



ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

INTERIM RESULTS

The Board of Directors (the "Directors") of Innovo Leisure Recreation Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 (the "Period") as follows:

* *for identification purpose only*

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

		01/01/2007 to 30/06/2007 (Unaudited) HK\$'000	01/01/2006 to 30/06/2006 (Unaudited) HK\$'000
	Notes		
Turnover	3	13,203	6,781
Other income	5	3,971	2,813
Depreciation and amortisation		(2,676)	(1,823)
Staff costs		(3,906)	(3,592)
Impairment of a trade receivable		(29,323)	–
Other operating expenses		(4,039)	(4,930)
Loss from operations		(22,770)	(751)
Impairment of amount due from a former director		(38,682)	–
Finance income		9	2
Finance costs		(5,981)	(4,258)
Loss before taxation		(67,424)	(5,007)
Income tax expense	6	(59)	–
Net loss for the period		(67,483)	(5,007)
Attributable to:			
Equity holders of the Company		(67,450)	(5,007)
Minority interests		(33)	–
		(67,483)	(5,007)
Loss per share			
– Basic (HK\$)	7	(0.95)	(0.08)
– Diluted (HK\$)	7	(0.91)	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

		30/06/2007 (Unaudited) HK\$'000	31/12/2006 (Audited) HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment	8	22,071	21,320
Goodwill	11	61,775	–
Total non-current assets		83,846	21,320
Current assets			
Inventories		5,219	5,118
Trade and other receivables	9	15,156	38,036
Amount due from a former director		–	38,682
Cash and cash equivalents		93,634	1,075
Total current assets		114,009	82,911
Current liabilities			
Trade and other payables		15,967	6,232
Amount due to a shareholder		336	–
Amount due to a director		18,521	235
Taxation		17,507	–
Bank loans due within one year		–	13,413
Bank overdraft		–	4,395
Total current liabilities		52,331	24,275
Net current assets		61,678	58,636
Total assets less current liabilities		145,524	79,956
Non-current liabilities			
Amount due to a shareholder		–	336
Amounts due to directors		–	86,036
Bank loans due after one year		–	28,601
Convertible note	10	46,755	–
Total non-current liabilities		46,755	114,973
TOTAL NET ASSETS/(LIABILITIES)		98,769	(35,017)

	30/06/2007 (Unaudited) <i>Notes</i> HK\$'000	31/12/2006 (Audited) <i>HK\$'000</i>
Capital and reserves attributable to equity holders of the Company		
Share capital	46,160	6,000
Reserves	52,640	(40,949)
Equity/(deficiency) of shareholders' funds	98,800	(34,949)
Minority interests	(31)	(68)
TOTAL EQUITY/(DEFICIT)	98,769	(35,017)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied for the first time the following new standard, amendment and interpretations (“new HKFRSs”) issued by HKICPA which are effective for financial year beginning 1 January 2007.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new HKFRSs has no effect on the Group’s interim financial statements. Accordingly, no prior period adjustment has been recognised.

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) – Int 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

The Group is in the process of making an assessment of the impact of these HKFRS and is not yet in a position to state what impact of all these new HKFRSs would have on its results of operations and financial position.

3. TURNOVER

Turnover represents the net amounts received and receivables from third parties in connection with the operation of carnivals, provision of advertising and catering services inside the carnivals and operation of restaurants.

	01/01/2007 to 30/06/2007 HK\$'000	01/01/2006 to 30/06/2006 HK\$'000
Income from admission fee, mechanical rides and redemption games	7,274	2,843
Advertising income	4,628	3,837
Sale of food and beverages	1,301	101
	13,203	6,781

4. SEGMENT INFORMATION

The Group is principally engaged in the operations of restaurants and carnival amusement parks.

Business segments

With the acquisition of Kanysia Investments Limited and its subsidiaries, collectively known as ("Kanysia Group") on 26 June 2007, the Group's principal segments widened to encompass the operation of restaurants. These two business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented below:

Income statement

For the six months ended 30 June 2007

	Carnival amusement parks (Unaudited) HK\$'000	Restaurants (Unaudited) HK\$'000	Group (Unaudited) HK\$'000
REVENUE			
Sales	12,168	1,035	13,203
Other income	3,956	15	3,971
Total revenue	16,124	1,050	17,174
	Carnival amusement parks (Unaudited) HK\$'000	Restaurants (Unaudited) HK\$'000	Group (Unaudited) HK\$'000
RESULTS			
Segment results	9,462	439	9,901
Impairment of a trade receivable			(29,323)
Unallocated costs			(3,348)
Loss from operations			(22,770)
Impairment of amount due from a former director			(38,682)
Finance income			9
Finance costs			(5,981)
Loss before taxation			(67,424)
Taxation			(59)
Net loss for the period			(67,483)

For the six months ended 30 June 2006, the Company's operation was regarded as a single segment, being an enterprise engaged in the operation of carnival amusement parks.

5. OTHER INCOME

	01/01/2007 to 30/06/2007 HK\$'000	01/01/2006 to 30/06/2006 HK\$'000
Guarantee profit income	2,908	1,010
Others	1,063	365
Waive of loan interest due to a shareholder	–	790
Waive of loan interest due to a director	–	648
	<u>3,971</u>	<u>2,813</u>

The guarantee profit income represents the income received from an independent third party in accordance with the profit sharing agreement in relation to the carnival in Shaoguan, China.

6. TAXATION

	01/01/2007 to 30/06/2007 HK\$'000	01/01/2006 to 30/06/2006 HK\$'000
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The tax charge comprises:

Current period:

Macau Complementary Income Tax	<u>59</u>	<u>–</u>
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No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for Hong Kong Profits Tax for the current and previous periods.

Macau Complementary Income Tax is calculated at the progressive rate on the estimated assessable profits for the period. The maximum tax rate is 12% for the six months ended 30 June 2007.

The subsidiaries in Mainland China (the "PRC") are subject to an Enterprise Income Tax ("EIT") at rate of 33% (2006: 33%). No provision for EIT has been made as the PRC subsidiaries have aggregate tax losses brought forward for the current and previous periods.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. For those subsidiaries currently subjected to 33% income tax rate, it is expected that the applicable rate will be reduced to 25% from 1 January 2008. However, the new tax law has not set out the details as to how the existing tax rate will gradually increase or decrease to the standard rate of 25%. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law, which if any, will be reflected in the Group's 2007 annual financial statements. The enactment of the new tax law is not expected to have any financial effect on the financial statements of the Company.

7. LOSS PER SHARE

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

	01/01/2007 to 30/06/2007 HK\$'000	01/01/2006 to 30/06/2006 HK\$'000
Loss attributable to equity holders	(67,450)	(5,007)
Adjustment for interest on convertible note	44	–
Loss attributable to equity holders for diluted loss per share	(67,406)	(5,007)
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	71,093,990	60,000,000
Effect of dilutive potential ordinary shares on convertible note	2,834,719	–
Weighted average number of ordinary shares for diluted loss per share	73,928,709	60,000,000

The number of shares for the six months ended 30 June 2006 was adjusted for effects of share consolidation which was 600,000,000 shares as formerly reported. On 26 June 2007, every 10 shares of the Company of HK\$0.01 each was consolidated into 1 share of HK\$0.1 each. The comparative figures have been adjusted to take the effect of consolidation into account.

8. CAPITAL EXPENDITURE

During the six months ended 30 June 2007, the Group incurred approximately HK\$3,188,000 (1.1.2006 to 30.6.2006: HK\$4,522,000) on acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

	30/06/2007 HK\$'000	31/12/2006 HK\$'000
Trade receivables	13,155	33,912
Other receivables	2,001	4,124
	<u>15,156</u>	<u>38,036</u>

Notes:

(a) The above amounts included amounts due from related companies of HK\$765,000 (2006: HK\$Nil).

(b) The following is an ageing analysis of trade receivables at the balance sheet date:

	30/06/2007 HK\$'000	31/12/2006 HK\$'000
Ageing		
0 to 90 days	12,476	4,483
91 to 365 days	679	106
Over 365 days	29,323	29,323
	<u>42,478</u>	<u>33,912</u>
Impairment on trade receivable	(29,323)	–
	<u>13,155</u>	<u>33,912</u>

In June 2004, the Group filed a claim to the Hong Kong High Court against a trade debtor for the sale of theme park tickets of HK\$29,323,000. In the opinion of the directors, with the claim being still pending for court hearing for a long while, impairment on this amount has been made in the financial statements during the period.

10. CONVERTIBLE NOTE

On 26 June 2007, the Company issued a Hong Kong dollar denominated convertible note with a principal amount of HK\$51,308,000 (the "Convertible Note"). The holder of the Convertible Note is entitled to convert the principal amount into ordinary shares of the Company at an initial conversion price of HK\$0.5 per share, during the period from 26 June 2007 to 25 December 2009. Unless previously converted, the Company shall repay the Convertible Note on 25 December 2009. Interest of 3% per annum will be paid every 6 months from the date of issue.

The Convertible Note contains two components: liability and equity elements. The equity element is presented in equity heading "convertible note reserve". The effective interest rate of the liability is about 7%.

The movement of the liability component of the Convertible Note for the period is set out below:

	30/06/2007 HK\$'000	31/12/2006 HK\$'000
Principal amount	51,308	—
Equity component	(4,576)	—
Liability component at date of issue	46,732	—
Interest charged	44	—
Interest payable	(21)	—
Liability component at 30 June 2007	46,755	—

11. ACQUISITION OF SUBSIDIARIES

On 26 June 2007, the Group acquired 100% of the issued share capital of the Kanysia Group for the consideration of HK\$62,109,000, of which HK\$10,801,000 was settled by issue of 21,602,422 new shares of the Company at a price of HK\$0.5 per share and the balance of HK\$51,308,000 was settled by issue of a convertible note. The issue price of the new shares was determined following arm's length negotiation between the vendor, Mr. Chan and the Company in particular with reference to the issue price per share under the placing to the placing agents. The amount of goodwill arose as a result of the acquisition was HK\$61,775,000. Goodwill arising in the business acquisition because the consideration exceeded the value of the tangible assets acquired and is attributable to the expected revenue growth and future market development of the Kanysia Group. In the opinion of the directors, since the Kanysia Group is expected to have sufficient earnings and cash inflows in future, no impairment of goodwill is considered necessary.

The net assets of the Kanysia Group acquired in the transaction and the goodwill arising are as follows:

	Fair value HK\$'000
Property, plant and equipment	439
Trade and other receivables	3,995
Cash and cash equivalents	21,328
Trade and other payables	(7,633)
Amount due to a director	(277)
Taxation	(17,448)
Net assets acquired	404
Minority interest	(70)
Goodwill	61,775
	62,109
Total consideration satisfied by:	
– Allotment and issue of ordinary shares	10,801
– Issue of Convertible Note (<i>note 10</i>)	51,308
	62,109
	HK\$'000
Net cash inflow arising in acquisition:	
Cash and cash equivalents acquired	21,328

Since the acquisition date, the Kanysia Group has contributed HK\$388,000 to the Group. If the acquisition had occurred on 1 January 2007, the Group's turnover would have an increase of HK\$39,413,000 to HK\$52,616,000 and the Group's loss for the period would have a decrease of HK\$18,352,000 to HK\$49,131,000.

12. RELATED PARTY TRANSACTIONS

- (a) During the six months ended 30 June 2007, the Group entered into the following transactions with related parties:

The Group incurred interest expenses of HK\$9,000 (1.1.2006 to 30.6.2006: HK\$271,000) and HK\$1,217,000 (1.1.2006 to 30.6.2006: HK\$975,000) payable to its shareholder and director respectively.

A shareholder of the Group waived interest incurred during current period HK\$9,000 (1.1.2006 to 30.6.2006: HK\$271,000) against the Group.

A director of the Group waived interest incurred during current period HK\$1,217,000 (1.1.2006 to 30.6.2006: HK\$975,000) against the Group.

Mr. Chan Chak Mo ("Mr. Chan") has subscribed 40,000,000 shares and a further 140,000,000 shares to capitalize an aggregate of HK\$70 million outstanding loan due to him at HK\$0.5 per each share.

Mr. Chan, as one of the vendors of the Kanysia Group, disposed the entire issued share capital of Kanysia Investments Limited at the consideration of HK\$62.1 million to the Company, of which 21,602,422 shares were allotted to him as part of the consideration.

- (b) Compensation of key management personnel

The remuneration of directors and other members of key management was as follows:

	30/06/2007 HK\$'000	30/06/2006 HK\$'000
Basic salaries and allowance	1,732	1,756
Retirement scheme contributions	26	26
	1,758	1,782

13. OPERATING LEASE COMMITMENTS

The total future of minimum lease payments are due as follows:

	30/06/2007 HK\$'000	31/12/2006 HK\$'000
Within one year	776	722
Within two to five years	663	1,419
Over five years	6,846	5,217
	8,285	7,358

The Group was committed to make future minimum lease commitment in respect of land and buildings rented under non-cancellable operating leases which typically runs for the period from one year to twenty years.

14. CAPITAL COMMITMENTS

At 30 June 2007, the Group had commitments of HK\$3,500,000 (31.12.2006: HK\$6,525,000) in capital contribution in PRC subsidiaries.

15. POST BALANCE SHEET EVENT

On 16 August 2007, the Group acquired from a director, Mr. Chan, 100% equity interests of Restaurante Chun leng – Sociedade Unipessoal Limitada, and a loan of MOP6,880,778 at the total consideration of HK6,835,603. For details, please refer to the Company's announcement dated 16 August 2007.

On 23 August 2007, the Group entered a conditional sale and purchase agreement with a director, Mr. Chan to acquire 100% equity interests of Restaurante Chak San, Limitada, and a loan of MOP907,833 at the total consideration of HK\$916,333. For details, please refer to the Company's announcement dated 31 August 2007.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

FINANCIAL REVIEW

The turnover of the Group for the Period was approximately HK\$13.2 million, representing an increase of 94.1% as compared to the same period last year of HK\$6.8 million. Turnover of the Group was mainly derived from the carnival business held in Shaoguan and Panyu, China while the newly acquired restaurant business in Macau started to make positive contribution to the Group. The loss from operations for the Period was approximately HK\$22.8 million, representing an increase of 31.5 times as compared to the same period last year of HK\$751,000. The loss attributable to shareholders of the Group for the Period was HK\$67.5 million, representing an increase of 12.5 times as compared to the same period last year of HK\$5.0 million. The increase in loss was mainly attributable to the impairment of a trade receivable and an amount due from a former director of HK\$29.3 million and HK\$38.7 million respectively during the Period.

OPERATION REVIEW

The Group, in May 2007, opened the amusement section of its nature amusement park in Panyu while continuing its carnival business in Shaoguan. The development of Panyu's nature park section has been progressing slowly with the delay in the various design and construction approvals from local authorities. Such delay has been due to a possible rezoning of the neighbour lands for commercial/industrial uses. The Shaoguan carnival achieved profitability during the Period compared to the corresponding period. During the Period, the total income from carnival principal activities including admission fee, rides, games stalls and sponsorship was HK\$12.2 million, an increase of 75.0% as compared to the same period last year of HK\$7.0 million due to the increase in number of visitors and sponsorship income.

With its acquisition of the restaurant business in Macau in June 2007, the Group has successfully diversified its operations with broader income base. Such acquisition would complement the Group's current business with stable revenue and profit contributions. As a result, the Group's food and beverages business generated some HK\$1.3 million during the Period, an increase of 11.9 times as compared to the same period last year of HK\$101,000 following such acquisition.

The Group also, as mentioned above, acquired in August 2007 two restaurants at Venetian Macau Resort Hotel in Macau and these two restaurants recently commenced operations. The Directors believe that Venetian Macau Resort Hotel is now a major attraction to tourists and local visitors in Macau, and the prospect of these two restaurants would be quite promising to make positive contribution to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group had net current assets of HK\$61.7 million (as at 31 December 2006: HK\$58.6 million). As at 30 June, 2007, the Group's cash and bank balances amounted to HK\$93.6 million (as at 31 December 2006: HK\$1.1 million).

The Group had interest-bearing loans of HK\$65.3 million as at 30 June 2007 (as at 31 December 2006: HK\$86.0 million). The interest-bearing loans comprised a controlling shareholder's loan of HK\$18.5 million which was unsecured, interest bearing at 3% per annum and without fixed repayment terms and the balance of HK\$46.8 million represented a convertible note which was unsecured, interest bearing at 3% per annum and repayable on 25 December 2009. The controlling shareholder and directors waived their loan interest against the Group during the Period. The Group's borrowings were made in Hong Kong dollar.

As at 30 June 2007, the Group's gearing ratio represented by convertible note and interest-bearing loans bearing to the Group's total assets was 33% (as at 31 December 2006: 127%).

As at 30 June 2007, the Group's current ratio was 2.2 (as at 31 December 2006: 3.4). The Group has maintained sufficient liquid assets to finance its operation.

MATERIAL LITIGATION

As at 30 June 2007, the Group had not involved in any material adverse litigation or arbitration (as at 31 December 2006: Nil).

CHARGES ON GROUP ASSETS

As at 30 June 2007, the Group did not have any charges on assets (as at 31 December 2006: Nil).

CONTINGENT LIABILITIES

As at 30 June 2007, the Group did not have any contingent liabilities (as at 31 December 2006: Nil).

CURRENCY EXPOSURE

As at 30 June 2007, the Group did not have any outstanding hedging instrument. The Group would continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

EMPLOYEES

As at 30 June 2007, the Group employed a total of 104 full time staff in Hong Kong, Macau and China. During the carnivals in Shaoguan and Panyu, the Group employed over 120 temporary staff in China. The remuneration policies are reviewed on a periodical basis by the management.

RESUMPTION OF SHARES TRADING

The Company completed its resumption proposal comprising, inter alia, the following transactions during the Period:

- (i) consolidated every 10 issued and unissued shares of HK\$0.01 each into one consolidated share of HK\$0.1 each;

- (ii) capitalised a shareholder's loan of Mr. Chan Chak Mo of HK\$70 million;
- (iii) issued additional shares of HK\$20 million to Mr. Chan for cash; and
- (iv) issued new shares of HK\$100 million by placing.

Details of such transactions were disclosed in the Company's circular dated 31 May 2007.

Trading in the Company's shares resumed on the Main Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on 26 June 2007. The Company successfully raised about HK\$116.4 million through such resumption proposal, after deducting the related expenses borne by the Company. Up to 30 June 2007, the Company applied the net proceeds in the following purposes:

- (i) approximately HK\$48.5 million paid for settlement of bank borrowings;
- (ii) approximately HK\$3.4 million paid for construction and operation of the nature amusement park in Panyu, China; and
- (iii) the remaining balance of approximately HK\$64.5 million as general working capital of the Group.

OUTLOOK

The first-half year of 2007 was the turning point for the Group. With the completion of the resumption proposal mentioned above, the trading of the Company's shares on the Stock Exchange resumed with an enlarged capital base providing liquidity to the investment of its shareholders.

With the opening of amusement section of the Group's nature amusement park in Panyu, the Group's income base has been enlarged despite the keen competition in this area of business in China. The management would continue to monitor the efficiency of these operations and to look for ways to diversify the Group's income base. The Group now owns and operates 4 restaurants at prime locations in Macau. The management believes that the Group's restaurant business in Macau is quite promising as the economic activities in Macau are experiencing substantial growth as spurred by Macau's booming gaming and tourism industries. The management would continue to look for suitable locations to set up more restaurants in Macau to tap on such economic growth in Macau to enhance the Group's performance.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee of the Company (comprising Mr. Cheung Hon Kit, Mr. Chui Sai Cheong and Mr. Chan Shek Wah, the Independent Non-executive Directors) has reviewed with management the accounting principles and practices adopted by the Group and the unaudited interim financial statements for the Period. The interim results for the Period have been reviewed by BDO McCabe Lo Limited, whose report on review of interim financial information is included in the interim report.

CORPORATE GOVERNANCE

The Directors are able to conform that the Company complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2007.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Directors, none of the Directors has not complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transaction for the six months ended 30 June 2007.

On behalf of the Board
Chan Chak Mo
Managing Director

Hong Kong, 18 September 2007

As at the date hereof, the members of the board of directors of the Company comprise (i) Mr. Chan Chak Mo, the Managing Director, (ii) Mr. Chan See Kit, Johnny, the Chairman and executive Director, (iii) Mr. Lai King Hung, the deputy Chairman and executive Director, (iv) Ms. Leong In lan, the executive Directors and (v) Mr. Cheung Hon Kit, Mr. Chui Sai Cheong, Mr. Yu Kam Yuen, Lincoln and Mr. Chan Shek Wah, the independent non-executive Directors.