increase of approximately 242% when compared with the last corresponding year. The significant increase in revenue was principally due to the Group having generated approximately HK$35,045,000 in the trading of G-PON equipment. Loss attributable to owners of the Company for the year was approximately HK$11,860,000 as compared to a profit of approximately HK$6,233,000 for the year ended 31 March 2012.

Financial Resources and Liquidity

As at 31 March 2013, the shareholders' funds of the Group amounted to approximately HK$31,476,000. Current assets were approximately HK$60,593,000, mainly comprising cash and cash equivalents of approximately HK$28,158,000 and trade and other receivables of approximately HK$32,435,000. Current liabilities mainly comprised trade and other payables of approximately HK$19,699,000 and bank borrowings of HK$10,000,000. The net asset value per share was approximately HK$0.035. The Group's gearing ratio, expressed as a percentage of bank borrowings and long-term debts over total equity, was 0.32 times. The liquidity ratio of the Group, determined as a ratio of current assets over current liabilities, was 2.04:1 (as at 31 March 2012: 1.07:1).

Exposure to Exchange Rate Fluctuation

For the year ended 31 March 2013, the Group was only exposed to limited currency exchange rate fluctuation risks as virtually all of the Group's monetary assets and liabilities were denominated in Hong Kong dollars as it conducts its business transactions principally in this currency. The currency exchange rate risk of the Group is therefore considered to be immaterial, and the Group did not engage in any hedging activity.

Commitments

As at 31 March 2013, the Group had operating lease commitments in respect of rented office premises of approximately HK$883,000 (2012: HK$162,000). As at 31 March 2013 and 2012, the Group had no significant capital commitment.

Contingent Liabilities

As at 31 March 2013 and 2012, the Group had no material contingent liabilities.

Charges on the Group's Assets

As at 31 March 2013, the Group had no charges on the Group's assets.

Employees and Remuneration Policies

As at 31 March 2013, the Group had 26 employees (including 7 Directors) (2012: 14 employees (including 6 Directors)). The total remuneration paid to employees, including Directors, for the year ended 31 March 2013 was approximately HK$9,036,000 (2012: HK$3,116,000). Remuneration is determined by reference to market terms and the performance, qualification and experience of each individual employee. Annual year-end double pay is paid based on each individual employee's performance as recognition of and reward for their contributions. Other benefits accruing to the employees include contributions made to statutory mandatory provident fund scheme and a group medical scheme.

Segmental Information

Business segments

During the year under review, the revenue of hardware sales was increased by approximately 358%. The revenue of maintenance services was decreased by approximately 62%. Moreover, the revenue of software sales was also decreased by approximately 56%.

Geographical segments

The provision of system integration services and other value-added technical consultation services and hardware-related business mainly caters for the PRC market. Revenue from the Hong Kong segment represented approximately 35% of the total revenue (2012: 96%).

Future plans for material investments or capital assets

In 2012, the Group entered into the PRC market to explore and develop business opportunities in the areas of, among others, manufacturing of ancillary high-tech software products specifically designed for smart phones; developing and establishing an integrated platform for distribution of mobile products and provision of value-added services; and setting up joint venture cooperation with multinational companies to introduce and procure mobile application services. Guangzhou YBDS and Beijing Yunbo were set up to facilitate these potential ventures.

As disclosed in the announcement of the Company dated 2 August 2012, the Company entered into a non-legally binding letter of intent with ChinaSoft International Limited (中軟國際有限公司*) ("**ChinaSoft**"), pursuant to which the Company and ChinaSoft will collaborate with each other on bidding for specific parts of the Wireless City Project.

As further disclosed in the announcement of the Company dated 7 May 2013, MMIM has submitted the Bidding to Telecommunication Operator. On 7 May 2013, Excellent Master, ChinaSoft Hong Kong, the Company and ChinaSoft have entered into a project implementation agreement to implement the specific parts of the Wireless City Project in the event that the Bidding is successful (in which case MMIM and Telecommunication Operator will enter into a formal project agreement).

In addition, the Group generated revenue of approximately HK$35,045,000 in the trading of G-PON equipment.

Moreover, in line with the medium to long term strategic planning for the development of education in the PRC, the Department of Education of Guangdong Province of the PRC issued "The Development of Informationization in Education in Guangdong Province "12th 5-Year" Plan"* (廣東省教育信息化發展"十二五"規劃) on 30 August 2012 to promulgate its intention to expedite current movements in raising the standard of education levels in Guangdong Province through the advancements of technology. The Department of Education of Guangdong Province of the PRC intends to standardize the education programmes taught in primary and secondary schools such that students in rural areas will be able to enjoy the same quality of education as those enjoyed by students in the urban areas. To achieve this objective, the Department of Education of Guangdong Province of the PRC decided to establish an online education platform.

It is under this premise that Guangzhou YBDS and Guangdong branch of China Telecom Corporation Limited (中國電信股份有限公司廣東分公司) ("**China Telecom Guangdong**") to combine their resources by collaborating with each other to develop, establish, and operate the Online Education Platform to support the policy of the Department of Education of Guangdong Province of the PRC.

The capital budget needed to construct the Online Education Platform capable of supporting up to 6 million subscribers is expected to be RMB700 million.

Guangzhou YBDS intends to commence the construction in the third quarter of 2013 with the first phase of the Online Education Platform anticipated to be up and running before the End of 2013. The RMB700 million is not a capital commitment nor is it a condition for the entering into the collaboration agreement with China Telecom Guangdong. The actual investment to be made by the Group will depend on the circumstances as well as the overall progress and development of the Online Education Platform.

Once completed, it is expected that the Online Education Platform will be able to serve all education administration and research institutions, more than 20,000 primary and secondary schools, 890,000 teachers, and over 18,000,000 students in Guangdong Province.

As disclosed in the announcements of the Company dated 12 April 2013 and 18 April 2013, the Group entered into a non-legally binding memorandum of understanding with New5TV (Cayman) CO., LTD. on 12 April 2013 to establish, develop, and create a variety of online platforms that employ a "narrowcasting" television channel operating mode. The Group also entered into a cooperation agreement with South China Normal University on 18 April 2013 to work on a project to research, develop, design and produce micro lectures in physics with the intention of distributing the programmes made under the project to targeted audiences in the PRC through the aforesaid online platforms.

The Directors believe that the entering into of the aforesaid agreements is part and parcel to the Group's new corporate strategy in broadening its income base and enhancing its growth potential.

For the year ended 31 March 2014

Business Review

The general business and operating environment during the reporting period continues to be affected by the spillover effects of global economic conditions even for those markets which historically have recorded high growth rates such as the market in the PRC. Although the overall momentum for the PRC market remains positive, slower macro-economic growth, and greater and more complex competition have made the telecommunications industry in the PRC more challenging.

The development of the global internet technology and applications have come to an effectual period of "consolidation and fission". Emerging production elements such as big data, cloud computing, unified communications, 4G mobile new media, network security SDN and e-finance have been transformed into the "production tools" of the "new economic generation". At this moment, the economic entities of the traditional global industries have entered into a turbulent period in respect of the transformation from old to new entities. A tide of tremendous changes in global economic entities is approaching. It indicates that an era of bell for a thorough reform in global economic entities has been ringing. All nations around the world will welcome the incoming big era of "Yunbo Digital Synergy".

"雲" is the Chinese character standing for "cloud", which represents the forms of development in respect of the "cloud network" in the internet cloud computing, which indicates the general integration of network structure and 4 screens' interconnection (PCs, mobile phones, televisions and iPads). The forms of development refer to the cloud forms of interconnected applications such as cloud space, cloud service, cloud search, cloud community, cloud browsing.

Cloud service is the realization of interconnection between various end devices. The operating terminals of PCs, mobile phones, televisions and iPads no longer require strong processing capabilities. All the resources used by the users are provided by a cloud back-office complex with powerful storage and processing capabilities.

"博" is the Chinese character having the meaning of "rich and extensive", which represents big data, unified communications, cloud computing, network security SDN, e-finance, 4G based new media, etc. It covers all the contents of internet technological development and applications in different stages.

The rising of the era of big data, which shocks the foundations of all the traditional industries, has been blended with the blood of the individuals, enterprises, nations and global economic entities and has become a new productivity in this generation. The excavation and use of the substantial amount of data foreshadow the growth of the production rate in this new generation and the trend of consumers' surplus.

In early 2012, there was a change of leadership in the Company. The new senior management having carefully evaluated the Company's situation decided to adopt a new corporate strategy in the hopes of being able to broaden the Group's income base and strengthen its growth potential. The re-defined direction steered the Company into the telecommunications industry in the PRC market to focus on the Company's strengths in business and product development particularly in the areas of trading of ancillary high-tech software and hardware; developing and establishing integrated online platforms for the distribution of mobile products and provision of value-added services; and setting up joint ventures with multinational companies to introduce and procure mobile application products and services, among others.

To facilitate the Group's future business endeavors and potential joint cooperations, two wholly foreign owned enterprises, Guangzhou YBDS and Beijing Yunbo were established in the PRC in 2012.

Guangzhou YBDS

Guangzhou YBDS was approved for establishment on 13 August 2012 while its business license was issued on 18 September 2012. The entire equity interest of

Guangzhou YBDS is held by Pacific Honour Development Limited, a wholly-owned subsidiary of the Company. Guangzhou YBDS' initial total investment and registered capital was RMB40 million and RMB20 million, respectively. On 11 November 2013, the Bureau of Foreign Trade and Economic Cooperation of Guangzhou Municipality (廣州市對外貿易經濟合作局) granted its approval for Guangzhou YBDS to increase its total investment from RMB40 million to RMB80 million, and its registered capital from RMB20 million to RMB40 million. As at the date of this report, approximately 60.84% of its registered capital (or the equivalent to approximately RMB24.33 million) has been paid up with the remaining 39.16% (or the equivalent to approximately RMB15.67 million) being due and payable on or before 13 November 2014. Guangzhou YBDS's business scope includes computer software or hardware system integration, external equipment, financial and electronic equipment, automated control systems and related equipment, new models of electronic devices, smart modems, research and development of educational software and hardware, sale of computer software, hardware and ancillary equipment, electronic products, general machinery equipment, specialized equipment, and provision of technical services and support.

Beijing Yunbo

Beijing Yunbo was approved for establishment on 21 November 2012 while its business license was issued on 19 December 2012. The entire equity interest of Beijing Yunbo is held by Able Bloom Technology Limited, a wholly-owned subsidiary of the Company. Beijing Yunbo's total investment and registered capital are RMB40 million and RMB20 million, respectively. As at the date of this report, 20% of the registered capital or RMB4 million has been paid up with the remaining 80% or RMB16 million due to be paid on or before 18 December 2014. Beijing Yunbo's business scope includes technology development and system integration of computer hardware and software, communication system, network system and automatic control system, educational software development, sale of proprietary products, technical services and technical consultancy.

To ensure the Company is financially stable with sufficient financial resources to continue the development of its proposed projects. The Company on 5 August 2013, allotted and issued 450,000,000 new shares of the Company having a par value of HK$0.10 each in the capital of the Company at a subscription price of HK$0.225 each to Happy On Holdings, the Group's single largest shareholder, raising net proceeds of about HK$100 million. Immediately after the completion of the subscription, Happy On Holdings holds 987,888,771 shares of the Company, representing approximately 72.83% of the total issued share capital of the Company.

In spite of the ever challenging operating environment in the PRC, the Group has made great strides over the past two years in its business development after having entered into the telecommunications industry in the PRC market.

In the area of software deployment, the Company had teamed up with ChinaSoft. In our first venture together, the two parties entered into a non-legally binding letter of intent on 2 August 2012 whereby both agreed to collaborate with each other to submit a tender bid for specific parts of a wireless infrastructure project Wireless City* (無線城市). Wireless City is a project sponsored and undertaken by Guangdong Mobile, a subsidiary of China Mobile. China Mobile had embarked on the Wireless City project in 2012 as it aspires to develop and construct a wireless infrastructure network for PRC cities such that everyone in these cities will be able to have free Wi-Fi access.

On 7 May 2013, MMIM Info. Technology Co., Ltd.* (北京掌中無限信息技術有限公司) ("**MMIM**"), a wholly-owned subsidiary of ChinaSoft, had submitted open tender documents for specific parts of the Wireless City project to Guangdong Mobile. Excellent Master Investments Limited, a wholly-owned subsidiary of the Company, ChinaSoft International (Hong Kong) Limited, a wholly-owned subsidiary of ChinaSoft, the Company and ChinaSoft concurrently entered into a project implementation agreement to implement the specific parts of the Wireless City project in the event that the bid is successful (in which case, MMIM and Guangdong Mobile will enter into a formal project agreement).

The close relationship between the Company and ChinaSoft will continue to be strengthened with further collaborations in 2014 as the two parties worked together hand in hand to bid for other projects sponsored by PRC's leading telecommunications operators.

In March 2014, the Company and ChinaSoft entered into a non-legally binding letter of intent to submit a tender for the construction of phase I of the unified payment system (統一支付系統一期工程), a project to be implemented by China Mobile Limited (中國移動有限公司) ("**China Mobile**") for the establishment of a national unified payment platform in the PRC. The Company and Chinasoft were also working together to submit a bid for contracted work relating to the repair and maintenance and operations of China Mobile's Fetion platform and its related social products and services offering.

Based on the principles of "centralization, standardization, unification", China Mobile is cooperating with commercial banks in the PRC to establish a national unified payment system platform, offering unified access and uniformed rules and regulations to all payment services at a flat rate. Phase I of the national unified payment system will connect China Mobile with electronic payment channels at all levels onto a platform that offers payment services and bill settlement functions. All mobile phone users will concurrently be able to store monetary value onto their mobile phone accounts for the purchase of goods and services. The national unified payment system platform will be one of China Mobile's strategic projects to transform itself from a mobile phone services operator into an internet based services enterprise.

Fetion is currently estimated to have over 320 million registered users, and is a critical part of China Mobile's mobile internet business strategy. It is already a major mobile internet platform connecting a large number of users between PCs and mobile phones in the PRC.

On 7 April 2014, the Company and ChinaSoft entered into a project implementation agreement with respect to the contracted work for Fetion. As the consideration for due performance of its obligations under the formal agreement, ChinaSoft has agreed to pay the Company a total sum of RMB15 million (equivalent to about HK$18.75 million) in three instalments.

When collaborating with ChinaSoft, typically if our tender is successful, ChinaSoft would first enter into a formal project agreement with the relevant company of telecommunications operator, and the Company (or its nominee) will then enter into a project agreement with ChinaSoft to determine the implementation costs as well as setting out the detailed terms of each party's participation in the relevant project. In general, ChinaSoft shall, at its own costs (but in any event such costs shall not exceed the amount to be stipulated under the project agreement), be responsible for all the technical and construction works of the relevant project (including but not limited to the development, manufacture, testing, construction of the hardware, middleware and software systems necessary for completion, technical services and support etc.); whereas the Company shall, at its own costs, provide business analysis and integrated works in connection with the relevant project.

In the area of establishing integrated online platforms, Guangzhou YBDS and China Telecom Guangdong entered into a collaboration agreement to combine their resources and cooperate with each other to develop, establish, and operate the Online Education Platform to support the open policies of Guangdong's education department.

The Department of Education of Guangdong Province (the "**Education Department**") had, on 30 August 2012, issued "The Development of Informationization in Education in Guangdong Province "12th 5-Year" Plan*" (廣東省教育信息化發展「十二五」規劃) to promulgate its intention to expedite current movements to raise the standard level of education in Guangdong through advancements of technology. The Education Department intends to standardize the education programs taught in primary and secondary schools such that students in rural areas will be able to enjoy the same quality of education as those in the urban areas. One of the means of achieving this objective was to make education virtual.

Under the collaboration agreement, China Telecom Guangdong is responsible for constructing a specific network dedicated to the Online Education Platform to facilitate the stable transmission of information and content and covering all education administration and research institutions as well as primary and secondary schools within Guangdong Province. China Telecom Guangdong will operate and maintain this dedicated network, which include upgrading and testing of the access terminals and access terminal equipment, installation services, as well as provision of technical support. Guangzhou YBDS is responsible for the investment of an amount up to RMB700 million to construct the Online Education Platform, and provided it with overall management and operation services which include technical services, software and hardware, studios and work space for video recording as well as project implementation, market demand analysis, system integration, computing technology, technical support, network testing and liaising with the various education administration departments.

Once completed, the Online Education Platform, capable of serving up to 6 million subscribers, will be able to serve all education administration and research institutions, and more than 20,000 primary and secondary schools, 890,000 teachers, and over 18,000,000 students in Guangdong Province.

During the reporting period, the Company has completed the design, construction and testing of a prototype of the over-the-top network system for the Online Education Platform.

In the area of trading ancillary high-tech software and hardware equipment, the Company had commenced the trading of G-PON equipment in the 4th quarter of 2012. For the year ended 31 March 2014, the Group generated revenue of approximately HK$5.52 million in the trading of G-PON equipment (HK$35.05 million for the year ended 31 March 2013).

Additionally, to be able to submit tenders to supply POS terminals, Guangzhou YBDS had entered into an agreement with Fujian Newland Computer Co., Ltd. (福建新大陸電腦股份有限公司) ("**Newland**") with Guangzhou YBDS being appointed as a sales and marketing agent for POS terminals manufactured by Newland. The POS terminal is the modern replacement of the cash register that, when connected to a POS system, can record and track customer orders, process credit and debit cards, connect to other systems in a network, and manage inventory. In short, it is a computer which is provided with application-specific programs and I/O devices for the particular environment in which it serves.

During the reporting period, the Group had supplied China Telecom Bestpay E-Commerce Ltd. with 1,600 sets of POS terminals for a total contract sum of RMB1.89 million, or approximately HK$2.38 million.

The Group's system integration services and other value-added technical consultation services and hardware-related business in Hong Kong continue to be principally facilitated by Norray Professional Computer Limited, a subsidiary of the Company.

Financial Review

For the year ended 31 March 2014, the Group recorded a revenue of approximately HK$36,572,000, representing an decrease of approximately 32% when compared with the last corresponding year. The significant decrease in revenue was principally due to a drop of business volume in the trading of G-PON equipment in which the Group having generated revenue approximately HK$5,523,000 during the year. Loss attributable to owners of the Company for the year ended 31 March 2014 was approximately HK$10,481,000 as compared to a loss of approximately HK$11,860,000 for the year ended 31 March 2013.

Segmental Information

Business segments

During the year under review, revenue generated from hardware sales decreased by approximately 45%, revenue from maintenance services increased by approximately 14% while revenue from consultancy services increased by HK$6,350,000. Additionally, revenue from software sales decreased by approximately 5%.

Geographical segments

The provision of system integration services and other value-added technical consultation services and hardware-related business mainly caters for the PRC market. Revenue from the Hong Kong segment represented approximately 79% of the total revenue (2013: 35%).

Financial Resources and Liquidity

As at 31 March 2014, the shareholders' funds of the Group amounted to approximately HK$122,635,000. Current assets were approximately HK$129,246,000, mainly comprising cash and cash equivalents of approximately HK$112,112,000 and trade and other receivables of approximately HK$17,134,000. Current liabilities mainly comprised trade and other payables of approximately HK$8,870,000 and bank borrowings of nil. The net asset value per share was approximately HK$0.090. The Group's gearing ratio, expressed as a percentage of bank borrowings and long-term debts over total equity, was nil. The liquidity ratio of the Group, determined as a ratio of current assets over current liabilities, was 14.57:1 (as at 31 March 2013: 2.04:1).

Exposure to Exchange Rate Fluctuation

For the year ended 31 March 2014, the Group was only exposed to limited currency exchange rate fluctuation risks as virtually all of the Group's monetary assets and liabilities were denominated in Hong Kong dollars as it conducts its business transactions principally in this currency. The currency exchange rate risk of the Group is therefore considered to be immaterial, and the Group did not engage in any hedging activity.

Commitments

As at 31 March 2014, the Group had operating lease commitments in respect of rented premises, online platform and equipment of approximately HK$39,716,000 (2013: HK$883,000). As at 31 March 2014 and 2013, the Group had no significant capital commitment.

Contingent Liabilities

As at 31 March 2014 and 2013, the Group had no material contingent liabilities.

Charges on the Group's Assets

As at 31 March 2014 and 2013, the Group had no charges on the Group's assets.

Employees and Remuneration Policies

As at 31 March 2014, the Group had 44 employees (including 7 Directors) (2013: 26 employees (including 7 Directors)). The total remuneration paid to employees, including Directors, for the year ended 31 March 2014 was approximately HK$11,364,000 (2013: HK$9,036,000). Remuneration is determined by reference to market terms and the performance, qualification and experience of each individual employee. Annual year-end double pay is paid based on each individual employee's performance as recognition of and reward for their contributions. Other benefits accruing to the employees include contributions made to statutory mandatory provident fund scheme and a group medical scheme.

Significant Investments

For the year ended 31 March 2014, the Group had no significant investment.

Future Prospects and Plans for Material Investments or Capital Assets

In line with the Department of Education of Guangdong Province's medium to long term strategic plan to standardize the education programs taught in primary and secondary schools such that students in rural areas will be able to enjoy the same quality of education as those in the urban areas, on 22 April 2013, Guangzhou YBDS and China Telecom Guangdong decided to combine their resources by collaborating with each other to develop, establish, and operate the Online Education Platform.

The Online Education Platform is an integrated platform that enables its subscribers to access educational content through data-streaming for a monthly subscription fee. An additional fee is charged for viewing access to special programs made available by video on demand. When completed, it will have the capacity to serve up to 6 million subscribers targeting all education administration and research institutions, and more than 20,000 primary and secondary schools, 890,000 teachers, and over 18,000,000 students in Guangdong Province.

Under the collaboration agreement, Guangzhou YBDS is responsible for the investment up to RMB700 million to construct the Online Education Platform, and project implementation by providing the necessary technical services, including developing the various software applications for content distribution, data streaming, video on demand, content compression, management of the subscribers base, and an information and data control center, developing a comprehensive content delivery/distribution network or a large distributed system of several thousand servers deployed in multiple data centers across the Internet capable of supporting up to 6 million subscribers, and manufacture of required amount of encoders or set-up boxes equipped with wireless remote controls and headphone capability, setting up offices as well as studios and work space for video recording (it anticipates to lease up to 6,600 square meters of space in Guangzhou, and up to 500 square meters of space in the other 20 satellite offices in cities within Guangdong Province), renovation work, all heating, ventilation and air-conditioning, office furniture, computer equipment, related video recording equipment, staffing of up to 1,100 people consisting of professionals, technicians as well as service and maintenance personnel, among others, project implementation, computing technology, market demand analysis, system integration, technical support, and network testing as well as liaising with the various education administration departments in Guangdong Province.

China Telecom Guangdong is responsible for construction of a specific network dedicated to the Online Education Platform to facilitate the stable transmission of educational information and content covering all education administration and research institutions as well as primary and secondary schools within Guangdong Province. China Telecom Guangdong will operate and maintain this dedicated network, which include upgrading and testing of access terminals and access terminal equipment, installation services, as well as provision of technical support.

Guangzhou YBDS, on 21 March 2014, entered into an agency framework agreement with Aspire Information Technologies (Beijing) Co., Ltd. (卓望信息技術（北京）有限公司) ("**Aspire**") pursuant to which Aspire has appoint Guangzhou YBDS as its non-exclusive agent to promote and distribute their unified communications business, irrespective of whether such businesses are operated by Aspire or not, and provide relevant customer service and support thereunder in each province of the PRC.

Aspire, an indirect wholly-owned subsidiary of Aspire Holdings Limited ("**Aspire Holdings**"), was established in 2004 to provide operation and support services for value added data business of China Mobile and is responsible for the operation and support of the central portal Monternet.

Aspire Holdings, a direct non wholly-owned subsidiary of China Mobile, is the pioneer developer of data products and services for China Mobile. Aspire Holdings actively assists China Mobile in exploring, expanding, and facilitating businesses in areas such as information and communication technology and the internet. It has developed various super-large business platforms such as MISC and SIMS providing services nationwide. Aspire also assists China Mobile in the operation and support of mobile data businesses such as mobile newspaper and mobile reading. And through PIM, Aspire facilitates the development of China

Mobile's Internet businesses such as 139 community, mobile micro-blog, and i-Contact under which its social network brand Fetion has a subscriber base of over 320 million users. In addition, it helped China Mobile to establish the first mobile market for carriers and the Center of Mobile Certificate Authority in the PRC.

The link-up with Aspire marks a milestone in the Company's history. Cooperation with large-scale state-owned telecommunications operators and upstream/downstream partners in the industry enables the Company to develop and provide new products and services, re-defining and enhancing our business model.

The premise of our cooperation with Aspire together with Fetion's estimated over 320 million registered users creates a solid foundation for the Company and Aspire to jointly develop front end module businesses.

On 31 March 2014, Guangzhou YBDS entered into a strategic cooperation agreement with BesTV New Media Co., Ltd. ("**BesTV**") to collaborate on exploring and developing new media technology and contents on IPTV, mobile television, internet television, mobile internet, multimedia stage design and production, and digital media platform research and development, offering such products and services through smart phones, PCs, television, and iPads (collectively, the "**4 Screens**").

BesTV is a new media corporation controlled by Radio and Television Shanghai and Shanghai Media Group whose shares are listed on The Shanghai Stock Exchange (stock code: 600637). Its business scope includes research, exploration, design, construction, management, maintaining entire network systems, interactive media application platform, and provision of network-related software and hardware in the field of technology development, technical consulting, technology transfer, technical services, network video production and operations, messaging, network equipment design, leasing, and sales and service. As at the year ended 2012, BesTV had over 16 million IPTV subscribers.

The Directors believe that with the dawning of 4G networks, a new economy driven by new visual media is about to commence. The onset of unified communications will alter how traditional Internet businesses operate. Moreover, mobile users will be able to access more convenient and colorful content benefited from the high bandwidth and low latency characteristics of 4G networks. Similarly, the cooperation with BesTV to develop and operate 4G new media businesses enable the Company to preempt the mainstream of 4G new media businesses onto the 4 screens.

The Directors believe that the exponential growth in mobile Internet has brought forward intense competition across all market segments of the telecommunications industry into an era driven largely by the volume of data throughput. In hindsight, the Group re-defined our core business. Key businesses of the Group have been expanded to include big data, unified communications, cloud computing, network security SDN, 4G new media, top-level designs for e-finance, the software and hardware maintenance and operation in respect of the back end network support systems, design, development, production and manufacturing of the network front end products as well as the business operation of the online and offline payment. In hindsight, the Group is therefore accelerating its efforts in strategic transformation and capacity enhancement to maintain and create its competitive advantages.

Given our ambitions in the telecommunications industry in the PRC, Mr. Ni Guang Nan ("**Mr. Ni**") was appointed as the Company's chief science and technology advisor of the Company on 7 April 2014. He will focus on advising the Company on its business activities in information and telecommunications technology. Set out below is the biography of Mr. Ni.

Mr. Ni, aged 75, is a fellow of the Chinese Academy of Engineering. He is a specialist in computer architecture and algorithms, and was previously the chief science and technology officer of the Lenovo Group. Mr. Ni graduated from the Nanjing Institute of Technology (now Southeast University in Nanjing) in 1961. After graduation, he was employed with the Institute of Computing Technology Chinese Academy of Sciences and has extensive experience in foundation research and product development in computing technology and its related fields. Mr. Ni pioneered the inputting of Chinese characters in computer applications. In 1994, he was among the first group of people selected to join the Chinese Academy of Engineering.

Mr. Ni was previously a fellow of the Institute of Computing Technology Chinese Academy of Sciences, a fellow of the Chinese Academy of Engineering. He has also served as the fifth and sixth Chairman of the Chinese Information Processing Society of China, a deputy director of the Cloud Computing Specialists Committee of the Chinese Institute of Electronics, a deputy director of the Internet of Things Specialists Committee of the Chinese Institute of Electronics, a deputy director of the Internet of Things Specialists Committee of the China Electronics Chamber of Commerce, a Deputy Director of Specialists Advisory Committee within the Administrative Committee of the Zhongguancun Haidian Science Park, a Deputy Director of Specialists Advisory Committee of the Chinese Academy of Governance, a Member of the Specialists Committee of the Chinese Electronic Records Management Centre. He also held various capacities such as the Specialists Committee of the Chinese Information Technology Security Evaluation Center, a representative of the 8th National People's Congress, a member of the 8th and 9th National Committee of the Chinese People's Political Consultative Conference and an honorary member of the 5th All-China Youth Federation.

The Directors believe the entering into of the agency framework agreement with Aspire and strategic cooperation agreement with BesTV is in line with the Group's strategy enabling it to expand its existing services and revenue base and enhance its growth potential. Accordingly, the Directors consider the agency framework agreement and strategic cooperation agreement are in the interest of the Company and its shareholders as a whole.

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL RESULT AND POSITION OF THE TARGET GROUP

Set out below is the management discussion and analysis abstracted from the accountant report of the Target Group for each of the financial years ended 31 March 2012, 2013 and 2014 and the three months ended 30 June 2014, respectively:

For the year ended 31 March 2012:

Business review

The Target Group recorded consolidated loss for the year from continued operations of approximately a loss of approximately HK$25,100,000 recorded in the previous year. The consolidated loss of the current year was primary attributed to the recognition of provision of impairment loss on inventory in related to residential gateway of approximately HK$3,300,000 and provision of impairment loss of other receivables of approximately HK$12,500,000.

Recognized revenue

During the year, the Target Group's sales revenue of residential gateway products amounted to approximately HK$56,000,000. The overall gross margin was accounted as 9.50%. The management of the Target Group considers that the business is still facing challenge and harsh business environment in PRC market.

Contract sales

China Telecom is Target Group's major customer which contributed approximately HK$39,700,000 in current year. The Target Group won the purchase order from China Telecom and other telecommunication service provider in relation to the provision of telecommunications equipment.

Residential Gateway Business

For residential gateway business, given that the positive industry prospect and favorable government policies in relation to the Target Group's business and potential growth of the demand for residential gateway in the PRC, the overall revenue from residential gateway product is approximately HK$56,100,000 whereas the gross profit is approximately HK$5,300,000.

Financial review

Trade receivables

As at 31 March 2012, the debtor's turnover ratio is approximately 220 days which was calculated by dividing trade receivables by revenue for the year multiplied by 365 days.

Inventory

As at 31 March 2012, the inventory turnover ratio is 163 days which was calculated by dividing average inventory by cost of sales for the year multiplied by 365 days which generally in line with the practice of the Target Group to maintain buffer inventory.

Liquidity and Financial Resources

As at 31 March 2012, the Target Group had total long term other payable of approximately HK$26,100,000. The Target Group's gearing ratio, which was defined as total long term other payables as a percentage of total assets, was approximately 19.7%.

The Target Group's cash and bank balance at 31 March 2012 amounted approximately HK$41,700,000 which was denominated in RMB. The cash balances will enable the Target Group to finance our business at the moment. As at 31 March 2012, the Target Group's current ratio and quick ratio were approximately 107.8% and approximately 70.9% respectively.

Other Borrowings

As at 31 March 2012, the Target Group has long term other payables of approximately HK$26,100,000 at a maturity dated 30 September 2015 provided by our Independent Third Party which is interest-free and unsecured.

Capital Structure

As at 31 March 2012, the Target Group's operations were mainly financed by internal resources and borrowings from independent third parties.

Contingent Liabilities

The Target Group had no significant contingent liability as at 31 March 2012.

Foreign Exchange Exposure

The Target Group did not engage in any hedging transactions related to foreign currencies. During 2012, the Target Group's major revenue and cost arose from the residential gateway product and were denominated in Renminbi. It is expected the continuous appreciation of the Renminbi will has a positive effect on the Target Group's financial condition. The Target Group will closely assess and monitor the movement of RMB exchange rate, and to consider hedging the relative exposure should the need arise.

Employees and Remuneration Policies

As at 31 March 2012, the Target Group has a total of 56 employees for to meet with the demand of the Target Group's operation. The staff cost incurred during 2012 amounted to approximately HK$3,700,000. The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Target Group's employee remuneration policy and packages are periodically reviewed by the management. Apart from pension funds, discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

Charges on Assets

As at 31 March 2012, there are no charges on the Target Group's assets.

Treasury policies

The Target Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Target Group's cash and cash equivalents are held mainly in RMB. Surplus cash is generally placed in short term deposits denominated in RMB.

Material Investment, Acquisition and Disposal

On 14 June 2011, the Target Group established a subsidiary, namely Beijing Hua Xin Tian Rui Technology Limited* (北京華信天瑞科技有限公司). The Target Group had 100% equity interest in Beijing Hua Xin Tian Rui Technology Limited.

On 16 September 2011, the Target Group as vendor entered into the disposal agreement with independent third party to dispose the entire paid-in capital of Beijing Hua Xin Tian Rui Technology Limited at a cash consideration of HK$12,040,939. Beijing Hua Xin Tian Rui Technology Limited was dormant since incorporation.

On 9 March 2012, the Target Group established a subsidiary, namely Beijing Yunbo Zhong Ruan International Technology Limited* (北京雲博中軟國際科技有限公司). The Target Group had 65% equity interest in Beijing Yunbo Zhong Ruan International Technology Limited. Beijing Yunbo Zhong Ruan International Technology Limited was dormant since incorporation.

For the year ended 31 March 2013:

Business review

The Target Group recorded consolidated loss for the year from continued operations of approximately HK$16,022,000, as compared with a loss of approximately HK$25,115,000 recorded in the previous year. The significant increase in consolidated loss of the current year was primary attributed to the recognition of provision of impairment loss on inventory in related to residential gateway.

2013 marked a year of remarkable milestone for the Target Group. The Target Group reaped fruitful result since its entry into the tendering process with China Telecom. For the year ended 31 March 2013, the Target Group's revenue grew by 296% on a year-on-year basis to a record-breaking height of approximately HK$223,400,000, among which our G-PON equipment, E-PON equipment and other residential gateway equipment mainly from tendering process with China Telecom recorded revenue of approximately HK$223,300,000, accounting for 99% of Target Group's total revenue. This business line has now become the Target Group's core business. The increase in revenue was primarily due to the delivery of G-PON equipment and E-PON equipment mainly from tending process with China Telecom during the year.

Recognized revenue

During the year, the Target Group's sales revenue of residential gateway products amounted to approximately HK$223,300,000 (2012: approximately HK$56,000,000). The overall gross margin was accounted as 8.70% during the year as compared 9.50% in 2012. The management of the Target Group considers that the business is still facing challenge and harsh business environment in PRC market.

Contract sales

For telecommunications projects in the PRC, as advised by the management of the Target Group and noticed in the relevant purchase and tendering websites of the three largest telecommunications operators in the PRC, it is the industry norm that only companies possess the prerequisite industry experience and proven track records ("**Qualified Companies**" or each "**Qualified Company**") are qualified to submit bids for telecommunications projects in the PRC. The prerequisites needed to be deemed as one of the Qualified Companies are determined by each telecommunications operator. In most cases, the general qualifications which telecommunications operators in the PRC would take into consideration include but not limited to competency, capability, level of quality, and financial assurance, among others. For each specific project and/or annual bulk purchase of equipment, they are typically subject, by law or regulation, to a tendering process. Over the years, this procedure has become a standard practice in the telecommunications industry in the PRC especially for equipment purchases. For China Telecom, the Target Group is aware that internally they have compiled.

China Telecom is Target Group's major customer which contributed approximately HK$203,500,000 in current year, as compared with revenue of HK$39,700,000 in the previous year. The Target Group won bids for China Telecom's 2012/13 purchase order in relation to the provision of G-PON equipment, E-PON equipment and other residential gateway.

Residential Gateway Business

For residential gateway business, given that the positive industry prospect and favorable government policies in relation to the Target Group's business and potential growth of the demand for G-PON equipment and E-PON equipment in the PRC, the overall revenue from residential gateway product increased to approximately HK$223,300,000 (2012: approximately HK$56,100,000) whereas the gross profit rose to approximately HK$19,400,000 (2012: approximately HK$5,300,000).

Financial review

Trade receivables

As at 31 March 2013, the debtor's turnover ratio is approximately 160 days (2012: approximately 220 days) which was calculated by dividing trade receivables by revenue for the year multiplied by 365 days due to the managements' effort to ask its customer to settle the amount of sales once the product is delivered.

Inventory

As at 31 March 2013, the inventory turnover ratio is approximately 156 day (2012: approximately 163 days) which was calculated by dividing average inventory by cost of sales for the year multiplied by 365 days which generally in line with the practice of the Target Group to maintain buffer inventory.

Trade payables

As at 31 March 2013, the creditor's turnover ratio is approximately 55 days (2012: Nil) which was calculated by dividing trade payables by revenue for the year multiplied by 365 days which generally in line with the credit terms received by the Target Group.

Liquidity and Financial Resources

As at 31 March 2013, the Target Group had total long term other payable of approximately HK$56,500,000 (2012: approximately HK$26,100,000). The Target Group's gearing ratio, which was defined as total long term other payables as a percentage of total assets, was approximately 19.1% (2012: approximately 19.7%).

The Target Group's cash and bank balance at 31 March 2013 amounted approximately HK$27,500,000 (2012: approximately HK$41,700,000) which was denominated in RMB. The cash balances will enable the Target Group to finance our business at the moment. As at 31 March 2013, the Target Group's current ratio and quick ratio were approximately 116.6% (2012: approximately 107.8%) and approximately 65.5% (2012: approximately 70.9%) respectively.

Other Borrowings

As at 31 March 2013, the Target Group has long term other payables of approximately HK$56,500,000 at a maturity dated 30 September 2015 provided by three Independent Third Parties which are interest-free and unsecured.

Capital Structure

As at 31 March 2013, the Target Group's operations were mainly financed by internal resources and borrowings from independent third parties.

Contingent Liabilities

The Target Group had no significant contingent liability as at 31 March 2013.

Foreign Exchange Exposure

The Target Group did not engage in any hedging transactions related to foreign currencies. During 2013, the Target Group's major revenue and cost arose from the residential gateway product and were denominated in Renminbi. It is expected the continuous appreciation of the Renminbi will has a positive effect on the Target Group's financial condition. The Target Group will closely assess and monitor the movement of RMB exchange rate, and to consider hedging the relative exposure should the need arise.

Employees and Remuneration Policies

As at 31 March 2013, the Target Group has a total of 86 (2012: 56) employees for to meet with the demand of the Target Group's operation. The staff cost incurred during 2013 amounted to approximately HK$5,000,000. (2012: approximately HK$3,700,000). The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Target Group's employee remuneration policy and packages are periodically reviewed by the management. Apart from pension funds, discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

Treasury policies

The Target Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Target Group's cash and cash equivalents are held mainly in RMB. Surplus cash is generally placed in short term deposits denominated in RMB.

Charges on Assets

As at 31 March 2013, there are no charges on the Target Group's assets.

Material Investment, Acquisition and Disposal

On 25 October 2012, the Target Group established a subsidiary, namely Fu Song Hua Tian Property Development Limited* (撫松華天房地產開發有限公司) (formerly known as Fu Song Hua Tian Investment Limited* (撫松華天投資有限公司). The Target Group had 100% equity interest in Fu Song Hua Tian Property Development Limited. Fu Song Hua Tian Property Development Limited was dormant since incorporation.

For the year ended 31 March 2014:

Business review

For the year ended 31 March 2014, the Target Group's revenue grew by 26% on a year-on-year basis to approximately HK$282,700,000, among which our G-PON equipment, E-PON equipment and other residential gateway equipment from tendering process mainly with China Telecom recorded revenue of approximately HK$282,600,000, accounting for 99% of Target Group's total revenue. This business line has now become the Target Group's core business. The increase in revenue was primarily due to the delivery of G-PON equipment and E-PON equipment mainly from tending process with China Telecom during the year.

Recognized revenue

During the year, the Target Group's sales revenue of residential gateway products amounted to approximately HK$282,600,000 (2013: approximately HK$223,300,000). The overall gross margin was accounted as 8.80% during the year as compared 8.70% in previous year.

Contract sales

China Telecom is Target Group's major customer which contributed approximately HK$270,600,000 in current year, as compared with revenue of approximately HK$203,500,000 in the previous year. The Target Group won bids for China Telecom's 2013/14 purchase order in relation to the provision of G-PON equipment, E-PON equipment and other residential gateway.

Residential Gateway Business

According to the Broadband China Plan 2013 (寬頻中國2013專項行動) (issued by the Ministry of Industry and Information Technology of the People's Republic of China ("**MIIT**") on 26 February 2013 and the announcement made by the State Council on 18 August 2013, the Chinese government has elevated national broadband development as a national strategy and has announced an implementation timeline for its development over the next eight years. The strategy aims at rolling out Wi-Fi coverage in key public urban areas by 2013 and fixed broadband coverage for half of Chinese households by 2015. It would add more fixed-line broadband households and public Wi-Fi hotspots in 2013 for 4M broadband and aimed to have more than 250 million broadband users while raising access speeds in both urban and rural areas, with service coverage hitting 95 percent by the end of 2015.

For residential gateway business, given that the positive industry prospect and favorable government policies in relation to the Target Group's business and potential growth of the demand for G-PON and E-PON equipment in the PRC, the overall revenue from residential gateway product increased to approximately HK$282,600,000 (2013: approximately HK$223,300,000) whereas the gross profit rose to approximately HK$24,800,000 (2013: approximately HK$19,400,000).

Financial review

Trade receivables

As at 31 March 2014, the debtor's turnover ratio is approximately 71 days (2013: approximately 160 days) which was calculated by dividing trade receivables by revenue for the year multiplied by 365 days due to the managements' continuous effort to ask its customer to settle the amount of sales once the product is delivered.

Inventory

As at 31 March 2014, the inventory turnover ratio is approximately 155 day (2013: approximately 156 days) which was calculated by dividing average inventory by cost of sales for the year multiplied by 365 days which generally in line with the practice of the Target Group to maintain buffer inventory.

Trade payables

As at 31 March 2014, as the Target Group usually settles any trade payables when fund is available during the year, the creditor's turnover ratio is approximately 42 days (2013: approximately 55 days) which was calculated by dividing trade payables by revenue for the year multiplied by 365 days which generally in line with the credit terms received by the Target Group.

Liquidity and Financial Resources

As at 31 March 2014, the Target Group had total long term other payable of approximately HK$56,000,000 (2013: approximately HK$56,500,000). The Target Group's gearing ratio, which was defined as total long term other payables as percentage of total assets, was approximately 15.3% (2013: approximately 19.1%).

The Target Group's cash and bank balance at 31 March 2014 amounted approximately HK$149,900,000 (2014: approximately HK$27,500,000) which was denominated in RMB. The cash balances will enable the Target Group to finance our business at the moment. As at 31 March 2014, the Target Group's current ratio and quick ratio were approximately 117.5% (2012: approximately 116.6%) and approximately 88.6% (2013: approximately 65.5%) respectively.

Other Borrowings

As at 31 March 2014, the Target Group has long term other payables of approximately HK$56,000,000 at a maturity dated 30 September 2015 provided by three Independent Third Parties which are interest-free and unsecured.

Capital Structure

As at 31 March 2014, the Target Group's operations were mainly financed by internal resources and borrowings from independent third parties.

Contingent Liabilities

The Target Group had no significant contingent liability as at 31 March 2014.

Foreign Exchange Exposure

The Target Group did not engage in any hedging transactions related to foreign currencies. During 2014, the Target Group's major revenue and cost arose from the residential gateway product and were denominated in Renminbi. It is expected the continuous appreciation of the Renminbi will has a positive effect on the Target Group's financial condition. The Target Group will closely assess and monitor the movement of RMB exchange rate, and to consider hedging the relative exposure should the need arise.

Employees and Remuneration Policies

As at 31 March 2014, the Target Group has a total of 109 (2013: 86) employees for to meet with the demand of the Target Group's operation. The staff cost incurred during 2014 amounted to approximately HK$7,400,000. (2013: approximately HK$5,000,000). The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Target Group's employee remuneration policy and packages are periodically reviewed by the management. Apart from pension funds, discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

Treasury policies

The Target Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Target Group's cash and cash equivalents are held mainly in RMB. Surplus cash is generally placed in short term deposits denominated in RMB.

Charges on Assets

As at 31 March 2014, there are no charges on the Target Group's assets.

Material Investment, Acquisition and Disposal

On 12 August 2013, the Target Group as vendor entered into the disposal agreement with independent third party to dispose the entire paid-in capital of Hui Tou Cai Zhi Investment Management (Beijing) Limited* (滙投財志投資管理(北京)有限公司) (formerly known as Beijing Hua Tong Tian Bo Network Technology Limited* (北京華通天博網絡技術有限公司)) at a cash consideration of HK$118,245. Hui Tou Cai Zhi Investment Management (Beijing) Limited was dormant since incorporation.

For the three months ended 30 June 2014:

Business review

For the three months period ended 30 June 2014, the Target Group's revenue decreased by 30% on a quarter to quarter basis to approximately HK$51,300,000 (For the three month period ended June 30 2013: HK$73,300,000), among which our G-PON equipment, E-PON equipment and other residential gateway equipment from tendering process mainly with China Telecom recorded revenue of approximately HK$26,800,000 (For the three month period ended June 30 2013: HK$73,300,000) accounting for 52% (For the three month period ended June 30 2013: 100%) of Target Group's total revenue. This business line has now become the Target Group's core business. The decrease in revenue was primarily due to significant amount of the sales invoices for 2013 tendering process were incurred during June to December 2013, and smaller portion of the sales invoices for 2013 tendering process were incurred in the three month period ended 30 June 2014. In addition, the Target Group diversified its customer base to include more trading activities with telecommunication equipment companies during the three month period ended 30 June 2014 to reduce its reliance on China Telecom.

Recognized revenue

During the period, the Target Group's sales revenue of residential gateway products amounted to approximately HK$51,300,000 (For the three months period ended 30 June 2013: approximately HK$73,300,000). The overall gross margin was approximately 10.67% during the period as compared to approximately 7.30% in the previous period due to diversification of the customer base from major telecommunications service providers such as China Telecom to include more trading activities with telecommunications equipment companies during the three month period ended 30 June 2014.

Contract sales

China Telecom is Target Group's major customer which contributed approximately HK$26,800,000 in the current period, as compared with revenue contribution of approximately HK$73,300,000 in the previous period. Such decrease was mainly attributable to that significant amount of the sales invoices for 2013 tendering process were incurred during June to December 2013, and smaller portion of the sales invoices for 2013 tendering process were incurred in the three month period ended 30 June 2014.

Residential Gateway Business

For residential gateway business, given that the improvement on gross margin percentage in relation to the Target Groups business, although the overall revenue from residential gateway product decrease to approximately HK$51,300,000 (For the three month period ended 30 June 2013: approximately HK$73,300,000), the gross profit rose to approximately HK$5,500,000 (For the three month period ended 30 June 2013: approximately HK$5,400,000).

Financial review

Trade receivables

As at 30 June 2014, the debtor's turnover ratio is approximately 108 days (as at 31 March 2014: approximately 71 days), which was calculated by dividing trade receivables by revenue for the period multiplied by 91 days, due to the managements' continuous effort to explore customer base from major telecommunications service provider to include more trading activities with telecommunications equipment companies and allow longer credit term to telecommunications equipment companies to attract new customers.

Inventory

As at 30 June 2014, the inventory turnover ratio is approximately 181 day (as at 31 March 2014: approximately 155 days), which was calculated by dividing average inventory by cost of sales for the period multiplied by 91 days. The increase was due to the pile-up for inventory in expecting of the delivery of 2014 Annual Tendering Process in the second half of 2014.

Trade payables

As at 30 June 2014, the creditor's turnover ratio is approximately 59 days (As at 31 March 2014: approximately 42 days), which was calculated by dividing trade payables by revenue for the period multiplied by 91 days. The increase in creditor's turnover ratio was mainly attributable to substandard products provided by one of the suppliers of the Target Group, as such, the Target Group delayed the payment until the supplier improved the product quality.

Liquidity and Financial Resources

As at 30 June 2014, the Target Group had long term other payable of approximately HK$55,900,000 (As at 31 March 2014: approximately HK$56,000,000). The Target Group's gearing ratio, which was defined as total long term other payables as a percentage of total assets, was approximately 16.9% (as at 31 March 2014: approximately 15.3%).

The Target Group's cash and bank balance at 30 June 2014 amounted to approximately HK$110,000,000 (as at 31 March 2014: approximately HK$149,900,000) which was denominated in RMB. The cash balances will enable the Target Group to finance our business at the moment.

Other Borrowings

As at 30 June 2014, the Target Group has long term other payables of approximately HK$55,900,000 at a maturity dated 30 September 2015 provided by three Independent Third Parties which are interest-free and unsecured.

Capital Structure

As at 30 June 2014, the Target Group's operations were mainly financed by internal resources and borrowings from independent third parties.

Contingent Liabilities

The Target Group had no significant contingent liability as at 30 June 2014.

Foreign Exchange Exposure

The Target Group did not engage in any hedging transactions related to foreign currencies. During 2014, the Target Group's major revenue and cost arose from the residential gateway product and were denominated in RMB. It is expected the continuous appreciation of the RMB will has a positive effect on the Target Group's financial condition. The Target Group will closely assess and monitor the movement of RMB exchange rate, and to consider hedging the relative exposure should the need arises.

Employees and Remuneration Policies

As at 30 June 2014, the Target Group has a total of 104 (As at 30 June 2013: 94) employees to meet with the demand of the Target Group's operation. The staff cost incurred for the period amounted to approximately HK$2,300,000. (2013: approximately HK$1,700,000). The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Target Group's employee remuneration policy and packages are periodically reviewed by the management. Apart from pension funds, discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

Treasury policies

The Target Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Target Group's cash and cash equivalents are held mainly in RMB. Surplus cash is generally placed in short term deposits denominated in RMB.

Charges on Assets

As at 30 June 2014, there are no charges on the Target Group's assets.

Material Investment, Acquisition and Disposal

On 9 May 2014, the Target Group as vendor entered into the disposal agreement with independent third party to dispose the entire paid-in capital of Fu Song Hua Tian Property Development Limited* (撫松華天投資有限公司) at a cash consideration of approximately HK$12,300,000 which is the net identifiable value at the disposal date. Fu Song Hua Tian Property Development Limited was dormant since incorporation.

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

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

Authorised:		*HK$*
2,000,000,000	Shares	200,000,000
Issued, fully paid or credited as fully paid:		
1,356,250,000	Shares in issue as at the Latest Practicable Date	135,625,000

3. DISCLOSURE OF INTERESTS

(i) Directors' interests

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests and short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (c) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

(ii) Substantial Shareholders' interests

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, 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 Company were as follows:

Long positions in the Shares

Name of Director	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Happy On Holdings	Beneficial interest	987,888,771 (L)	72.84%
Mr. Chan Foo Wing (“**Mr. Chan**”)	Interest of controlled corporation *(note)*	987,888,771 (L)	72.84%

(L) denotes long position

Note: As Mr. Chan is the ultimate beneficial owner and the sole director of Happy On Holdings, by virtue of the SFO, Mr. Chan is deemed to be interested in the 987,888,771 Shares held by Happy On Holdings.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the 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 members of the Company or had any options in respect of such Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company (or its subsidiary) which has an interest or a 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.

4. DIRECTORS’ SERVICE CONTRACTS

None of the Directors had entered or been proposed to enter into any service contract with the Company or any other member of the Enlarged Group excluding contract expiring or determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation) as at the Latest Practicable Date.

5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2014, the date to which the latest published audited financial statements of the Group were made up.

(b) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group since 31 March 2014, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Enlarged Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the controlling shareholder of the Company or their respective close associates were considered to have an interests in a business which competes or may compete with the business of the Enlarged Group or have any other conflict of interest, either directly or indirectly, which any such person has or may have with the Enlarged Group.

7. MATERIAL CONTRACTS

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

1. a strategic cooperative agreement dated 31 August 2014 entered into between Guangzhou YBDS and China Vanguard Corporate Management Limited, a direct wholly-owned subsidiary of China Vanguard Group Limited (眾彩科技股份有限公司*) ("**CVG**"), the shares of which are listed on the GEM of the Stock Exchange (stock code: 8156), with respect to the connection and integration of POS terminals for equipping CVG's lottery distribution points with the Company's non-cash online and offline payment system;

2. a strategic cooperation agreement dated 26 August 2014 entered into between the Company, China National Travel Service (HK) Group Corporation (中國港中旅集團公司) ("**HKCTS Group**") and China Telecommunications Corporation (中國電信集團公司) with respect to cooperation in tourism, hotels, ticketing, mobile payment and other areas within the business scope of HKCTS Group;

3. the Acquisition Agreement;

* *For identification purpose only*

4. a termination agreement dated 7 July 2014 and entered into between Guangzhou YBDS and Guangdong branch of China Telecom Corporation Limited (中國電信股份有限公司廣東分公司) ("**China Telecom Guangdong**") in relation to the termination of the collaboration with China Telecom Guangdong to develop, establish and operate an integrated online education platform and the use and access of the existing Internet Protocol Television (IPTV) under the collaboration agreement dated 22 April 2013;

5. a non-legally binding letter of intent dated 13 May 2014 entered into between Guangzhou YBDS, PetroChina Trading Company Limited* (中國石油天然氣股份有限公司銷售分公司) and China Telecom Bestpay E-commerce Ltd.* (天翼電子商務有限公司) in respect of the joint development of the mobile phone payment business through sharing the respective strengths of the parties thereto in a high-quality customer base, effective sales channels and resources;

6. a project implementation agreement dated 7 April 2014 entered into between the Company and ChinaSoft International Limited (中軟國際有限公司*) ("**ChinaSoft**") with respect to the wireless products subproject under the development and support services project in relation to the Fetion business of China Mobile Limited (中國移動有限公司) for the year 2013;

7. a strategic cooperation agreement dated 31 March 2014 entered into between Guangzhou YBDS and BesTV New Media Co., Ltd. in respect of collaboration on exploring and developing the area of new media technology and contents, etc.;

8. an agency framework agreement dated 21 March 2014 entered into between Guangzhou YBDS and Aspire Information Technologies (Beijing) Co., Ltd. ("**Aspire**"), Ltd in respect of the appointment of Guangzhou YBDS as the non-exclusive agent of Aspire to promote and distribute Aspire's unified communications business;

9. a non-legally binding letter of intent dated 14 March 2014 entered into between the Company and ChinaSoft, pursuant to which the parties thereto will collaborate with each other on the bidding for the "Construction of the Unified Payment System Phase I* (統一支付系統一期工程), a project to be implemented by a PRC telecommunication operator for the establishment of a national unified payment platform in the PRC;

10. a formal supply agreement dated 24 September 2013 entered into between Guangzhou YBDS and China Telecom Bestpay E-Commerce Ltd. for the supply of a total of 1,600 sets of POS terminals for a total contract sum of RMB1,888,000;

11. an agreement dated 5 August 2013 entered into between Guangzhou YBDS and Fujian Newland Computer Co., Ltd. ("**Newland**"), pursuant to which Newland agreed to appoint, and Guangzhou YBDS agreed to act as an agent of Newland for the sales and marketing of POS terminals for a period of 3 years from 1 April 2013;

12. a subscription agreement dated 2 June 2013 and entered into with Happy On Holdings, a controlling shareholder of the Company, pursuant to which Happy On Holdings has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue 450,000,000 subscription Shares at the subscription price of HK$0.225 per subscription Share;

13. the project implementation agreement dated 7 May 2013, entered into between Excellent Master Investments Limited, a wholly-owned subsidiary of the Company, ChinaSoft International (Hong Kong) Limited, a wholly-owned subsidiary of ChinaSoft, the Company and ChinaSoft with respect to the Wireless City Project;

14. a collaboration agreement dated 22 April 2013 and entered into with Guangzhou YBDS, and China Telecom Guangdong in relation to the collaboration with China Telecom Guangdong to develop, establish and operate an integrated online education platform and the use and access of the existing IPTV;

15. the cooperation agreement dated 18 April 2013 entered into between Guangzhou YBDS and South China Normal University in relation to the research, design, development and production of 100 units of 10-minute micro lectures in physics, using the cognitive learning technique, for secondary school students in the PRC;

16. a non-legally binding memorandum of understanding dated 12 April 2013 entered into between YBDS Multimedia Company Limited, a wholly owned subsidiary of the Company, and New5TV (Cayman) CO., LTD. in relation to establishing, developing, and creating a variety of online platforms using various marketing concepts and adopting the "narrowcasting" television channel operating mode;

17. a share placing agreement dated 12 March 2013 entered into between the Company as issuer and KGI Asia Limited as placing agent, in relation to the placing of up to a maximum of 125,000,000 placing Shares of the Company at the price of HK$0.145 per placing Share on a best effort basis, which was subsequently completed on 27 March 2013;

18. the disposal agreement dated 7 July 2014 in respect of the disposal by Hua Tian of its 51% equity interest in Yun Tai;

19. the disposal agreement dated 9 May 2014 in respect of the disposal by Hua Tian of its 100% equity interest in Fu Song;

20. Contract I; and

21. Contract II.

8. LITIGATION

Save for the potential punishment or claims as mentioned in paragraph headed "15. The PRC government may impose administrative punishment on the Target Group with respect to its non-compliance operations." under the section headed "Additional Information", as at the Latest Practicable Date, neither the Company or any of its subsidiaries is involved or may become a party in any material litigation and not aware of any potential claims against the Company or any of its subsidiaries that would affect the Enlarged Group's financial and operational positions.

9. EXPERTS AND CONSENTS

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

Name	Qualification
China Galaxy International Securities (Hong Kong) Co., Limited	A licensed corporation for carrying out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Grant Thornton Hong Kong Limited ("**Grant Thornton**")	Certified Public Accountants
Solarmark (HK) C.P.A. Company Limited ("**Solarmark**")	Certified Public Accountants

Each of China Galaxy, Grant Thornton, and Solarmark has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which it appears as at the Latest Practicable Date.

As at the Latest Practicable Date, each of China Galaxy, Grant Thornton and Solarmark did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of China Galaxy, Grant Thornton and Solarmark did not have any direct or indirect interests in any assets which had been since 31 March 2014, the date of which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or proposed to be acquired or disposed of by, or leased to, any members of the Enlarged Group.

10. GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is located at Room 1602, 16/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong.

(b) The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The company secretary of the Company is Mr. Tung Tat Chiu, Michael, a practicing solicitor in Hong Kong and a China-Appointed Attesting Officer.

(d) The Company's compliance officer is Mr. Kwong Wai Ho Richard, an executive Director.

(e) The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the Audit Committee are to review the Group's audit findings, accounting policies and standards, changes of accounting rules (if any), compliance to the GEM Listing Rules, internal and audit control, and cash flow forecast. The audit committee comprises four members, Mr. Ngan Yu Loong, Dr. Chow Ka Ming, Jimmy, Dr. Wong Wing Lit and Mr. Tse Yee Hin, Tony, all of them are independent non-executive Directors. The chairman of the audit committee is Mr. Ngan Yu Loong. Further details of them are as follows:

Mr. Ngan Yu Loong (顏裕龍) ("**Mr. Ngan**"), aged 51, was appointed as an independent non-executive Director on 2 December 2013 and re-elected on 23 June 2014. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Ngan has 20 years of experience in accounting and finance. He has been the principal partner of Y. L. Ngan and Company Certified Public Accountants since 1 July 1996. Save as disclosed above, Mr. Ngan does not hold any positions in the Company or any of its subsidiaries and does not hold any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years. Save as disclosed above, Mr. Ngan is not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

Dr. Chow Ka Ming, Jimmy (周嘉明) ("**Dr. Chow**"), aged 39, was appointed as an independent non-executive Director on 30 January 2012 and re-elected on 8 July 2013. He is currently the Chairman of the Hong Kong Information and System Security Professional Association, and also a member of the British Computer Society. Dr. Chow has more than 10 years of managerial experience in the information technology, engineering and education fields. His current research interests include mobile robotics, soft-computing, computer networking and Information security and he has published a number of international journal papers in his research fields. Dr. Chow received his BEng (Hons) in Electrical Engineering (First Class Honor) and Doctor of Philosophy in Electrical Engineering from The Hong Kong Polytechnic University in 1997 and 2001 respectively. He was also one of the awardees of the Sir Edward Youde Memorial Scholarships and Sir Edward Youde Memorial Fellowships during his undergraduate and doctoral degree studies respectively. Save as disclosed above, Dr. Chow does not hold any positions in the Company or any of its subsidiaries and does not hold any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years. Save as disclosed above, Dr. Chow is not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

Dr. Wong Wing Lit (黃榮烈) ("**Dr. Wong**"), aged 52, was appointed as an Independent non-executive Director on 17 February 2012 and re-elected on 23 June 2014. He is currently teaching actuary science and statistics in a university in Hong Kong. He is the Chairman of The Hong Kong Mathematical Olympiad Association, a statistician and associate actuary. Dr. Wong is a member of a number of professional bodies in Hong Kong including but not limited to Actuarial Society of Hong Kong and Hong Kong Statistical Society, and was conferred the title of Associate of The Society of Actuaries (ASA) in USA since 1993. Dr. Wong graduated from The Chinese University of Hong Kong with a Master of Philosophy degree and a Bachelor's degree in Statistics. He furthered his studies at the University of Pittsburgh, where he received his Doctorate and Master degree in Statistics and Mathematics. Save as disclosed above, Dr. Wong does not hold any positions in the Company or any of its subsidiaries and does not hold any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years. Save as disclosed above, Dr. Wong is not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

Mr. Tse Yee Hin, Tony (謝宇軒) ("**Mr. Tse**"), aged 44, was appointed as an Independent non-executive Director on 15 May 2014 and re-elected on 23 June 2014. He holds a Bachelor of Science degree with honors in Finance and Accounting from University of Salford, United Kingdom and a degree in

Executive Master of Business Administration from Richard Ivey School of Business, The University of Western Ontario, Canada. Mr. Tse is a member of each of Illinois Certified Public Accountants Society, American Institute of Certified Public Accountants, Institute of Accountants Exchange, Hong Kong Securities and Investment Institute and Hong Kong Securities Professionals Association. Mr. Tse is also an associate member of The Chartered Institute of Management Accountants of the United Kingdom and Hong Kong Institute of Certificate Public Accountants. Mr. Tse has over 18 years of experience in corporate finance and accounting and has worked for several international accounting firms, investment banks and the Stock Exchange. Mr. Tse is currently a managing director of corporate finance department in Essence Corporate Finance (Hong Kong) Limited and acts as its principal under the sponsor regime. Mr. Tse is also a non-executive director of China Oil Gangran Energy Group Holdings Limited (formerly known as Fairson Holdings Limited) (Stock Code: 8132). Mr. Tse is a responsible officer licensed under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities.

(f) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Room 1602, 16/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong during normal business hours 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) letter from the Board, the text of which is set out on pages 6 to 30 to this circular

(c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 52 to this circular;

(d) the letter of advice from China Galaxy, the text of which is set out on pages 53 to 76 to this circular;

(e) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(f) the Acquisition Agreement dated 20 August 2014;

(g) the accountants' report of Solarmark (HK) C.P.A. Company Limited, the text of which is set out in Appendix II to this circular;

(h) the letter from Grant Thornton Hong Kong Limited in respect of the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix III to this circular;

(i) the annual reports of the Company for the three years ended 31 March 2012, 2013 and 2014 respectively;

(j) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(k) this circular.

Yunbo Digital Synergy Group Limited
雲博產業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8050)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Yunbo Digital Synergy Group Limited (the "**Company**" together with its subsidiaries (the "**Group**")) will be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on 26 November 2014, Wednesday at 9:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional sale and purchase agreement (the "**Acquisition Agreement**") dated 20 August 2014 entered into between Able Bloom Technology Limited as purchaser, and Mr. Chan Foo Wing as vendor in relation to the sale and purchase of the entire equity interest of Magic Hour Holdings Ltd. (a copy of which is marked "A" and produced to the EGM and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, ratified, confirmed; and

(b) any one of the directors (the "**Director(s)**") of the Company be and is hereby authorised to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things for the purpose of, or in connection with, the implementation of and giving effect to the Acquisition Agreement and the transactions ancillary thereto and of administrative nature which he consider necessary, desirable or expedient."

By Order of the Board
Yunbo Digital Synergy Group Limited
Yau Hoi Kin
Director

Hong Kong, 10 November 2014

Registered office:
Cricket Square
Hutchins Drive,
P.O. Box 2681,
Grand Cayman, KY1-1111,
Cayman Islands

Head office and principal place of business in Hong Kong:
Room 1602, 16/F
AXA Centre,
151 Gloucester Road,
Wanchai, Hong Kong

Notes:

(1) A form of proxy for use at the EGM is enclosed with the circular of the Company dated 10 November 2014 and is published on the website of the Stock Exchange (www.hkgem.com) and the website of the Company (http://www.ybds.com.hk).

(2) Any member entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of the Company ("**Share(s)**") may appoint one or more proxies to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company.

(3) The form of proxy must be signed by a member or the attorney of the member duly authorised in writing or, in the case of a corporation, must be signed either under its common seal or under the hand of an officer or attorney so authorised.

(4) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be lodged at the Hong Kong branch share registrar of the Company, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be).

(5) Completion and return of the form of proxy shall not preclude members from attending and voting in person at the EGM or at any adjourned meeting (as the case may be) should they so wish, and in such case, the form of proxy previously submitted by such member(s) shall be deemed to be revoked.

(6) Where there are joint registered holders of any share(s), any one of such persons may vote at any meeting, either in person or by proxy, in respect of such share(s) as if he was solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, the vote of that one of the said persons so present whose name stands first on the register of members in respect of such share(s) shall be accepted to the exclusion of the votes of the other joint holders.

As at the date of this notice, the executive Directors are Mr. Wang Chaoyong, Mr. Yau Hoi Kin, Mr. Kwong Wai Ho Richard and Dr. Huang Youmin; the non-executive Director is Mr. Hsu Chia-Chun; and the independent non-executive Directors are Dr. Chow Ka Ming, Jimmy, Dr. Wong Wing Lit, Mr. Ngan Yu Loong and Mr. Tse Yee Hin, Tony.

This notice will remain on the "Latest Company Announcements" page of the website of the Growth Enterprise Market of the Stock Exchange at http://www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at http://www.ybds.com.hk.