Innovo

Leisure Recreation Holdings Limited

澤新遊樂控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 703)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

ANNUAL RESULTS

The Board of Directors (the "Directors") of Innovo Leisure Recreation Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	3	95,286	15,989
Other income and gains	5	10,567	5,136
Depreciation of property, plant and equipment		(6,319)	(4,336)
Staff costs		(22,876)	(7,734)
Impairment of trade receivables		(29,853)	–
Other operating expenses		(38,057)	(8,045)
Profit from operations	6	8,748	1,010
Impairment of amount due from a former director		(38,682)	–
Finance income	7	599	1,762
Finance costs	7	(7,635)	(9,050)
Share of loss of an associate		(22)	–
Loss before taxation		(36,992)	(6,278)
Income tax credit	8	765	–
Net loss for the year		(36,227)	(6,278)
Attributable to:			
Equity holders of the Company		(41,516)	(6,210)
Minority interests		5,289	(68)
		(36,227)	(6,278)
Loss per share			
– Basic (HK cents per share)	9	(15.49)	(10.35)
– Diluted (HK cents per share)	9	(12.35)	(10.35)

* *for identification purposes only*

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007

	Notes	2007 *HK$'000*	2006 *HK$'000*
Non-current assets			
Property, plant and equipment		43,817	21,320
Investment property		3,760	–
Goodwill	*11*	61,781	–
Interest in an associate		170	–
Total non-current assets		109,528	21,320
Current assets			
Inventories		7,777	5,118
Trade and other receivables	*12*	19,547	38,036
Amount due from a former director		–	38,682
Cash and cash equivalents		84,909	1,075
Total current assets		112,233	82,911
Current liabilities			
Trade and other payables	*13*	29,976	6,232
Amount due to a director		–	235
Bank loans due within one year		–	13,413
Current tax liabilities		16,300	–
Bank overdraft		–	4,395
Total current liabilities		46,276	24,275
Net current assets		65,957	58,636
Total assets less current liabilities		175,485	79,956
Non-current liabilities			
Amount due to ultimate holding company		–	336
Amounts due to directors		–	86,036
Bank loans due after one year		–	28,601
Convertible note	*14*	47,618	–
Total non-current liabilities		47,618	114,973
TOTAL NET ASSETS/(LIABILITIES)		127,867	(35,017)
Capital and reserves attributable to equity holders of the Company			
Share capital		46,160	6,000
Reserves		80,400	(40,949)
Equity/(deficiency) attributable to equity holders of the Company		126,560	(34,949)
Minority interests		1,307	(68)
TOTAL EQUITY		127,867	(35,017)

Notes:

1. GENERAL

Innovo Leisure Recreation Holdings Limited (the "Company") is a public limited company incorporated in Bermuda. Its shares are listed in The Stock Exchange of Hong Kong Limited. Its registered office and principal place of business are at Room 1409, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong. The Group, comprising the Company and its subsidiaries, is engaged in the operations of food and beverage, and carnival amusement parks.

2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are relevant to its operation and effective for the current accounting period of the Group and the Company.

The adoption of these new HKFRSs did not affect recognition or measurement of the amounts recognised in the financial statements for the current or prior accounting periods.

However, the adoption of "HKFRS 7 Financial instruments: Disclosure" and "Amendment to Hong Kong Accounting Standards ("HKAS") 1 Presentation of financial statements: Capital disclosures" resulted a much extensive disclosures in respect of financial instruments and an additional disclosure on capital management policy respectively. Comparative information has been restated to achieve a consistent presentation or included to reflect the new requirements.

(b) Potential impact arising on the new accounting standards not yet effective

The Group has not yet applied the following new or revised HKFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new or revised HKFRSs will have no material impact of the financial statements of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements [2]
HKAS 23 (Revised)	Borrowing Costs [2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [1]
HKFRS 2 (Amendment)	Share-based Payments – Vesting Conditions and Cancellations [2]
HKFRS 3 (Revised)	Business Combinations [1]
HKFRS 8	Operating Segments [2]
HK(IFRIC) – Interpretation 11	Group and Treasury Share transactions [5]
HK(IFRIC) – Interpretation 12	Service Concession Arrangements [4]
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes [3]
HK(IFRIC) – Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Fund Requirements and their interaction [4]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 March 2007

3. TURNOVER

Turnover and revenue recognised by category are as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Income from operation of carnival amusement parks	25,100	15,989
Sales of food and beverages in restaurants	70,186	–
	95,286	15,989

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions – food and beverage, and carnival amusement parks. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Carnival amusement parks – sales of tickets, tokens and advertising income.

Food and beverage – sales of food and beverages in restaurants.

For the year ended 31 December 2007

	Carnival amusement parks	**Food and beverage**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Sales	25,100	70,186	95,286
Other income	8,999	1,568	10,567
Total	34,099	71,754	105,853
Result			
Segment result	(12,277)	29,294	17,017
Unallocated corporate expenses			(8,269)
Profit from operations			8,748
Impairment of amount due from a former director			(38,682)
Share of loss of an associate	–	(22)	(22)
Finance income			599
Finance costs			(7,635)
Loss before income tax credit			(36,992)
Income tax credit			765
Loss for the year			(36,227)

4. **BUSINESS AND GEOGRAPHICAL SEGMENTS** – *Continued*

(a) **Business segments** – *Continued*

Balance sheet
As at 31 December 2007

	Carnival amusement parks *HK$'000*	**Food and beverage** *HK$'000*	**Consolidated** *HK$'000*
Assets			
Segment assets	36,727	99,771	136,498
Interest in an associate	–	170	170
Unallocated corporate assets			85,093
Consolidated total assets			221,761
Liabilities			
Segment liabilities	2,700	22,839	25,539
Unallocated corporate liabilities			68,355
Consolidated total liabilities			93,894

Other information
For the year ended 31 December 2007

	Carnival amusement parks *HK$'000*	**Food and beverage** *HK$'000*	**Unallocated** *HK$'000*	**Consolidated** *HK$'000*
Capital additions	4,034	24,315	3,556	31,905
Depreciation	5,034	1,260	25	6,319
Impairment losses on trade receivables	29,323	530	–	29,853
Impairment loss on amount due from a former director	–	–	38,682	38,682
Loss on disposal of property, plant and equipment	43	–	–	43
Write-down of inventories	481	–	–	481

For the year ended 31 December 2006, the Group's operation was regarded as a single segment, being an enterprise engaged in the operation of carnival amusement parks.

4. **BUSINESS AND GEOGRAPHICAL SEGMENTS** – *Continued*

(b) **Geographical segments**

The Group's operations are located in the Mainland China, Hong Kong and Macau.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2007	**2006**
	HK$'000	*HK$'000*
Macau	70,186	–
Mainland China	25,100	15,989
	95,286	15,989

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mainland China	39,893	103,747	4,035	5,376
Hong Kong	30,724	484	10	3
Macau	151,144	–	27,860	–
	221,761	104,231	31,905	5,379

5. **OTHER INCOME AND GAINS**

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Guarantee profit income	6,108	4,335
Exchange gain	2,523	–
Insurance claim income	1,095	–
Reversal of impairment loss on trade receivables	463	–
Fair value gain from an investment property	214	–
Waive of loan interest due to a director	–	648
Others	164	153
	10,567	5,136

The guarantee profit income represents the income received from an independent third party in accordance with the profit sharing agreement signed in 2006.

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Staff costs	22,876	7,734
Cost of goods sold	21,482	–
Operating lease rentals and respect of land and buildings	5,617	1,149
Auditor's remuneration	830	610
Write-down of inventories	481	–
Loss on disposal of property, plant and equipment	43	–

7. FINANCE INCOME AND COSTS

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Finance Income		
Imputed interest income on amounts due to directors	–	1,758
Bank interest income	599	4
	599	1,762
Finance Costs		
Interest on bank borrowings	1,956	4,328
Imputed interest on interest-free loan from a director	3,682	4,396
Interest on bank overdraft	314	326
Interest on convertible note *(Note 14)*	1,683	–
	7,635	9,050

8. INCOME TAX CREDIT

The amount of taxation in the consolidated income statement represents:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Current tax – Macau Complementary Income Tax		
– Current year	(3,559)	–
– Over provision in respect of prior years	4,324	–
Income tax credit	765	–

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for Hong Kong Profits Tax for the years ended 31 December 2007 and 2006. Overseas tax is calculated at the rates applicable in the respective jurisdictions.

8. INCOME TAX CREDIT – *Continued*

PRC Enterprise Income Tax ("EIT") is calculated at rate of 33% (2006: 33%). No provision for EIT has been made as the PRC subsidiaries have no assessable profits for EIT for the years ended 31 December 2007 and 2006. Macau Complementary Income Tax is calculated at the progressive rate on the estimated assessable profits for the year. The maximum tax rate is 12% for the year ended 31 December 2007.

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

At the balance sheet date, the Group has unused tax losses of HK$18,802,000 (2006: HK$30,575,000) available for offset against future profits and will be expired in five years. No deferred tax asset in respect of the tax losses has been recognised due to the unpredictability of future profits streams.

The reconciliation of income tax credit for the year to the tax expense applicable to loss before tax using the applicable tax rate for the jurisdictions in which group entities are domiciled is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Loss before income tax credit	(36,992)	(6,278)
Tax calculated at the applicable tax rates	(4,439)	(1,098)
Tax effect of share of loss of an associate	3	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,425	1,440
Tax effect of expenses not deductible for tax purposes	10,837	44
Tax effect of revenue not taxable for tax purposes	(145)	–
Tax effect of tax losses not recognised	715	2,837
Utilisation of tax losses previously not recognised	(5,837)	(3,223)
Over provision in respect of prior years	(4,324)	–
Income tax credit	(765)	–

9. LOSS PER SHARE

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

(a) Basic loss per share

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Loss attributable to the equity holders	(41,516)	(6,210)
	Number of shares	**Number of shares**
Weighted average number of ordinary shares for the purposes of basic loss per share	267,953,036	60,000,000
Basis loss per share (HK cents)	(15.49)	(10.35)

9. LOSS PER SHARE – *Continued*

(b) Diluted loss per share

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Loss attributable to the equity holders	(41,516)	(6,210)
Effect of dilutive potential ordinary shares:		
Interest on convertible note (net of tax)	1,683	–
Loss attributable to the equity holders for diluted loss per share	(39,833)	(6,210)
	Number of shares	**Number of shares**
Weighted average number of ordinary shares for the purposes of basic loss per share	267,953,036	60,000,000
Effect of potential ordinary shares:		
– share options	1,414,124	–
– convertible note	53,135,831	–
Weighted average number of ordinary shares for the purposes of diluted loss per share	322,502,991	60,000,000
Diluted loss per share (HK cents)	(12.35)	(10.35)

The number of shares for the year ended 31 December 2006 was adjusted for the effects of share consolidation, prior to which 600,000,000 shares were 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 into account the effect of share consolidation.

10. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

The Group incurred interest expenses of HK$9,000 (2006: HK$374,000) and HK$1,217,000 (2006: HK$2,132,000) payable to its shareholder and director respectively. The amounts payable have been subsequently waived by the shareholder and director by the balance sheet date.

The Group paid laundry expenses of HK$453,000 (2006: Nil) to Future Bright Laundry Company Limited which is controlled by a director of the company.

The Group sold goods of HK$614,000 (2006: Nil) to Prosperity Catering Management Limited, which is controlled by a director of the Company. At the balance sheet date, the amount outstanding included in trade and other receivables was HK$356,000 (2006: Nil).

(b) As a part of the Company's resumption proposal, Mr. Chan Chak Mo ("Mr. Chan"), the managing director of the Group, has subscribed 40,000,000 shares and a further 140,000,000 shares to capitalise an aggregate of HK$70 million outstanding loan due to him at HK$0.5 per share. Mr. Chan and his wholly owned company, being the vendors of the Kanysia Investments Limited ("Kanysia Group"), also disposed the entire issued share capital of Kanysia Group 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 and a convertible note was issued to Mr. Chan referred to Note 14 below.

10. RELATED PARTY TRANSACTIONS – *Continued*

(c) On 16 August 2007, the Group acquired from a director, Mr. Chan, 100% of the issued share capital and the sale loan of Restaurante Chun Ieng Limitada ("Chun Ieng"), a Macau company, for the consideration of HK$6,836,000. On 30 November 2007, the Group acquired 40.8% and 10% of the issued share capital of Era Catering Management Company Limited ("Era Catering") from Mr. Chan and Ms. Leong In Ian, both being directors of the Company respectively for the total consideration of HK$13,000 in proportion to their sale shares. Details of these two transactions are set out in Note 15.

11. GOODWILL

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Cost		
At 1 January	–	–
Acquisition of subsidiaries	61,781	–
At 31 December	61,781	–

Goodwill acquired in business combinations was allocated, at acquisition, to the cash-generating units that are expected to benefit from that business combination. The carrying amount of goodwill was allocated to the following cash-generating units for the purposes of impairment testing:

	2007	**2006**
	HK$'000	*HK$'000*
Kanysia Group	61,775	–
Era Catering	6	–
	61,781	–

Goodwill arising on acquisition of Kanysia Group and Era Catering has been allocated to the food and beverage cash-generating unit, one of the business segments of the Group, for impairment testing. The recoverable amounts of food and beverage have been determined based on a value in use, calculated by using cash flow projections from formally approved budgets covering a five year period to 31 December 2012. Key assumptions are as follows:

	2007
	%
Discount rate	7
Operating margin	44.6
Growth rate	6

Operating margins have been based on past experience. Discount rates are based on the Group's beta adjusted to reflect management's assessment of specific risks related to the cash-generating unit. Growth rates beyond the first five years are based on economic data pertaining to the region concerned.

12. TRADE AND OTHER RECEIVABLES

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Trade receivables	17,794	33,912
Other receivables	1,753	4,124
	19,547	38,036

The Group's sales to customers are mainly on cash basis. The Group grants credit to certain customers for sales of tickets and advertising space with various credit terms.

The ageing analysis of the trade and other receivables (net of provision for impairment loss) is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Neither past due nor impaired	1,753	4,124
Less than 90 days past due	9,390	4,483
91 to 365 days past due	8,404	106
More than 365 days past due	–	29,323
Amount past due at balance sheet date but not impaired *(Note a)*	17,794	33,912
Total	19,547	38,036

Note a: The balance that were past due but not impaired related to a number of customers that have good track records of payment with the Group except for an amount of HK$29,323,000 as at 31 December 2006. Please refer to Note c below for details. Based on the past experience, the management estimated that the carrying amounts could be fully recovered.

The below table reconciled the provision for impairment loss of trade and other receivables for the year:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	1,319	1,319
Acquired through acquisition of subsidiaries	463	–
Impairment loss recognised *(Note c)*	29,323	–
Reversal of impairment loss previously recognised	(463)	–
At 31 December *(Note b)*	30,642	1,319

Note b: The Group recognised impairment loss based on individual assessment in accordance with the accounting policy.

Note c: The Group filed a claim to Hong Kong High Court against a trade debtor for the sale of theme park tickets of HK$29,323,000. The claim is still pending for court hearing. After further review, the Directors are of the opinion that the Group is unlikely to recover the amount and a full provision for impairment loss is recognised.

13. TRADE AND OTHER PAYABLES

	Group	
	2007	**2006**
	HK$'000	*HK$000*
Trade payables	10,965	–
Construction payables	3,786	–
Accruals	15,225	6,232
	29,976	6,232

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Less than 30 days	10,965	–

14. CONVERTIBLE NOTE

On 26 June 2007, as implementation of a part of its resumption proposal, the Company issued a Hong Kong dollar denominated convertible note with a principal amount of HK$51,308,000 (the "Convertible Note") to a company wholly owned by Mr. Chan. 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 fair values of the liability component and the equity conversion component were determined at the issuance of the convertible note. The fair value of the liability component, included in non-current financial liabilities, was calculated using a market interest rate for an equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity heading "convertible note equity reserve".

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

	2007	**2006**
	HK$'000	*HK$'000*
Principal amount	51,308	–
Equity component	(4,576)	–
Liability component at date of issue	46,732	–
Interest expense *(Note 7)*	1,683	–
Interest paid	(797)	–
Liability component at 31 December 2007	47,618	–

Interest expense on the convertible note is calculated using the effective interest method by applying the effective interest rate of 7% to the liability component.

15. ACQUISITIONS OF SUBSIDIARIES

On 25 June 2007, as a part of the Company's resumption proposal, 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 referred to in Note 14.

At the date of acquistion, the trading of the Company's shares was remained suspended and no published price was available. The Directors estimated the fair value of shares issued for the acquisition was HK$0.50, by reference to the issue price for new shares under the placing arrangement as part of the Company's resumption proposal. Details of analysis of the fairness of the issue price per share can be found in the Company's circular dated 31 May 2007.

On 16 August 2007, the Group acquired 100% of the issued share capital of Chun Ieng and the sale loan of MOP6,881,000 for the consideration of HK$6,836,000 which was settled by cash.

On 30 November 2007, the Group acquired 50.8% of the issued share capital of Era Catering as to 40.8% equity from Mr. Chan and 10% equity from Ms. Leong In Ian, both being directors of the Company, for the total consideration of HK$13,000 in proportion to their sale shares which was settled by cash.

Details of the fair value, which was equivalent to the carrying amount of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Kanysia Group	**Era Catering and Chun Ieng**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Fair value of assets and liabilities acquired			
Property, plant and equipment	439	–	439
Trade and other receivables	3,995	11,257	15,252
Cash and cash equivalents	21,328	958	22,286
Trade and other payables	(7,633)	(5,500)	(13,133)
Amount due to a director	(277)	–	(277)
Amount due to a shareholder	–	(6,680)	(6,680)
Taxation	(17,448)	–	(17,448)
Net assets acquired	404	35	439
Minority interests	(70)	(6)	(76)
	334	29	363
Consideration paid			
Allotment and issue of ordinary shares	10,801	–	10,801
Issue of Convertible Note *(Note 14)*	51,308	–	51,308
Cash	–	35	35
	62,109	35	62,144
Goodwill *(Note 11)*	61,775	6	61,781

15. ACQUISITIONS OF SUBSIDIARIES – *Continued*

Goodwill is attributable to the expected revenue growth and future market development of the Kanysia Group, Era Catering and Chun Leng and the opportunity to improve the Group's earning base.

Since the acquisition date, Kanysia Group, Era Catering and Chun Ieng have contributed HK$25,153,000 and (HK$613,000) respectively to Group's profit and (loss). If the acquisition had occurred on 1 January 2007, the Group's turnover would have an increase of HK$39,413,000 to HK$134,699,000 and Group's loss attributable to equity holders for the year would have a decrease of HK$18,341,000 to HK$23,175,000. The proforma information is for illustrative purpose only and is not necessary and indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

16. OPERATING LEASE COMMITMENTS

The Group has entered into commercial lease on certain land and buildings. These leases have an average life of one to twenty years with renewal option included in the contracts. Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Not later than one year	7,007	722
Within two to five years	26,951	1,419
Over five years	17,801	5,217
	51,759	7,358

17. CAPITAL COMMITMENTS

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Contracted but not provided for the acquisition of property, plant and equipment	5,407	–

18. POST BALANCE SHEET EVENT

On 17 March 2008, the Company obtained an unsecured loan facility of HK$75 million from a bank in Macau with the condition that Mr. Chan has to maintain a direct shareholding of at least 30% issued share capital of the Company.

On 26 March 2008, the Company partially redeemed the convertible note of HK$26,308,408 with accrued interest.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).

FINANCIAL REVIEW

For the year ended 31 December 2007, the turnover of the Group was approximately HK$95.3 million, representing an increase of approximately 4.96 times as compared to those of last year (2006: HK$16.0 million). The key contributor was the Group's food and beverage business with approximately HK$70.2 million turnover to the Group, representing some 74% of the Group's turnover for the 2007 financial year. The profit from operations of the Group for the year ended 31 December 2007 was HK$8.7 million, representing an increase of approximately 7.7 times as compared to those of last year (2006: HK$1.0 million). During the financial year of 2007, the Group sustained a net loss of about HK$36.2 million, representing an increase of approximately 4.75 times as compared to those of last year (2006: HK$6.3 million). And such loss was mainly attributable to the impairment of the two receivables of some HK$68 million which were incurred by the previous management and may not be recovered at all. The Group achieved a net profit of some HK$33.6 million before the impairment of such two receivables and the employee share-based payment of some HK$1.8 million (arising from the grant of employee share options in November 2007).

OPERATION REVIEW

The Group's principal activities are in food and beverage and carnival amusement parks businesses.

The Group during the financial year of 2007 has successfully diversified its operation into food and beverage in Macau with a broader income base. By the end of that financial year, the Group had 4 restaurants in Macau, and such diversification has generated more stable revenue and profit contributions. During that year, the total income from food and beverage business was HK$70.2 million. The management expects that the food and beverage business would continue to make positive contribution to the Group's revenue.

The Company's joint venture, Guangzhou Funmania Nature Park in Panyu, commenced its amusement park section operations in May 2007 with satisfactory opening. Since then, the Group has further added two new attractions – a water bumper ball playing section and an all terrain vehicles playing section to enhance visitors flow. But the development of its nature park section has been progressing very slowly with delay in the various design and construction approvals. Such delay has been due to a possible rezoning of the neighbouring lands for commercial/industrial uses. In mid 2007, a neighbouring amusement park in Panyu did complete a very substantial upgrade of its facilities and amenities, the impact of which has gradually by late 2007 made the competition severely keen against the Group's amusement park there.

During that year, the total income from carnival business including admission fee, rides, games stalls and sponsorship was HK$25.1 million, representing an increase of 56.9% as compared to those of last year of HK$16 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers.

As at 31 December 2007, the Group had net current assets of HK$66.0 million (2006: HK$58.6 million). As at 31 December 2007, the Group's cash and bank balances amounted to HK$84.9 million (2006: HK$1.1 million), in which HK$3.2 million was pledged to a bank in respect of the guarantee given in lieu of rental deposit (2006: Nil) and without any bank overdrafts (2006: bank overdrafts of HK$4.4 million).

As at 31 December 2007, the Group had interest-bearing loans of approximately HK$47.6 million (2006: HK$86.0 million). The interest-bearing loans comprised a convertible note which was unsecured, interest bearing at 3% per annum and repayable on 25 December 2009. As at 31 December 2006, the interest-bearing loan represented a director's loan which was unsecured, interest bearing at 3% per annum and without fixed repayment terms. As at 31 December 2007, the Group had not any bank loan outstanding (2006: HK$42.0 million). The Group's borrowings are made in Hong Kong dollars.

As at 31 December 2007, the Group's gearing ratio represented by bank borrowings and interest-bearing loans bearing to the Group's total assets was 21.5% (2006: 127.0%).

MATERIAL LITIGATION

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

CAPITAL EXPENDITURES

For the year ended 31 December 2007, the Group's capital expenditures were approximately HK$31.9 million (2006: HK$5.4 million).

CHARGES ON GROUP ASSETS

As at 31 December 2007, the Group pledged bank balances of HK$3.2 million to a bank in respect of the guarantee given in lieu of rental deposit. Other than that, the Group did not have any charges on assets (2006: Nil).

CONTINGENT LIABILITIES

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

CURRENCY EXPOSURE

As at 31 December 2007, the Group did not have any outstanding hedging instrument. The Group should continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

CHANGES IN THE GROUP'S COMPOSITION

During that financial year, the Company has diversified into food and beverage business with four restaurants in Macau whereby such business contributed significant revenue to the Group's turnover.

EMPLOYEES

As at 31 December 2007, the Group employed a total of 9 full-time staff in Hong Kong (2006: 7), 53 full-time staff in PRC (2006: 30) and 171 full-time staff in Macau (2006: nil). The remuneration policies are reviewed on a periodical basis by the current management.

The share option scheme of the Company approved by its shareholders on 13 June 2002 and adopted on the same date is valid and effective for a period of 10 years since the date of adoption. During the financial year, 46,160,240 share options were granted to the Directors and employees.

RESUMPTION OF SHARES TRADING

The Company completed its resumption proposal comprising, inter alia, the following transactions in that financial year:

(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 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 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 31 December 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$6.9 million paid for construction and operation of the nature amusement park in Panyu, China; and

(iii) the remaining balance of approximately HK$61.0 million as general working capital of the Group.

OUTLOOK

The Group's income base and capital base have been substantially enlarged, with the implementation of its resumption proposal in June 2007. During the financial year of 2007, the Group sustained a net loss of about HK$36.2 million, and such loss was mainly attributable to the impairment of the two receivables of some HK$68 million which were incurred by the previous management and may not be recovered at all. The present management has done quite remarkable well to achieve a net profit of some HK$33.6 million before the impairment of such two receivables and the employee share-based compensation of some HK$1.8 million (arising from the grant of employee share options in November 2007). With a strengthened balance sheet and income base in March 2008, the Group has successfully obtained a term loan facility of HK$75 million to finance the expansion and operations of its food and beverage business.

The exceptional poor cold winter since late December 2007 until early March 2008 has adversely reduced the visitors flow to the Group's carnival and amusement parks in the Mainland China, in addition to the keen competition faced by the Group. The management expects that the turnover from the Group's food and beverage business would continue to be strong and increasing while the Group's carnival amusement parks business would experience downturn. At such, the management would monitor closely on the Group's carnival amusement parks business, with a view to formulate a new strategy, in light of the keen competition and unpredictable climate change in the Mainland China.

The management is quite confident that the Group's food and beverage business should do well in the year of 2008 making positive contribution to the Group. At present, the management expects to open more new restaurants by the end of 2008. To continue to secure a better and steady stream of income, the management is continuing to look for suitable locations to set up more restaurants in Macau to capture the booming gaming and tourism industries in Macau.

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

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules Governing the Listing of Securities of the Stock Exchange (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed that they have complied with the standard set out in Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independent pursuant to Rules 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considered all of the independent non-executive directors are independent.

AUDIT COMMITTEE

The audit committee of the Company consists of three independent non-executive directors, Mr. Cheung Hon Kit, Mr. Chan Shek Wah and Mr. Chan Pak Cheong Afonso. The audit committee has reviewed with management the accounting policies as well as critical accounting estimates and assumptions with management. The audit committee also discussed with the auditors on their audit plan and key audit areas. The audited consolidated financial statements and the annual results announcement of the Group for the year ended 31 December 2007 had been reviewed by the audit committee before submission to the Board for adoption.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and on the website of the Company at www.innovo.com.hk. The 2007 annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

On behalf of the Board
Chan Chak Mo
Managing Director

Hong Kong, 18 April 2008

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 Ian, the executive Director and (v) Mr. Cheung Hon Kit, Mr. Yu Kam Yuen, Lincoln, Mr. Chan Shek Wah and Mr. Chan Pak Cheong Afonso, the independent non-executive Directors.