ANNUAL REPORT **2010**

China Trends Holdings Limited
中國趨勢控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8171)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors of China Trends Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to China Trends Holdings Limited. The directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report 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 report misleading.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Xiang Xin, *Chairman*
Mr. Yang Gaocai, *Co-president*
Mr. Wong Chak Keung, *Co-president*
Ms. Lu Yuhe

NON-EXECUTIVE DIRECTOR

Mr. Law Gerald Edwin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhan Liang
Mr. Kwok Chi Hung
Ms. An Jing

COMPLIANCE OFFICER

Mr. Xiang Xin

COMPANY SECRETARY

Mr. Wong Chak Keung

AUTHORISED REPRESENTATIVES

Mr. Xiang Xin
Mr. Wong Chak Keung

AUDIT COMMITTEE

Mr. Zhang Zhan Liang, *Chairman*
Mr. Kwok Chi Hung
Ms. An Jing

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Sheung Wan
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank
Bank of China
DBS Bank
Agricultural Bank of China
Back of Communication

PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

HSBC Trust (Cayman) Limited
PO Box 484, HSBC House
68 West Ray Road
Grand Cayman, KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTER AND TRANSFER OFFICE

Union Registrars Limited
18/F, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai. Hong Kong

AUDITORS

Ascenda Cachet CPA Limited

LEGAL ADVISERS

As to Cayman Islands Law
Conyers Dill & Pearman

As to Hong Kong Law
Michael Li & Co

STOCK CODE

8171

WEBSITE OF THE COMPANY

www.8171.com.hk

CHAIRMAN'S STATEMENT

On behalf of the Board (the "Board") of directors (the "Directors") of China Trends Holdings Limited (the "Company"), I am pleased to present to you the audited results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

FINANCIAL REVIEW

During the year ended 31 December 2010, the Group recorded a revenue of approximately HK$37,108,000 (2009: HK$51,183,000), representing a decrease of 27.5%. The decrease in revenue was due to the fierce competition in the current business operations of the Group.

During the year ended 31 December 2010, the Group incurred a loss of approximately HK$9,039,000 (2009: HK$49,774,000) in which the loss attributable to the shareholders of the Company was approximately HK$8,813,000 (2009: HK$49,774,000). The loss was mainly due to the drop in the profit margin of the business operations and the increase in administrative and other operating expenses.

OPERATIONAL REVIEW

On 30 September 2009, the Company entered into a sale and purchase agreement with an independent third party to acquire the copyright of a film library (the "Copyright Acquisition") at a consideration of HK$25,000,000. Trademarks under the Copyright Acquisition would be transferred to the Group from the vendor at nil consideration upon completion. The Copyright Acquisition was completed by late September 2010.

On 10 December 2009, the Company entered into a sale and purchase agreement with an independent third party (the "Vendor"), pursuant to which, the Group agreed to acquire the entire issued share capital of Nopo International Limited which is principally engaged as a product agent of a mobile location-based service provider in the PRC and as a sole franchised dealer in overseas markets according to a distribution agreement ("Nopo Acquisition"), at a consideration of HK$19,493,000. An initial deposit of HK$1,993,000 was paid on December 2009 and the remaining balance of the consideration in the amount of HK$17,500,000 was paid by the Company by way of issuing 140,000,000 consideration shares of HK$0.01 each of the Company at an issue price of HK$0.125 per share when the Nopo Acquisition was completed on 22 January 2010.

On 15 June 2009, the Group entered into a sale and purchase agreement (supplemented by two deeds of transfer and novation dated 30 September 2009 and 1 December 2009 respectively) with Mr. Yu Shu Kuen ("Mr. Yu"), (i) to dispose the entire issued share capital of Ace Solution Technology Limited ("Ace Solution"); and (ii) the shareholder loans owed by Ace Solution to the Company, at a consideration of HK$1. The transaction constituted a very significant disposal for the Group under the GEM Listing Rules, and was completed on 5 February 2010. Ace Solution and its subsidiaries (the "Disposal Group") are no longer subsidiaries of the Company. The results of the Disposal Group will no longer be combined into the Company's consolidated accounts.

On 28 April 2010, the Company announced that it proposed to issue a total of 3,374,958,000 rights shares by way of rights issue at a subscription price of HK$0.04 per rights share on the basis of four nil-paid rights shares for every existing share held to raise approximately HK$135,000,000 (before expenses). The right issue was completed on 8 July 2010.

On 7 May 2010, the Company entered into a non-binding cooperative framework agreement with 深圳市諾普電子商務有限公司 (translated as Shenzhen Nopo Electronic Commerce Co., Ltd.) ("Nopo Electronic Commerce"), pursuant to which, the Company conditionally agreed to purchase the CEM bonus points redemption platform and the related assets with a capacity of 10 million subscribers from Nopo Electronic Commerce, at a consideration which is determined to be not more than HK$50,000,000 for the time being. The consideration will be satisfied in cash, or by the issue of notes or loan notes, consideration shares, convertible bonds and/or other financial instruments by the Company at an issue price or conversion price of HK$0.28 per share (subject to adjustment if the rights issue is completed). The actual method of payment is to be confirmed by the Company and Nopo Electronic Commerce through further negotiations. Later, given that the business features under the project cooperative agreement dated 9 November 2010 is sufficient to support the energy management contract business of the Group, the Board decided that the above cooperative framework agreement would not be proceeded.

On 14 May 2010, the Company entered into a non-binding cooperative framework agreement with Yu Tone Industrial Investment Limited ("Yu Tone Industrial"), pursuant to which, the Company conditionally agreed to acquire the entire equity interest in Yu Tone Industrial and to become its sole shareholder, with a condition precedent that Yu Tone Industrial will, after the completion of its restructuring, wholly own 廣東譽通置業有限公司 (transliterated as Guangdong Yu Tone Development Limited ("Guangdong Yu Tone")), a company having more than 10,000 square meters of commercial ground floor and extensive operation and sales channels of electronic products in Guangzhou business district. The consideration will be satisfied in cash, or by the issue of notes or loan notes, consideration shares, convertible bonds and/or other financial instruments by the Company at an issue price or conversion price of HK$0.28 per share (subject to adjustment if the rights issue is completed). The actual method of payment is to be confirmed by the Company and Yu Tone Industrial through further negotiations. Later, given that the business features under the project cooperative agreement dated 9 November 2010 is sufficient to support the energy management contract business of the Group, the Board decided that the above cooperative framework agreement would not be proceeded.

On 28 May 2010, the Company entered into a non-legally binding cooperative framework agreement with Joy China Group Limited ("Joy China"), pursuant to which, the Company agreed conditionally to purchase Joy China's large volume advertising broadcasting platform making use of internet and 3C as the media and terminal and having a capacity of not less than 10 million subscribers. The consideration will be satisfied in cash, or by the issue of notes or loan notes, consideration shares, convertible bonds and/or other financial instruments by the Company at an issue price or conversion price of HK$0.28 per share (subject to adjustment if the rights issue is completed). The actual method of payment is to be confirmed by the Company and Joy China through further negotiations. Later, given that the business features under the project cooperative agreement dated 9 November 2010 is sufficient to support the energy management contract business of the Group, the Board decided that the above cooperative framework agreement would not be proceeded.

On 3 June 2010, the Company entered into a cooperative framework agreement with 博大偉業(北京)教育文化發展有限公司 (transliterated as Grand Business (Beijing) Educational and Cultural Development Company Limited ("Grand Business")), whereby the Company and Grand Business will establish a cooperation relationship. Grand Business is in the process of establishing its multi-media education platform. It is responsible for promotion and publication, operation and investment promotion and allowing suitable working partners to form an alliance. The Group will provide energy-saving computers and project-related solutions to Grand Business to implement its multi-media education platform by mean of energy management contract. It is targeted to build 10,000 education platforms with the alliance partners within three years in the PRC.

On 7 June 2010, the Company and China Innovation Investment Limited ("China Innovation", stock code: 1217.HK) jointly announced that 博思(中國)信息系統有限公司 (transliterated as Boss (China) Information Systems Limited ("Boss China")), a subsidiary of the Company, 多達創新(中國)科技發展有限公司 (transliterated as Dooda Innovation (China) Technology Development Limited ("Dooda China")) under the investment of China Innovation and 惠州TCL光源科技有限公司 (transliterated as Huizhou TCL Lighting Appliance Technology Limited ("Huizhou TCL")) under TCL Group (A share code: 000100) entered into a strategic cooperative framework agreement. The three parties plan to establish a strategic cooperation for research and development, production and marketing of energy-saving LED products, in particular by mean of energy management contract, in order to achieve mutually reciprocal benefits and the sharing of resources.

On 8 June 2010, the Company and Industrial and Commercial Bank of China Limited Shenzhen Xinghe Branch ("ICBC") entered into a cooperative framework agreement in order for it to provide the Group project financing on energy management contract business, including project loans and factoring services, and also provide the Group the guidance on project financing, rationalization of application and approval procedures.

On 17 June, 2010, the Company, New Times Global Investment Limited ("New Times Global Investment") and 寧波陽光海灣發展有限公司 (transliterated as Ningbo Sunbay Development Co., Ltd. ("Ningbo Sunshine")) entered into a cooperative framework agreement, whereby the three parties establish possible cooperation to develop the Sunbay Marina (Low Carbon Tourism) Project. The Group intends to extend its energy management contract business to the low-carbon tourism development.

On 22 June 2010, the Company and 北京惠利康高新技術有限責任公司 (transliterated as Beijing Hui Likang Hi-Tech Company Limited ("Beijing Hui Likang")) entered into a cooperative framework agreement, whereby it is intended to build up 20,000 children wisdom groups in major cities in the PRC in order to further extend its business of energy management contract to children's market.

On 29 June, 2010, the Company and China Innovation jointly announced that the Company, China Innovation and 中國東方數控公司 (transliterated as China Oriental Numerical Control Company Limited ("China Oriental Numerical Control")), a subsidiary of CNIGC, entered into a cooperative letter of intent, whereby the three parties propose to establish cooperation for operation and marketing by mean of energy management contract in relation to the application of new energy numerical control system on solar electric vehicles.

On 12 July, 2010, the Company had, through Asian Capital (Corporate Finance) Limited ("Asian Capital"), informed the board of directors of C Y Foundation Group Limited ("C Y Foundation", stock code: 1182.HK), that the Company is contemplating making the possible offer ("Possible Offer"), subject to the approval of the shareholders of the Company. Subsequently, C Y Foundation informed the Company that C Y Foundation intended to conduct fund raising exercise, and the Company required C Y Foundation to provide the further details in respect of proposed fund raising accordingly. As of 7 September 2010, however, the directors of the Company noticed from various media publication that there might be certain possible regulatory issues relating to C Y Foundation and/or its certain directors/shareholders and the shares of C Y Foundation was suspended in trading since 31 August 2010. As such, the directors of the Company decided not to proceed with the Possible Offer.

On 9 November 2010, Protex (China) Systems Limited (currently renamed as Boss Dream (China) Limited), a subsidiary of the Company in the PRC entered into a project cooperative agreement with an independent third party to commence exclusive cooperation on the joint construction and operation of online education platform, video production platform, reward redemption platform and advertisement broadcasting platform.

On 29 December 2010, the Company entered into a cooperative framework agreement with two independent third parties to build the 10,000 education platforms with the alliance partners in mainland China for promoting the programs of Need Education Program Office.

The Group is in the process of running each of cooperation to extend to the business of energy-saving applications and products and energy management contract business.

OUTLOOK AND PROSPECT

The Group is principally engaged in developing the energy-saving applications for digital products. The applications mainly make use of the energy management contract (CEM) and BOT mechanism which would ultimately apply to different sectors in the society. With the transfer of turnover from traditional products sales to CEM services, the Group believes the switch would enhance the earnings.

According to the CEM business model, the commercial operating model provides a set of energy saving services, project financing, engineering construction, and related services to the clients in a contract of three to five years. The Group will then realize its investment return and profit by sharing relevant percentage of the energy saving efficiency realised by the clients' energy saving measures.

The Company's directors and management will dedicate their best effort to lead the Group to strive for the best interests for its shareholders.

Xiang Xin
Chairman

Hong Kong
28 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The Group continued to finance its operation and capital expenditure through internally generated fund, and support certain product solutions development and business expansion. The Group maintained a healthy liquidity position with a current ratio of approximately 8.5 (2009: 1.5) and total cash and bank balances amounted to approximately HK$111,503,000 (2009: HK$6,764,000) with no pledged deposits placed in banks for securing any borrowings or banking facilities. As at 31 December 2010, the gearing ratio based on total liabilities over total assets was approximately 2.26% (2009: 5.53%).

CAPITAL STRUCTURE AND FLUCTUATION IN EXCHANGE

Details in the changes of the capital structure of the Company during the year ended 31 December 2010 are set out in note 27 to the financial statements. The capital of the Company comprised ordinary shares only as at 31 December 2010. During the year under review, sales and purchases of the Group were mainly transacted in Renminbi, United States dollars and Hong Kong dollars. As at 31 December 2010, a substantial portion of the assets and liabilities of the Group were current in nature, and the amounts were principally denominated in Renminbi, United States dollars and Hong Kong dollars, foreign exchange risk was considered to be minimal.

COMPLETION OF RIGHTS ISSUE

The Company completed a rights issue on 8 July 2010 to raise approximately HK$135,000,000 (before expenses) by issuing 3,374,958,000 rights share at a price of HK$0.04 per rights share on the basis of four rights shares for every one existing share held by qualifying shareholders.

EMPLOYEES

As at 31 December 2010, there were a total of 21 (2009: 9) full-time staff employed by the Group. The staff costs including directors' remuneration for the year were approximately HK$2,574,000 (2009: HK$2,275,000). There was no equity-settled share option expenses (2009: NIL) for the year. The total amount comprised salaries, wages and allowance, medical and insurance coverage, pension scheme contributions and discretionary bonus.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save for the disposal of the Disposal Group (note 11 to the financial statements) completed on 5 February 2010, the acquisition of the copyright of a film library (note 15c to the financial statements) completed by late September 2010, and the acquisition of the entire issued share capital of Nopo International Limited (note 30(a) to the financial statements) completed on 22 January 2010, there were no other significant investments nor material acquisition and disposal of subsidiaries and affiliated companies of the Company for the year ended 31 December 2010.

PROPOSED ACQUISITION

On 7 January 2011, the Company entered into a sale and purchase agreement (the "Agreement") with Joy China Group Limited (the "Vendor"), pursuant to which, the Company will acquire 100% equity interest in Full Smart Asia Limited at a consideration of HK$228,000,000.

The consideration shall be settled by the Company in the following manner: (a) HK$11,400,000 already paid in cash to the Vendor within 14 business days from the date of signing of the Agreement as deposit; (b) HK$113,740,000 shall be satisfied by issuing the convertible bonds to the Vendor at completion; and (iii) the HK$102,860,000 shall be satisfied by issuing the promissory note to the Vendor at completion.

The acquisition constituted a major transaction on the part of the Company under the GEM Listing Rules and is subject to the approval of the shareholders at the forthcoming extraordinary general meeting of the Company.

CHARGE, CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2010, the Group had commitments under operating lease amounting to approximately HK$4,071,000 (2009: HK$5,277,000) and there were no charges on any assets of the Group.

The Group did not have any contingent liabilities at the end of the reporting year. In addition to the operating lease commitments, the Group and the Company had no other commitments save for those disclosed in note 32 to the financial statements.

MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Xiang Xin ("Mr. Xiang"), aged 47, was the Chairman of the Board. Mr. Xiang has worked in a number of large organizations in the PRC and has been engaged in technology project management and corporate strategy research for a long time. Mr. Xiang also possesses many years of experience in project investment and telecommunications network businesses. Mr. Xiang holds a bachelor's degree in science and a master's degree in engineering from Nanjing University of Science & Technology. Mr. Xiang is a council member of China Technology Education Trust Association. Mr. Xiang is currently an executive director, the chairman and the chief executive officer of China Innovation Investment Limited ("China Innovation") (stock code: 1217), a company listed on the main board of the Stock Exchange. Mr. Xiang joined the Company on 25 February 2008.

Mr. Yang Gaocai ("Mr. Yang"), aged 43, the Co-President of the Company, is actively involved in the political and business sectors in the People's Republic of China (the "PRC"). Mr. Yang has taken key offices in various PRC political and business associations. Mr. Yang holds a master's degree in Engineering of Nanjing University of Science and Technology and a higher diploma in Economics and Management of The Pantheon-Assas Paris II University. Mr. Yang is currently a member of The China Economic and Social Council, a member of Nanjing Municipal People's Political Consultative Conference in Hong Kong and Macau, the vice chairman of Association of Hong Kong Nanjing Fellows Limited and vice president of Jiangsu Youth Chamber of Commerce. Mr. Yang joined the Company on 24 August 2009.

Mr. Wong Chak Keung ("Mr. Wong"), aged 44, the Co-President and Company Secretary of the Company, holds a bachelor degree in business from The University of Southern Queensland in Australia. Mr. Wong is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a member CPA Australia respectively. Mr. Wong has been in the accounting profession for over 15 years. Prior to joining the Company, Mr. Wong worked in various positions in an international accounting firm, corporate finance, educational business and manufacturing sector in Hong Kong. Mr. Wong is currently an executive director and a company secretary of China Innovation (stock code: 1217), a company listed on the main board of the Stock Exchange, an independent non-executive director of Bingo Group Holdings Limited (stock code: 8220), a company listed on the Growth Enterprise Market of the Stock Exchange, and an independent non-executive director of China Seven Star Shopping Limited (stock code: 245), a company listed on the main board of the Stock Exchange respectively. Mr. Wong joined the Company on 25 February 2008.

Ms. Lu Yuhe ("Ms. Lu"), aged 33, is a member of Chinese Institute of Certified Public Accountants and holder of a Master's degree in Business Administration from the University of Hong Kong, a Master's degree in Economics from the Capital University of Economics and Business and a bachelor degree in Economics from the Central University for Nationalities. Ms. Lu has worked for an international accounting firm in China and has substantial experience in auditing and accounting practice. Ms. Lu joined the Company on 10 July 2009. As an independent non-executive Director and a member of the Audit Committee and the Remuneration Committee of the Company during the period from 10 July 2009 to 30 November 2010 and re-designated to an executive Director of the Company with effect from 1 December 2010.

* *For identification purpose only*

NON-EXECUTIVE DIRECTOR

Mr. Law Gerald Edwin ("Mr. Law"), aged 34, has over 10 years of experience in accounting, taxation, financing and auditing in Hong Kong. Mr. Law holds an Honor Diploma in Accounting and Master's degree in Financial Management. He is a fellow member of Association of International Accountants, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Tax Advisor (Hong Kong) and an associate member of The Taxation Institute of Hong Kong. Mr. Law joined the Company on 4 May 2009 and was appointed as the executive Director of the Company on 1 October 2009. He has been re-designated from an executive Director to a non-executive Director of the Company with effect from 1 March 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhan Liang ("Mr. Zhang"), aged 40, is a qualified lawyer in the People's Republic of China and is currently the chief officer and partner of 北京市仁豐律師事務所 (JenRich Law Office in Beijing*). Mr. Zhang has 10 years of experience in litigations and advising on legal matters relating to corporate finance and real estates. Mr. Zhang holds a bachelor's degree in law and a master degree from China University of Political Science and Law. Mr. Zhang joined the Company on 23 January 2008.

Mr. Kwok Chi Hung ("Mr. Kwok"), aged 49, possesses over 20 years of experience in financial and corporate management. Mr. Kwok is one of the founders of China-Key HR Outsourcing Co., Limited engaging in the provision of human resources under business processing outsourcing services in the PRC and it was recognized by InterChina Consulting as one of the fast developing human resources outsourcing companies in the PRC. Mr. Kwok was an executive director of China Innovation Investment Limited, a company listed on the Main Board of the Stock Exchange, during the period from 30 December 2004 to 1 November 2007. Mr. Kwok joined the Company on 24 August 2009.

Ms. An Jing ("Ms. An"), aged 38, received her bachelor degree in economic from Henan University of Finance and Economics. Ms. An is a practicing member of The Chinese Institute of Certified Public Accountants and the senior partner of 北京正清和會計師事務所 (transliterated as Beijing Zheng Qing He Accounting Firm). Ms. An has over 20 years of experience in accounting and auditing industry. Ms. An joined the Company on 31 January 2011.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in (i) sales and marketing of mobile phone appliance and the relevant application solution and (ii) trading of LED/LCD and related products. The Group also intends to engage in the media business by provision of online media platforms and multi-media and advertising business which have not commenced during the year ended 31 December 2010.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 35.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 122. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements.

Details of movements in the Company's share options during the year are set out in notes 28 to the financial statements.

CONVERTIBLE BONDS

Details of movements in the Convertible Bonds of the Company during the year are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions during the year ended 31 December 2010 are disclosed in note 33 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the relevant provisions of the Companies Law of the Cayman Islands, amounted to HK$177,875,000. This includes the Company's special reserve and share premium account in the amount of approximately HK$250,442,000 in aggregate which may be distributed provided that immediately following the date, on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The special reserve and share premium account may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 100% of the total sales for the year and sales to the largest customer included therein accounted for 66.7%. Purchases from the Group's five largest suppliers accounted for 100% of the total purchases for the year and purchases from the largest supplier included therein accounted for 28%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Xiang Xin	
Mr. Yang Gaocai	
Mr. Wong Chak Keung	
Mr. Law Gerald Edwin	(Re-designated from an executive director to a non-executive director on 1 March 2011)
Ms. Lu Yuhe	(Re-designated from an independent non-executive director to an executive director on 1 December 2010)

Non-executive director:

Mr. Law Gerald Edwin	(Re-designated from an executive director to a non-executive director on 1 March 2011)

Independent non-executive directors:

Mr. Zhang Zhan Liang	
Ms. Lu Yuhe	(Re-designated from an independent non-executive director to an executive as Executive director on 1 December 2010)
Mr. Kwok Chi Hung	
Ms. An Jing	(Appointed on 31 January 2011)

In accordance with article 87(1) of the Articles of Association of the Company, each of Mr. Xiang Xin, Mr. Wong Chak Keung and Mr. Zhang Zhan Liang shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. In accordance with article 86(3) of the Articles of Association of the Company, Ms. An Jing shall retire, being eligible, offer herself for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive directors are not appointed for specific term and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

None of the directors being proposed for re-election at the forthcoming annual general meeting has service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 and 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company has entered into a service contract with the Company and they are not appointed for a specific term. Their appointment will be subject to retirement and re-election by the shareholders pursuant to the articles of association of the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' remuneration are subject to the authority granted by the shareholders of the Company to the board of Directors to fix their remuneration or shareholders' approval at general meetings and monitored by the remuneration committee on a continuous basis. Other emoluments are determined by the Company's remuneration committee with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those details in note 33 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

Apart from those details in note 33 to the financial statements, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the interests of the Directors or chief executive and their associates in the shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in issued Shares

Name	Nature of interest	Number of Shares held	Approximately percentage of interests
Xiang Xin *(note 2)*	Interest of controlled corporation	1,650,914,973 (L)	24.88%
Wong Chak Keung	Beneficial owner	14,120,000 (L)	0.21%

(ii) Interest in the underlying shares of the Company – share option

Name of Director	Date of grant	Exercise period	Nature of interest	Exercise price per share HK$	Number of underlying Shares for Share Options	Approximately percentage of interests
Xiang Xin	9 April 2008	9 April 2008 to 8 April 2013	Beneficial owner	0.0935	14,973,262 (L)	0.23%
Wong Chak Keung	9 April 2008	9 April 2008 to 8 April 2013	Beneficial owner	0.0935	14,973,262 (L)	0.23%
Zhang Zhan Liang	9 April 2008	9 April 2008 to 8 April 2013	Beneficial owner	0.0935	7,486,631 (L)	0.11%

(iii) Interest in the underlying shares of the Company – convertible bonds

Name	Nature of interest	Number of underlying shares for Convertible Bonds	Approximately percentage of interests
Xiang Xin *(note 2)*	Interest of controlled corporation	3,827,193,135 (L)	57.68%
Wong Chak Keung	Beneficial owner	97,257,027 (L)	1.47%

Notes:

1. The letter "L" denotes the shareholders' long position in the Shares.

2. The shares and the underlying shares of the Company are held by Honour Sky International Limited and Mr. Xiang Xin is the sole director of the company and Mr. Xiang's family member(s) (excluding Mr. Xiang) is/are the ultimate beneficiaries of such company.

Save as disclosed above, as at 31 December 2010, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares or underlying Shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, according to the register kept by the Company pursuant to section 336 of SFO, and so far as was known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Company:

(i) interest in issued shares

Name	Nature of interest	Number of Shares held	Approximately percentage of interests
Honour Sky International Limited	Beneficial owner	1,650,914,973 (L)	24.88%
Chinese Star (PTC) Ltd. *(note 2)*	Interest of controlled corporation	1,650,914,973 (L)	24.88%
Kung Ching *(note 2)*	Interest of controlled corporation	1,650,914,973 (L)	24.88%
HSBC International Trustee Limited *(note 3)*	Trustee	1,650,914,973 (L)	24.88%
Morgan Strategic Limited	Beneficial owner	1,236,032,432 (L)	18.63%
Top Ten International s.a r.l. *(note 4)*	Interest of controlled corporation	1,236,032,432 (L)	18.63%
Chen Darren *(note 4)*	Interest of controlled corporation	1,236,032,432 (L)	18.63%
Tao Xue Juan *(note 5)*	Interest of controlled corporation	1,236,032,432 (L)	18.63%
Ocean Space Development Limited	Beneficial owner	141,564,000 (L)	2.13%
Zhang Shao Cai *(note 6)*	Interest of controlled corporation	141,564,000 (L)	2.13%

(ii) interest in the underlying shares of the company – convertible bonds

Name	Nature of interest	Number of underlying Shares for the Convertible Bonds	Approximately percentage of interests *(note 8)*
China Technology Education Trust Association *(note 7)*	Beneficial owner	8,311,405,405 (L)	125.27%
Honour Sky International Limited	Beneficial owner	3,827,193,135 (L)	57.68%
Chinese Star (PTC) Ltd. *(note 2)*	Interest of controlled corporation	3,827,193,135 (L)	57.68%
Kung Ching *(note 2)*	Interest of controlled corporation	3,827,193,135 (L)	57.68%
HSBC International Trustee Limited *(note 3)*	Trustee	3,827,193,135 (L)	57.68%
Ocean Space Development Limited	Beneficial owner	975,057,621 (L)	14.70%
Zhang Shao Cai *(note 6)*	Interest of controlled corporation	975,057,621 (L)	14.70%

Notes:

1. The letter "L" denotes the shareholders' long position in the Shares.

2. Honour Sky International Limited is a private company wholly and beneficially owned by Chinese Star (PTC) Ltd. Accordingly, Chinese Start (PTC) Ltd. is interested in the shares and the underlying shares of the Company held by Honour Sky International Limited. Ms. Kung Ching, the spouse of Mr. Xiang Xin, is also the director of Chinese Star (PTC) Ltd. and is taken to be interested in the shares and underlying shares of the Company held by Honour Sky International Limited.

3. The shares and the underlying shares of the Company are held by Chinese Star (PTC) Ltd., a company incorporated in the British Virgin Islands (indirectly through various wholly owned subsidiaries) in its capacity as trustee of The New Era Unit Trust, almost the entire issued units of which (i.e. 8,751,602 units out of 8,751, 603 units) are held by HSBC International Trustee Limited, in its capacity as trustee of The New Era Development No. 1 Trust. Mr. Xiang's family members (but not including Mr. Xiang) are the discretionary beneficiaries of The New Era Development No. 1 Trust.

4. Morgan Strategic Limited is a private company 40% owned by Top Ten International s.a r.l. ("Top Ten") and Top Ten is a private company wholly and beneficially owned by Mr. Chen Darren. Accordingly, Top Ten and Mr. Chen Darren are interested in the shares of the Company held by Morgan Strategic Limited.

5. Morgan Strategic Limited is a private company owned 60% by Ms. Tao Xue Jun. Accordingly, Ms. Tao Xue Jun is interested in the shares of the Company held by Morgan Strategic Limited.

6. Ocean Space Development Limited, a company incorporated in the British Virgin Islands, is a private company wholly and beneficially owned by Mr. Zhang Shao Cai. Accordingly, Mr. Zhang Shao Cai is interested in the shares and the underlying shares of the Company held by Ocean Space Development Limited.

7. The underlying shares of the Company are held by China Technology Education Trust Association (the "Association"), a society registered under the provisions of section 5A(1) of the Societies Ordinance in 2005, which is a charitable society providing charity and financial aid to education and employment in Hong Kong and Mainland China. Mr. Xiang is a council member of the Association.

8. The approximately percentage of interests in the Company is calculated on the basis of 6,635,001,932 Shares in issue as at 31 December 2010.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, there was no person (other than a Director or chief executive of the Company) who, as at 31 December 2010, had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates as defined in the GEM Listing Rules had any interest in business that competed or might compete with business of the Group during the year under review.

SHARE OPTION SCHEME

As at 31 December 2010, there were the outstanding options granted by the Company to subscribe for in aggregate of 82,352,941 shares, representing 1.24% of the shares of the Company in issue, at the exercise price of HK$0.0935 per share pursuant to the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year under review.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report in page 22 to 25.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2010.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 16 July 2002 in accordance with the requirements of the GEM Listing Rules. The Audit Committee currently comprises all three independent non-executive directors of the Company, Mr. Zhang Zhan Liang as the Chairman, Mr. Kwok Chi Hung and Ms. An Jing as the members.

The Audit Committee examined the accounting principles and practices adopted by the Company and its subsidiaries and discussed with the management its internal controls and accounts. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2010.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the reporting period of the Company are set out in note 32 to the financial statements.

AUDITORS

A resolution for the re-appointment of Ascenda Cachet CPA Limited as auditors of the Company until the conclusion of the next annual general meeting is to be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Xiang Xin
Chairman and Executive director

Hong Kong
28 March 2011

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year under review, the Company had complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 15 of the GEM Listing Rules, except that

1. the Company has no fixed terms of appointment for non-executive directors, and

2. the Company had only two independent non-executive directors, the number of which fell below the minimum number required under Rules 5.05(1) and 5.28 of the GEM Listing Rules and the Company failed to meet the requirement set out in Rule 5.05(2) regarding qualification of the independent non-executive director having appropriate professional qualification or accounting or related financial management expertise during the period from 1 December 2010 to 30 January 2011.

The non-executive director and independent non-executive directors are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the relevant article under the Articles of Association of the Company. Such practice deviates from the provision A.4.1 of the CG Code which requires that non-executive directors be appointed for a specific term. The Board has discussed and concluded the current practice of appointing independent non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders is fair and reasonable, and does not intend to change the current practice at the moment.

Following the appointment of Ms. An Jing as an independent non-executive director of the Company on 31 January 2011, the Company complied with the rules 5.05 and 5.28 of GEM Listing Rules accordingly.

BOARD PRACTICES AND PROCEDURES

The Company was in compliance with the Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules throughout the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the directors. All directors confirmed that they complied with the required standards as set out in the Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year.

BOARD OF DIRECTORS

The Board of the Company as at the date of the annual report comprises:

Executive directors :	Mr. Xiang Xin	
	Mr. Yang Gaocai	
	Mr. Wong Chak Keung	
	Ms. Lu Yuhe	(Re-designated from an independent non-executive director to an executive director on 1 December 2010)
Non-executive director	Mr. Law Gerald Edwin	(Re-designated from an executive director to a non-executive director on 1 March 2011)
Independent non-executive directors :	Mr. Zhang Zhan Liang	
	Mr. Kwok Chi Hung	
	Ms. An Jing	(Appointed on 31 January 2011)

The Board is responsible for the leadership and control of the Company. It also oversees the Group's businesses, strategic decisions and directions, and performances. The management was delegated the authority and responsibility by the Board for the general management of the Group. In addition, the Board has also delegated various responsibilities to other committees. Further details of other committees are set out in this report.

The Board has at least four scheduled regular meetings a year at quarterly interval and meets as and when required. During the year ended 31 December 2010, the Board held 45 meetings. The attendance of each director at the board meetings during the year are as follows:

Directors		**Number of attendance**
Mr. Xiang Xin		45/45
Mr. Wong Chak Keung		45/45
Mr. Yang Gaocai		1/45
Mr. Law Gerald Edwin		45/45
Ms. Lu Yuhe		3/45
Mr. Zhang Zhan Liang		1/45
Mr. Kwok Chi Hung		0/45
Ms. An Jing	(Appointed on 31 January 2011)	N/A

Board minutes are kept by the company secretary of the Company. Draft and final versions of the Board minutes are sent to the directors for their comments and records, in both cases within a reasonable time after the meeting.

The directors are able, upon the reasonable request, to seek independent professional advice under appropriate circumstances, at the Company's expenses, in order to discharge their responsibilities and duties under appropriate independent professional advice.

Appropriate insurance cover has been arranged in respect of legal action against its directors and senior management.

CHAIRMAN, CHIEF EXECUTIVE OFFICER AND CO-PRESIDENTS

Mr. Xiang Xin was appointed as the Chairman of the Board with effect from 9 May 2009. Mr. Yang Gaocai and Mr. Wong Chak Keung were appointed as Co-Presidents of the Company with effect from 24 August 2009 and 1 September 2009 respectively.

The Chairman's and the Chief Executive Officer's/Co-Presidents' responsibility is to manage the Board and the Group's day-to-day business, respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors of the Company are persons of high calibre, with academic and professional qualifications in the field of accounting and law. With their solid experience, they can provide strong support to perform their duties delegated by the Board effectively.

All independent non-executive directors are considered to be independent by the Board as the Board received the annual confirmation of independence from each of them as required by the GEM Listing Rules.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company established a remuneration committee (the "Remuneration Committee") in December 2005. Currently, all of the members of the Remuneration Committee are the independent non-executive directors of the Company, namely Mr. Zhang Zhan Liang, Mr. Kwok Chi Hung and Ms. An Jing.

EXTERNAL AUDITORS

For the year ended 31 December 2010, the following external auditors, provided the following services to the Group:

	HK$'000
Ascenda Cachet CPA Limited	
Annual audit services	232
Other assurance services	140
	372
Other auditors	
Other assurance services	48
	420

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 16 July 2002 in accordance with the requirements of the GEM Listing Rules. The Committee currently comprises all three independent non-executive directors of the Company, Mr. Zhang Zhan Liang as the Chairman and Mr. Kwok Chi Hung and Ms. An Jing as the members. The attendance of each member at the meetings during the year is set out as follows:

		Number of attendance
Mr. Zhang Zhan Liang		4/4
Ms. Lu Yuhe	(Resignated from an independent non-executive director to an executive director on 1 December 2010)	4/4
Mr. Kwok Chi Hung		4/4
Ms. An Jing	(Appointed on 31 January 2011)	N/A

Full minutes of audit committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee meetings are sent to all members of the committee for their comments and records, in both cases within a reasonable time after the meeting.

The audit committee reviews the quarterly results, interim and annual reports before submission to the Board. The audit committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

INDEPENDENT AUDITORS' REPORT

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai, Hong Kong

To the shareholders of China Trends Holdings Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Trends Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 28 to 121, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010, and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

We draw attention that our previous report dated 23 March 2010 in respect of the financial statements for the year ended 31 December 2009 of the Group and the Company were disclaimed in view of scope limitations on the assets and liabilities, which had been fully impaired, and the results of a disposal group classified as held for sale.

Any adjustments found to be necessary may affect the comparative figures in respect of the gross assets and liabilities of the disposal group classified as held for sale as at 31 December 2009 and the results and cash flows and the related disclosures in the notes to the financial statements of the Group and the Company for the year ended 31 December 2009.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Chi Yuen
Practising Certificate Number P02671

Hong Kong
28 March 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**37,108**	51,183
Cost of sales		**(36,730)**	(50,589)
Gross profit		**378**	594
Other income and gains	5	**2,776**	608
Administrative and other operating expenses		**(12,193)**	(8,906)
Impairment of assets of a disposal group	11	**–**	(39,655)
Other impairment losses		**–**	(2,415)
LOSS BEFORE TAX	6	**(9,039)**	(49,774)
Income tax expenses	9	**–**	–
LOSS FOR THE YEAR		**(9,039)**	(49,774)
Attributable to:			
Owners of the Company	10	**(8,813)**	(49,774)
Non-controlling interests		**(226)**	–
		(9,039)	(49,774)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		*Restated*
Basic		**(0.24) cents**	(6.29) cents
Diluted		**(0.24) cents**	(6.29) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
LOSS FOR THE YEAR		(9,039)	(49,774)
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		678	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		678	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(8,361)	(49,774)
Attributable to:	12		
Owners of the Company		(8,141)	(49,774)
Non-controlling interests		(220)	–
		(8,361)	(49,774)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON–CURRENT ASSETS			
Property, plant and equipment	13	**2,835**	1,588
Available-for-sales investments	14	**–**	–
Intangible assets	15	**527,279**	482,794
Deferred tax assets	16	**–**	–
Prepaid licenses fee	17	**–**	–
Total non-current assets		**530,114**	484,382
CURRENT ASSETS			
Inventories	19	**1,164**	1,178
Contract works in progress	20	**–**	–
Trade receivables	21	**–**	–
Prepayments, deposits and other receivables	22	**12,883**	27,894
Cash and bank balances	23	**111,503**	6,764
		125,550	35,836
Assets of a disposal group classified as held for sale	11	**–**	7,889
Total current assets		**125,550**	43,725
CURRENT LIABILITIES			
Trade payables	24	**–**	–
Other payables and accruals		**902**	2,727
Tax payable		**46**	46
Due to a director	25	**13,840**	18,520
		14,788	21,293
Liabilities directly associated with the assets classified as held for sale	11	**–**	7,889
Total current liabilities		**14,788**	29,182
NET CURRENT ASSETS		**110,762**	14,543
TOTAL ASSETS LESS CURRENT LIABILITIES		**640,876**	498,925
Net assets		**640,876**	498,925

	Notes	2010 HK$'000	2009 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	27	**66,350**	7,037
Equity component of convertible bonds	26	**391,534**	460,768
Reserves	29(a)	**181,574**	31,120
		639,458	498,925
Non-controlling interest		**1,418**	–
Total equity		**640,876**	498,925

Xiang Xin
Director

Wong Chak Keung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to owners of the Company											
	Issued capital HK$'000	Share premium account HK$'000	Warrant reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Equity component of convertible bonds HK$'000	Special reserve HK$'000 (Note (a))	Capital reserve HK$'000 (Note (b))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As at 1 January 2009	5,865	68,379	900	6,977	–	–	11,157	–	(13,470)	79,808	–	79,808
Placement of shares	1,172	7,037	–	–	–	–	–	–	–	8,209	–	8,209
Share issue expenses	–	(86)	–	–	–	–	–	–	–	(86)	–	(86)
Share option lapsed during the year	–	–	–	(1,860)	–	–	–	–	1,860	–	–	–
Warrant lapsed during the year	–	–	(900)	–	–	–	–	–	900	–	–	–
Issue of convertible bonds	–	–	–	–	–	460,768	–	–	–	460,768	–	460,768
Total comprehensive income for the year	–	–	–	–	–	–	–	–	(49,774)	(49,774)	–	(49,774)
At 31 December 2009 and at 1 January 2010	7,037	75,330	–	5,117	–	460,768	11,157	–	(60,484)	498,925	–	498,925
Acquisition of non-controlling interest *(note 18(a) and (b))*	–	–	–	–	–	–	–	(1,638)	–	(1,638)	1,638	–
Issue of shares *(note 27 (a) (ii))*	1,400	16,100	–	–	–	–	–	–	–	17,500	–	17,500
Right issues *(note 27 (a) (iii))*	33,750	101,248	–	–	–	–	–	–	–	134,998	–	134,998
Right issue expenses	–	(2,186)	–	–	–	–	–	–	–	(2,186)	–	(2,186)
Conversion of convertible bonds *(note 26)*	24,163	45,071	–	–	–	(69,234)	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	672	–	–	–	(8,813)	(8,141)	(220)	(8,361)
At 31 December 2010	66,350	235,563	–	5,117	672	391,534	11,157	(1,638)	(69,297)	639,458	1,418	640,876

Note (a): Special reserve represents the difference between the nominal value of shares issued by the Company as consideration and the underlying net assets of the then subsidiaries acquired pursuant to the group reorganisation in relation to the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited on 31 July 2002.

(b): Capital reserve represents the difference of capital injected by the Group in subsidiaries and the adjustment of non-controlling interest as a consequence of its non-contribution resulting with a decrease in shareholding in those subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(9,039)**	(49,774)
Adjustments for:			
Impairment of trade receivables		**–**	1,700
Impairment of prepayments, deposits and other receivables		**–**	455
Written-off of property, plant and equipment		**–**	260
Interest income		**(478)**	(1)
Exchange gains, net		**(1,824)**	–
Depreciation of property, plant and equipment	*13*	**649**	253
Impairment of assets of a disposal group		**–**	39,655
		(10,692)	(7,452)
Decrease/(increase) in inventories		**14**	(1,178)
Decrease in trade receivables		**–**	610
Increase in prepayments, deposits and other receivables		**(11,982)**	(2,669)
(Decrease)/increase in other payables and accruals		**(1,829)**	1,466
Increase in amount due to a related company		**–**	(221)
Cash used in operations		**(24,489)**	(9,444)
Interest received		**478**	1
Hong Kong profits tax paid		**–**	(112)
Net cash flows used in operating activities		**(24,011)**	(9,555)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	*13*	**(1,881)**	(183)
Net cash inflow from acquisition of subsidiaries	*30(a)*	**2**	798
Net cash outflow for disposal of subsidiaries	*11*	**–**	(77)
Net cash flows used in investing activities		**(1,879)**	(538)

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceed from issue of shares, net	27	132,812	8,123
Advanced from a director		–	68
Repayment to a director		(4,670)	–
Net cash flows from financing activities		128,142	8,191
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		102,252	(826)
Cash and cash equivalents at beginning of year		6,764	7,590
Effect on foreign exchange		2,487	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		111,503	6,764
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	21,038	6,764
Non-pledged time deposits with original maturity of less than three months when acquired		90,465	–
		111,503	6,764

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	683	921
Intangible assets	15	25,000	–
Interests in subsidiaries	18	517,558	465,508
Total non-current assets		543,241	466,429
CURRENT ASSETS			
Inventories	19	1,160	1,178
Prepayments, deposits and other receivables	22	476	27,617
Cash and bank balances	23	96,497	5,615
Total current assets		98,133	34,410
CURRENT LIABILITIES			
Other payables and accruals		498	2,212
Due to a director	25	–	68
Total current liabilities		498	2,280
NET CURRENT ASSETS		97,635	32,130
Net assets		640,876	498,559
EQUITY			
Issued capital	27	66,350	7,037
Reserves	29(b)	574,526	491,522
Total equity		640,876	498,559

Xiang Xin
Director

Wong Chak Keung
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2010

1. CORPORATE INFORMATION

China Trends Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is situated at 26/F., No. 9 Des Voeux Road West, Sheung Wan, Hong Kong.

The Company is an investment holding company. The Group's principal activities have not changed during the year and were involved in (i) sales and marketing of mobile phone appliance and the relevant application solution and (ii) trading of LED/LCD and related products. The Group also intends to engage in the media business by provision of online media platforms and multi-media and advertising business which have not been commenced during the year ended 31 December 2010.

The shares of the Company have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 31 July 2002.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except otherwise indicated.

Basis of consolidation

Basis of consolidation for the year ended 31 December 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group losses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation for the year ended 31 December 2009

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transaction
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HKFRS 5 Amendments included in HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a Improvements to subsidiary
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendments	Amendment to HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK Interpretation 5	Presentation of Financial Statements – Classification by the borrower of Term Loan that Contains a Repayment on Demand Clause

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised) and amendments to HKAS 7 included in Improvements to HKFRSs 2009, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures. The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

2.3 HONG KONG FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets [4]
HKFRS 9	Financial Instruments [5]
HKAS 24 (Revised)	Related Party Disclosures [3]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement [3]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments [2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to have a significant impact on the Group's policies is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 HONG KONG FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE *(Continued)*

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 Business Combinations: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

2.3 HONG KONG FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE *(Continued)*

(a) *(Continued)*

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 Presentation of Financial Statements: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 Consolidated and Separate Financial Statements: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Subsidiaries

A subsidiary is an entity who's financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, contract works in progress and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, an individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Furniture and fixtures	20%
Office and computer equipments	25%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at lease at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the Statement of Comprehensive Income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include prepayment, deposit and other receivables and cash and bank balances.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments (Continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

Include other criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include accruals and other payables and due to a director.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Financial liabilities *(Continued)*

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial liabilities

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial positions, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date.

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes Option Pricing Model, further details of which are given in note 28 to the Financial Information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of comprehensive income for a year represents the movement in the cumulative expense recognised as at the beginning and end of that year.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the consolidated income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. At the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statement.

Acquisition of subsidiaries

The acquisition of equity interest in Nopo International Limited and Legend Century Investments Limited is accounted for as an acquisition of assets instead of a business combination in the Group's consolidated financial statements for the years ended 31 December 2010 and 2009, respectively as the directors of the Company are of the opinion that the Group obtained control of the companies through the acquisition is not business, details of which are set out in note 30 to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Future details are contained in note 16 to the financial statements.

Assessment of impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Fair value of unlisted equity investments

The unlisted equity investments have been assessed for impairment based on the financial statements available for those investments. This assessment requires the Group to make estimates about expected future performance of the investments and hence they are subject to uncertainty. The unlisted equity investments have been fully impaired in the previous year. Future details are included in note 14 to the financial statement.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including these current creditworthiness and the past collection history of each customer.

Amortisation of intangible assets with definite useful lives

Amortisation of intangible assets is calculated to write off the cost of items of intangible assets using the straight-line method over their estimated useful lives unless such lives are indefinite. The Group reviews the estimated useful lives of intangible assets annually in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful lives are based on the estimate period over which future economic benefits will be received by the Group and taking into account any unexpected adverse changes in circumstances or events. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment of intangible assets with indefinite useful lives

The management of the Company assesses the possible impairment of the Group's intangible assets at end of the reporting period.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of intangible assets with indefinite useful lives (Continued)

The recoverable amounts of the intangible assets have been determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and as suitable discount rate in order to calculate the present value. The management refers to valuation performed by independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions.

Fair value of convertible bonds

The fair values of the convertible bonds were calculated using the closing price of the Company and the Black Scholes option pricing model. The models involve assumptions on the Company's stock price, expiration, risk-free rate and volatility. Should these assumptions change, there would be material changes to the valuation.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the marketing of mobile appliance segment is involved in sales and marketing of mobile phone appliance and the relevant application solution;

(b) the trading of LED/LCD products segment is involved in trading of LED/LCD and related products; and

(c) the media business segment is involved in provision of online media platforms and multi-media and advertising business.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, finance costs, and exchange gains as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank and other borrowings, the amount due to a director and a related company, tax payable, deferred tax liabilities and other unallocated head office and corporate assets as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2010

	Marketing of mobile appliance *HK$'000*	Trading of LED/LCD products *HK$'000*	Media business *HK$'000*	Total *HK$'000*
Segment revenue:				
Sales to external customers	–	37,108	–	37,108
Intersegment sales	–	–	–	–
	–	37,108	–	37,108
Reconciliation:				
Elimination of intersegment sales				–
Revenue				37,108
Segment result	–	378	–	378
Reconciliation:				
Elimination of intersegment sales				–
Other income and gains				2,776
Unallocated expenses				(12,193)
Loss before tax				(9,039)
Income tax expenses				–
Loss for the year				(9,039)
Segment assets	–	–	552,440	552,440
Unallocated assets				103,224
Total assets				655,664
Segment liabilities	–	–	14,233	14,233
Unallocated liabilities				555
Total liabilities				14,788
Other segment information:				
Capital expenditure	–	–	1,895	1,895
Depreciation and amortisation	–	239	410	649

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009

	Marketing of mobile appliance *HK$'000*	Trading of LED/LCD products *HK$'000*	Media business *HK$'000*	Total *HK$'000*
Segment revenue:				
Sales to external customers	10,975	40,208	–	51,183
Intersegment sales	–	–	–	–
	10,975	40,208	–	51,183
Reconciliation:				
Elimination of intersegment sales				–
Revenue				51,183
Segment result	160	434	–	594
Reconciliation:				
Elimination of intersegment sales				–
Other income and gains				608
Unallocated expenses				(8,906)
Impairment of assets of a disposal group	(39,655)	–	–	(39,655)
Other impairment loss	(2,415)	–	–	(2,415)
Loss before tax				(49,774)
Income tax expenses				–
Loss for the year				(49,774)
Segment assets	7,889	–	511,529	519,418
Unallocated assets				8,689
Total assets				528,107
Segment liabilities	7,889	–	18,768	26,657
Unallocated liabilities				2,525
Total liabilities				29,182
Other segment information:				
Capital expenditure	183	–	667	850
Depreciation and amortisation	253	–	–	253

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

Year ended 31 December 2010

(a) *Revenue from external customers*

	2010 HK$'000	2009 HK$'000
Hong Kong	–	24,456
Mainland China	37,108	17,456
Thailand	–	9,271
	37,108	51,183

The revenue information is based on the location of the customers.

(b) *Total assets*

	2010 HK$'000	2009 HK$'000
Hong Kong	103,224	16,578
Mainland China	552,440	511,529
	655,664	528,107

Total assets information is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about a major customer

Revenue of approximately HK$24,738,000 was derived from sales to a single customer during the year ended 31 December 2010 (2009: HK$15,756,000).

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	2010 HK$'000	2009 HK$'000
Revenue		
Sales of goods	37,108	51,183
Other income and gains		
Bank interest income	478	1
Exchange gains, net	1,824	–
Others	474	607
	2,776	608
Total revenue, other income and gains	39,884	51,791

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2010 *HK$'000*	2009 *HK$'000*
Cost of sales#	36,730	50,589
Auditors' remuneration		
Annual audit	232	238
Other assurance services	188	914
Non-assurance services	–	276
	420	1,428
Depreciation	649	253
Employee benefits expenses (including directors' remuneration *(note 7)*):		
Wages and salaries	2,268	2,058
Others	251	159
Pension scheme contributions	55	58
	2,574	2,275
Minimum lease payments under operating leases, land and buildings	2,274	1,177
Impairment of trade receivables	–	1,700
Impairment of prepayments, deposits and other receivables	–	455
Written-off of property, plant and equipment	–	260
Written-off of trade mark	–	–
Impairment of assets of a disposal group	–	39,655
Bank interest income	(478)	(1)

Include an amount of HK$Nil (2009: HK$253,410) in respect of write-down of inventories to net realisable value.

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2010 *HK$'000*	2009 *HK$'000*
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	635	666
Pension scheme contributions	18	11
	653	677
	653	677

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Equity-settled share option benefits *HK$'000*	Total *HK$'000*
2010					
Executive directors					
Mr. Xiang Xin	–	–	–	–	–
Mr. Wong Chak Keung	–	120	6	–	126
Mr. Yang Gaocai *(a)*	–	–	–	–	–
Ms. Lu Yuhe *(b)*	–	35	–	–	35
Mr. Law Gerald Edwin *(c)*	–	480	12	–	492
	–	635	18	–	653
Independent non-executive directors					
Mr. Zhang Zhan Liang	–	–	–	–	–
Ms. Lu Yuhe *(b)*	–	–	–	–	–
Mr. Kwok Chi Hung *(d)*	–	–	–	–	–
	–	–	–	–	–
	–	635	18	–	653

7. DIRECTORS' REMUNERATION *(Continued)*

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Equity-settled share option benefits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009					
Executive directors					
Mr. Cho Hui Jae *(e)*	–	–	–	–	–
Mr. Xiang Xin	–	120	–	–	120
Mr. Wong Chak Keung	–	431	8	–	439
Mr. Im Kai Chuen Stephen *(f)*	–	–	–	–	–
Mr. Yang Xiao Ming *(g)*	–	–	–	–	–
Mr. Siu Pang *(h)*	–	–	–	–	–
Mr. Yang Gaocai *(a)*	–	–	–	–	–
Mr. Law Gerald Edwin *(c)*	–	290*	8*	–	298
	–	841	16	–	857
Independent non-executive directors					
Mr. Sze Lin Tang *(i)*	–	–	–	–	–
Mr. Leung Wing Kin *(j)*	–	–	–	–	–
Mr. Zhang Zhan Liang	–	–	–	–	–
Mr. Zhang Jun *(k)*	–	–	–	–	–
Ms. Lu Yuhe *(b)*	–	–	–	–	–
Mr. Kwok Chi Hung *(d)*		–	–	–	
		–	–	–	–
	–	841	16	–	857
Less: Salaries paid to Mr. Law Gerald Edwin before his appointment as a director of the Company	–	(175)*	(5)*	–	(180)
	–	666	11	–	677

7. DIRECTORS' REMUNERATION *(Continued)*

Note:

(a) Appointed on 24 August 2009

(b) Appointed on 10 July 2009 as non-executive director and re-designated as executive director on 1 December 2010

(c) Appointed on 1 October 2009

(d) Appointed on 24 August 2009

(e) Retired on 30 June 2009

(f) Resigned on 1 September 2009

(g) Resigned on 2 January 2009

(h) Resigned on 9 May 2009

(i) Resigned on 11 February 2009

(j) Resigned on 24 August 2009

(k) Resigned on 3 July 2009

* Amount included approximately HK$175,000 and HK$5,000 being salaries and pension scheme contribution respectively of Mr. Law Gerald Edwin before his appointment as a director of the Company on 1 October 2009.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emolument have been paid to the directors as an inducement to join or upon joining the Company; or as compensation for loss of office (2009: Nil).

The number of directors, whose remuneration fell within the following bands is as follows:

	Number of directors	
	2010	2009
Nil to HK$1,000,000	**7**	14

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2009: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2009: three) non-directors, highest paid employees for the year are as follows:

	2010 *HK$'000*	2009 *HK$'000*
Salaries, allowances and benefits in kind	355	588
Equity-settled share option expenses	–	–
Pension scheme contributions	16	–
	371	588

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2010	 2009
Nil to HK$1,000,000	3	3

9. INCOME TAX EXPENSES

Hong Kong profits tax has not been provided for the years ended 31 December 2009 and 2010 as the Group did not generate any assessable profits arising in Hong Kong during the years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2010	2009
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Charge for the year	**–**	–
	–	–
Deferred tax		
Charge for the year *(note 16)*	**–**	–
Total tax charge for the year	**–**	–

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2010		2009	
	HK$'000	**%**	*HK$'000*	%
Loss before tax	**(9,039)**		(49,774)	
Tax at the statutory tax rate	**(1,491)**	**16.5**	(8,212)	16.5
Income not subject to tax	**(381)**	**4.2**	(25)	0.1
Expenses not deductible for tax	**–**	**–**	6,953	(14.0)
Tax benefit not recognised	**1,872**	**(20.7)**	1,284	(2.6)
Tax charge at the Group's effective tax rate	**–**	**–**	–	–

10. LOSS ATTRIBUTABLE TO OWNER OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2010 includes a loss of HK$7,995,000 (2009: HK$54,930,000) which has been dealt with in the financial statements of the Company (note 29(b)).

11. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 15 June 2009, the Company entered into a sale and purchase agreement with an independent third party (the "Purchaser"), pursuant to which, the Company agreed to dispose to the Purchaser (the "Disposal") (i) Ace Solution Technology Limited ("Ace Solution") and its subsidiaries, namely Synerex Inc., Zetta Media Holdings Limited, Gold Glory Development Limited, Qualfield Limited, Zetta Global Limited, Hanbit I & T (HK) Co., Limited and Quasar Communication Technology Limited (collectively referred as the "Disposal Group"); and (ii) the amount due by the Disposal Group to the Company (the "Sale Loan") at a consideration of HK$1.00.

Ace Solution was incorporated in the British Virgin Islands (the "BVI") on 12 February 2002 with limited liability and was engaged in investment holding. The Disposal Group were principally engaged in sales and marketing of mobile phone appliance and the relevant application solution.

As at 31 December 2009, the Disposal has not yet been completed and the assets and liabilities of the Disposal Group were classified as a disposal group held for sale and were stated at lower of their carrying amounts and the fair values less costs to sell. The Disposal was completed on 5 February 2010.

The results of the Disposal Group for the period from 1 January 2010 to 5 February 2010, being the date of completion of the Disposal and for the year ended 31 December 2009 were as follows:

	Period from 1 January 2010 to 5 February 2010 ***HK$'000***	Year ended 31 December 2009 HK$'000
Revenue	–	1,700
Cost of sales	–	(1,700)
Gross profit	–	–
Other income and gains	–	–
Administrative and other operating expenses	–	(307)
Finance costs	–	–
Other impairment losses	–	(2,079)
Loss before tax	–	(2,386)
Income tax expenses	–	(434)
Loss for the period/year	–	(2,820)

11. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

The major classes of assets and liabilities of the Disposal Group classified as held for sale as at 5 February 2010 and 31 December 2009 were as follows:

	5 February 2010 HK$'000	31 December 2009 HK$'000
Assets		
Deferred tax assets *(note 16)*	280	280
Available-for-sales investments *(note 14)*	–	–
Prepaid licence fee *(note 17)*	–	–
Inventories	–	–
Contract works in progress *(note 20)*	34,340	34,340
Trade receivables *(note 21)*	–	–
Prepayments, deposits and other receivables *(note 22)*	12,847	12,847
Cash and bank balances *(note 23)*	77	77
Assets classified as held for sale	47,544	47,544
Liabilities		
Trade payables *(note 24)*	(219)	(219)
Other payables and accruals	(2,448)	(2,448)
Tax payable#	(5,222)	(5,222)
Liabilities directly associated with the assets classified as held for sale	(7,889)	(7,889)
Intercompany balance with other members of the Disposal Group		
Due to ultimate holding company	(32,602)	(32,602)
Net assets directly associated with the Disposal Group	7,053	7,053
Less: Consideration for the Disposal*	–	–
Impairment of assets of the Disposal Group	7,053	7,053
Impairment of amount due to ultimate holding company by the Disposal Group	32,602	32,602
Total impairment of assets of the Disposal Group*	39,655	39,655
Assets of the Disposal Group classified as held for sale	47,544	47,544
Less: Impairment*	(39,655)	(39,655)
Net assets directly associated with the Disposal Group	7,889	7,889
Liabilities directly associated with the assets classified as held for sale	(7,889)	(7,889)
	–	–

11. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

In January 2010, the Disposal Group was sued by the Commissioner of Inland Revenue regarding the outstanding tax payable of approximately HK$1,165,000 for the year of assessment 2002/03. The outstanding tax payable together with the penalty has been fully provided for as at 31 December 2009.

* Pursuant to the agreement of the Disposal, among other things, the net assets of the Disposal Group and the Sale Loan were disposed of at a consideration of HK$1.00. As such, a total impairment loss of HK$39,655,000 was provided during the year ended 31 December 2009 as to reflect the loss of the Disposal.

As detailed in the annual report of the Group for the years ended 31 December 2008 and 2009, the underlying books and records of the Disposal Group were not accessible due to the changes to the then board of directors of the Company and the Disposal Group during the year ended 31 December 2008. Although the present board of directors of the Company represented that they had taken due care in the preparation of the financial statements of the Group, they were unable to represent to the completeness of the books and records of the Disposal Group for the year ended 31 December 2008 and accordingly, for the year ended 31 December 2009 and for the period ended 5 February 2010.

Nevertheless, the directors of the Company are of the opinion that a full impairment loss had been made on the net assets of the Disposal Group as at 31 December 2009 and accordingly, the above matter should have no material impact on the financial statements of the Group and the Company for the year.

The calculation of the gain/loss on completion of the Disposal was as follows:

	HK$'000
Net assets directly associated with the Disposal Group	**7,889**
Liabilities directly associated with the assets classified as held for sale	**(7,889)**
Net assets value	**–**
Less: Sale proceeds	**–**
Gain/loss on disposal of the Disposal Group	**–**

11. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

The net cash flows incurred by the Disposal Group for the period from 1 January 2010 to 5 February 2010 and for the year ended 31 December 2009 were as follows:

	Period from 1 January 2010 to 5 February 2010 *HK$'000*	Year ended 31 December 2009 *HK$'000*
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before tax	–	(2,386)
Adjustments for:		
Written off of property, plant and equipment	–	260
Impairment of trade receivables	–	1,700
Impairment of prepayments, deposits and other receivable	–	119
Depreciation of property, plant and equipment	–	45
	–	(262)
Decrease in inventories	–	1,700
Increase in trade receivables	–	(1,700)
Increase in prepayments, deposits and other receivables	–	(175)
Increase in other payables and accruals	–	200
Decrease in amount due to a related company	–	(221)
	–	(458)
Hong Kong profits tax paid	–	(113)
Net cash flows used in operating activities	–	(571)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in amount due to ultimate holding company	–	230
Net cash flows from financing activities	–	230
NET DECREASE IN CASH AND CASH EQUIVALENTS	–	(341)
Cash and cash equivalents at beginning of period/year	77	418
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	77	77
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	77	77

11. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the Disposal is as follows:

	Period from 1 January 2010 to 5 February 2010 HK$'000	Year ended 31 December 2009 HK$'000
Sales proceeds	–	–
Cash and bank balances sold	77	77
Net outflow of cash and cash equivalents in respect of the disposal of the Disposal Group	(77)	(77)
		Restated
Loss per share:		
Basic, from the Disposal Group	–	(0.35) cents
Diluted, from the Disposal Group	–	(0.35) cents

The calculations of basic and diluted loss per share from the Disposal Group are based on:

	Period from 1 January 2010 to 5 February 2010 HK$'000	Year ended 31 December 2009 HK$'000
Earnings		
Loss for the period/year attributable to ordinary equity holders of the Company from the Disposal Group	–	(2,820)

	Number of shares	
	2010	2009
		Restated
Shares		
Weighted average number of ordinary shares in issue during the period/year used in the basic loss per share calculation	3,693,818,700	791,659,177

No adjustment has been made to the basic loss per share from the Disposal Group presented for the period from 1 January 2010 to 5 February 2010 and for the year ended 31 December 2009 in respect of a dilution as the share options, warrants and convertible bonds outstanding during the period/year had an anti-dilutive effect on the basic loss per share.

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of basic loss per share is based on:

	2010 HK$'000	2009 HK$'000
Earnings		
Loss for the year attributable to ordinary equity holders of the Company, used in the basic loss per share calculation	(8,813)	(49,774)

	Number of shares	
	2010	2009
		Restated
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	3,693,818,700	791,659,177

No adjustment has been made to the basic loss per share presented for the years ended 31 December 2009 and 2010 in respect of a dilution as the share options, warrants and convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office and computer equipments *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2010					
At 1 January 2010:					
Cost	838	146	1,267	–	2,251
Accumulated depreciation	(219)	(46)	(398)	–	(663)
Net carrying amount	619	100	869	–	1,588
At 1 January 2010, net of accumulated depreciation	619	100	869	–	1,588
Additions	–	–	44	1,837	1,881
Depreciation provided for the year	(168)	(27)	(268)	(186)	(649)
Exchange realignement	–	–	15	–	15
At 31 December 2010, net of accumulated depreciation	451	73	660	1,651	2,835
31 December 2010					
At 31 December 2010:					
Cost	838	146	1,354	1,837	4,175
Accumulated depreciation	(387)	(73)	(694)	(186)	(1,340)
Net carrying amount	451	73	660	1,651	2,835

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Group				
	Leasehold improvements	Furniture and fixtures	Office and computer equipments	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2009					
At 1 January 2009:					
Cost	838	506	401	414	2,159
Accumulated depreciation	(51)	(149)	(294)	(414)	(908)
Net carrying amount	787	357	107	–	1,251
At 1 January 2009, net of accumulated depreciation	787	357	107	–	1,251
Additions	–	–	183	–	183
Acquisition of subsidiaries *(note 32(b))*	–	–	667	–	667
Depreciation provided for the year	(168)	(58)	(27)	–	(253)
Written off	–	(199)	(61)	–	(260)
At 31 December 2009, net of accumulated depreciation	619	100	869	–	1,588
At 31 December 2009:					
Cost	838	146	1,267	–	2,251
Accumulated depreciation	(219)	(46)	(398)	–	(663)
Net carrying amount	619	100	869	–	1,588

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Company			
	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office and computer equipments *HK$'000*	Total *HK$'000*
31 December 2010				
At 1 January 2010				
Cost	838	136	217	1,191
Accumulated depreciation	(219)	(36)	(15)	(270)
Net carrying amount	619	100	202	921
At 1 January 2010, net of accumulated depreciation	619	100	202	921
Depreciation provided for the year	(168)	(27)	(43)	(238)
At 31 December 2010, net of accumulated depreciation	451	73	159	683
At 31 December 2010:				
Cost	838	136	217	1,191
Accumulated depreciation	(387)	(63)	(58)	(508)
Net carrying amount	451	73	159	683

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Company			
	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office and computer equipments *HK$'000*	Total *HK$'000*
31 December 2009				
At 1 January 2009:				
Cost	838	136	34	1,008
Accumulated depreciation	(51)	(9)	(2)	(62)
Net carrying amount	787	127	32	946
At 1 January 2009, net of accumulated depreciation	787	127	32	946
Additions	–	–	183	183
Depreciation provided for the year	(168)	(27)	(13)	(208)
At 31 December 2009, net of accumulated depreciation	619	100	202	921
At 31 December 2009:				
Cost	838	136	217	1,191
Accumulated depreciation	(219)	(36)	(15)	(270)
Net carrying amount	619	100	202	921

14. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	–	9,142
Impairment	–	(9,142)
	–	–
Less: Transfer to assets of a disposal group classified as held for sales *(note 11)*		
Unlisted shares, at cost	–	9,142
Impairment	–	(9,142)
	–	–
	–	–

Last year's balance represented unlisted equity investments which were stated at cost less impairment, as the range of reasonable fair value estimates was so significant that the then directors of the Company were of the opinion that their fair value could not be measured reliably.

As detailed in note 11 to the financial statements, the Company entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, the above unlisted shares of the Disposal Group were transferred to "Assets of a disposal group classified as held for sales" as at 31 December 2009. The Disposal was completed on 5 February 2010.

15. INTANGIBLE ASSETS

	Group				
	Trade mark HK$'000 *(note (a))*	Rights in sharing of profit streams from online network operation in internet cafes HK$'000 *(note (b))*	Copyright of a film library HK$'000 *(note (c))*	Right granted by a mobile location-based service provider HK$'000 *(note (d))*	Total HK$'000
31 December 2010					
At 1 January 2010					
Cost	17	482,794	–	–	482,811
Accumulated amortisation and impairment	(17)	–	–	–	(17)
Net carrying amount	–	482,794	–	–	482,794
At 1 January 2010, net of accumulated amortisation and impairment	–	482,794	–	–	482,794
Additions	–	–	25,000	–	25,000
Acquisition of a subsidiary *(note 30(a))*	–	–	–	19,485	19,485
Write-off	–	–	–	–	–
At 31 December 2010, net of accumulated amortisation and impairment	–	482,794	25,000	19,485	527,279
At 31 December 2010					
Cost	–	482,794	25,000	19,485	527,279
Accumulated amortisation and impairment	–	–	–	–	–
Net carrying amount	–	482,794	25,000	19,485	527,279

15. INTANGIBLE ASSETS *(Continued)*

	Group				
	Trade mark	Rights in sharing of profit streams from online network operation in internet cafes	Copyright of a film library	Right granted by a mobile location-based service provider	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note (a))	*(note (b))*	*(note (c))*	*(note (d))*	
31 December 2009					
At 1 January 2009					
Cost	17	–	–	–	17
Accumulated amortisation and impairment	(17)	–	–	–	(17)
Net carrying amount	–	–	–	–	–
At 1 January 2009, net of accumulated amortisation and impairment	–	–	–	–	–
Acquisition of subsidiaries *(note 30 (b))*	–	482,794	–	–	482,794
At 31 December 2009, net of accumulated amortisation and impairment	–	482,794	–	–	482,794
At 31 December 2009					
Cost	17	482,794	–	–	482,811
Accumulated amortisation and impairment	(17)	–	–	–	(17)
Net carrying amount	–	482,794	–	–	482,794

15. INTANGIBLE ASSETS *(Continued)*

	Company		
	Trade mark HK$'000 (note (a))	Copyright of a film library HK$'000 (note (c))	Total HK$'000
31 December 2010			
At 1 January 2010			
Cost	17	–	17
Accumulated amortisation and impairment	(17)	–	(17)
Net carrying amount	–	–	–
At 1 January 2010, net of accumulated amortisation and impairment	–	–	–
Additions	–	25,000	25,000
Write-off	–	–	–
At 31 December 2010, net of accumulated amortisation and impairment	–	25,000	25,000
At 31 December 2010			
Cost	–	25,000	25,000
Accumulated amortisation and impairment	–	–	–
	–	25,000	25,000
At 31 December 2009			
Cost	17	–	17
Accumulated amortisation and impairment	(17)	–	(17)
Net carrying amount	–	–	–
31 December 2009			
At 31 December 2009			
Cost	17	–	17
Accumulated amortisation and impairment	(17)	–	(17)
Net carrying amount	–	–	–

15. INTANGIBLE ASSETS *(Continued)*

Notes

(a) The trade mark represents the trade mark of QUASAR with an indefinite useful lives which has no longer be used by the Group after the disposal of the Disposal Group and had been fully written off during the year ended 31 December 2010.

(b) The rights (the "CY Rights") in sharing of profit steams (the "Profit Steams") from online network operation in internet cafes of approximately HK$482,794,000 represents the CY Rights arising from an co-operation agreement (the "CY Co-operation Agreement") entered into between a subsidiary of the Company and CY Foundation Group Limited. Pursuant to the CY Co-operation Agreement, the Group is entitled to participate in the co-operation and share the Profits Streams for a period of 15 years. The CY Rights is stated at cost and is amortised on the straight line basis over its estimated useful live. Amortisation shall begin when the CY Rights is available for use.

The fair value of the CY Rights has been assessed by Asset Appraisal Limited, an independent valuer, No impairment has been provided as the fair value is higher than its carrying amount at the end of the reporting period.

(c) Copyright of a film library (the "Copyright") represents the copyright of five series (a total of 320 episodes) and 16 education series of an animation 神探威威貓 and the related music songs which was acquired during the year, with an indefinite useful lives at a consideration of HK$25,000,000.

The fair value of the Copyright has been assessed by Ascent Partners Transaction Service Limited, an independent valuer. No impairment has been provided as the fair value is higher than its carrying amount at the end of the reporting period.

(d) As detailed in note 30(a) to the financial statements, the balance of HK$19,485,000 represents the right (the "Agent Rights") granted by a mobile location-based service provider to a subsidiary of the Company as an agent of the products of the mobile location-based services provider in the PRC and the sole franchised dealer in overseas market.

The fair value of the Agent Rights has been assessed by Asset Appraisal Limited, an independent valuer. No impairment has been provided as the fair value is higher than its carrying amount at the end of the reporting period.

16. DEFERRED TAX ASSETS

	Group		
	Accelerated depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	26	254	280
Deferred tax charged to consolidated income statement during the year *(note 9)*	–	–	–
Transfer to assets of a disposal group classified as held for sales *(note 11)*	(26)	(254)	(280)
At 31 December 2009 and at 1 January 2010	–	–	–
Deferred tax charged to consolidated income statement during the year *(note 9)*	–	–	–
At 31 December 2010	–	–	–

At 31 December 2010, the Group has unused tax losses of approximately HK$32,497,000 available indefinitely for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses, due to the unpredictability of future profit streams.

At 31 December 2009, the Group has unused tax losses of approximately HK$38,873,000 available indefinitely for offset against future profits. A deferred tax has been recognised in respect of tax losses of HK$1,538,000 of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$37,335,000, of which approximately HK$16,183,000 related to the Disposal Group, due to the unpredictability of future profit streams.

17. PREPAID LICENSES FEE

	Group	
	2010	2009
	HK$'000	*HK$'000*
Cost	**–**	5,460
Accumulated amortisation	**–**	(5,460)
Net carrying value	**–**	–
Less: Transfer to assets of a disposal group classified as held for sales *(note 11)*		
Cost	**–**	5,460
Accumulated amortisation and impairment	**–**	(5,460)
	–	–
	–	–

Last year's balance represented prepaid Free To Air ("FTA") licence fee which was amortisable over its useful economic life. The FTA licence was a full-type approval certificate for testing and accreditation of mobile phone appliances under a set of required testing standards.

In view of the non-performance of the FTA licence as well as a lack of expected performance in the foreseeable future, a full impairment loss was made on the FTA licence in previous year.

As detailed in note 11 to the financial statements, the Company entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, the above prepaid licenses fee of the Disposal Group was transferred to "Assets of a disposal group classified as held for sale" at 31 December 2009. The Disposal was completed on 5 February 2010.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost		
– Disposal Group	**–**	14,882
– Subsidiaries other than the Disposal Group	**485,262**	465,768
	485,262	480,650
Due from subsidiaries		
– Disposal Group	**–**	32,602
– Subsidiaries other than the Disposal Group	**35,333**	4
	35,333	32,606
	520,595	513,256
Less: Impairment		
– Disposal Group	**–**	(47,484)
– Subsidiaries other than the Disposal Group	**(3,037)**	–
	517,558	465,772
Due to a subsidiaries	**–**	(264)
	517,558	465,508

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

In the opinion of the directors of the Company, the carrying amounts of the amounts due from/(to) subsidiaries approximate to their fair values.

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries during the year are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Friendly Group Limited	British Virgin Islands ("BVI")	100 ordinary shares of US$1 each	100	–	Investment holding
Pacific Vision Technologies Limited	Hong Kong	1 ordinary share of HK$1 each	–	100	Trading of mobile phone and mobile accessories and LED/LCD and related products
Legend Century Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Investment holding
China Net-PC Limited ("CNP")	BVI	50,000,000 ordinary shares of US$0.01 each	–	100	Investment holding
Boss Systems Limited *(note (a))*	BVI	500 ordinary shares of US$1 each (2009: 100 ordinary shares of US$1 each)	–	99 (2009: 95)	Investment holding

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
博思夢想(中國)有限公司 (Formerly博思(中國)信息系統有限公司) *(note (a) and (c))*	People Republic of China	RMB200,000,000 (2009: RMB60,000,000)	–	99 (2009: 95)	Software development and provision of multi-media and advertising business
Boss Power Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	–	100	Trading of electronic equipments and components and computer products
Boss Education Limited *(note (b))*	Hong Kong	1,000 ordinary shares of HK$1 each	–	100 (2009: 51)	Provision of educational and training programs
Nopo International Limited *(note (d))*	Hong Kong	10,000 ordinary shares of HK$1 each	100	–	A product agent of a mobile location based service provider and sole franchised dealer in overseas markets

Note a: On 28 December 2010, the Company made a capital contribution of RMB140,000,000 (approximately HK$165,200,000) to these subsidiaries but no equivalent capital was injected by the non-controlling shareholders. As a result, the equity interest of the Group in these subsidiaries increased from 95% to 99%. The difference between the capital injected by the Group and the adjustment of non-controlling interest of approximately HK$1,638,000 was recognised in the capital reserve of the consolidated statement of changes in equity.

Note b: On 25 October 2010, the Company further acquired the remaining 49% equity interest in Boss Education Limited at a consideration of HK$490. The difference between the consideration paid and the adjustment of non-controlling interest of HK$490 was recognised in the capital reserve of the consolidated statement of changes in equity.

Note c: The subsidiary is registered as a sino-foreign investment enterprise under the PRC laws.

Note d: The subsidiary was acquired by the Company during the year, details of which are set out in note 30(a) to the financial statements.

19. INVENTORIES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finished goods	**1,164**	1,178	**1,160**	1,178

At 31 December 2010, the carrying amount of Group's inventories that were carried at net realisable value amounted to HK$1,164,000 (2009: HK$1,178,000) after the write-down of an amount of HK$253,410 (2009: HK$253,410).

20. CONTRACT WORKS IN PROGRESS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Contract costs for development of mobile phone appliance solution	**–**	34,340
Impairment	**–**	–
Net carrying amount	**–**	34,340
Less: Transfer to assets of a disposal group classified as held for sales *(note 11)*		
Contract costs for development of mobile phone appliance solution	**–**	34,340
Impairment	**–**	–
	–	34,340
	–	–

As detailed in note 11 to the financial statements, the Company entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, the above construction works in progress was transferred to "Assets of a disposal group classified as held for sale" at 31 December 2009. The Disposal was completed on 5 February 2010.

21. TRADE RECEIVABLES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Trade receivables	–	5,588
Impairment	–	(5,588)
	–	–
Less: Transfer to assets of a disposal group classified as held for sales *(note 11)*		
Trade receivables	–	5,588
Impairment	–	(5,588)
	–	–
	–	–

As detailed in note 11 to the financial statements, the Company entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, the above trade receivables was transferred to "Assets of a disposal group classified as held for sale" at 31 December 2009. The Disposal was completed on 5 February 2010.

21. TRADE RECEIVABLES *(Continued)*

An aged analysis of the trade receivables as at the end of the reporting period before the impairment during the year, based on the invoice date, is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within 1 month	**–**	–
1 to 2 months	**–**	–
2 to 3 months	**–**	–
Over 3 months	**–**	5,588
	–	5,588

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**–**	3,888
Impairment loss recognised during the year	**–**	1,700
	–	5,588
Less: Transfer to assets of a disposal group classified as held for sale *(note 11)*	**–**	(5,588)
At 31 December	**–**	–

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**349**	363	**316**	296
Deposit for acquisition of a film library *(note (a))*	**–**	25,000	**–**	25,000
Deposit for acquisition of Nopo *(note (b))*	**–**	1,993	**–**	1,993
Deposit for a co-operation agreement *(note (c))*	**11,800**	–	**–**	–
Trade deposits paid *(note (d))*	**–**	8,200	**–**	–
Rental deposit *(note 33)*	**337**	398	**160**	228
Other receivables	**397**	698	**–**	100
Tax reserve certificate	**–**	4,089	**–**	–
	12,883	40,741	**476**	27,617
Less: Transfer to assets of a disposal group classified as held for sales *(note (e) and note 11)*				
Prepayments	**–**	(43)	**–**	–
Trade deposits paid *(note (d))*	**–**	(8,200)	**–**	–
Other receivables	**–**	(515)	**–**	–
Tax reserve certificate	**–**	(4,089)	**–**	–
	12,883	(12,847)	**–**	–
	12,883	27,894	**476**	27,617

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) On 20 September 2008, the Company entered into a sale and purchase agreement (the "Allwin Agreement") with an independent third party (the "Allwin Vendor"), pursuant to which, the Company agreed to acquire an enlarged 24% equity interest in Guangdong Allwin Culture Development Co., Limited ("Guangdong Allwin") (the "Allwin Acquisition") which was principally engaged in media production and integration, advertisement and animation production and broadcasting at a consideration of HK$25,000,000. The Company was required to pay a deposit in the amount of HK$25,000,000 for the Allwin Acquisition which was settled by the direct transfer of the deposit refunded by Ocean Space Development Limited in respect of the Legend Acquisition (note 30(b)) to the Allwin Vendor on 15 October 2008.

On 30 September 2009, the Company entered into another sale and purchase agreement with the Allwin Vendor, pursuant to which, the Company would acquire from the Allwin Vendor the copyright of a film library owned by Guangdong Allwin at a consideration of HK$25,000,000 which would be set-off against the Allwin Deposit. The copyright of the film library consists of five series (a total of 320 episodes) and 16 education series of an animation 神探威威貓 ("Wiwione – Detective Winkey Cat") and the related music songs. The acquisition was completed on 7 September 2010 (note 15(c)).

(b) Last year's deposit of HK$1,993,000 represented the deposit for a proposed acquisition of the entire issued share capital of Nopo Investment Limited which was completed on 22 January 2010. Details of the acquisition are disclosed in (note 30(a)) to the financial statements.

(c) On 7 July 2010, 博思夢想(中國)有限公司, a subsidiary of the Company, entered into a cooperation agreement (the "博思 Cooperation Agreement") with 博思夢想文化傳播有限公司, a related company of the Company, of which Ms. Yu Lei (于蕾) is a common director of both companies, for the joint establishment and operation of an online education platform, video production platform, reward redemption platform and advertisement broadcasting platform (the "Online Platforms"). Pursuant to the 博思 Cooperation Agreement, 博思夢想(中國)有限公司 is required to provide a capital contribution of RMB40,000,000 (equivalent to approximate HK$47,200,000) for the operation of the Online Platforms and 博思夢想文化傳播有限公司 will not share any profit arising therefrom. As at 31 December 2010, a deposit in the amount of RMB10,000,000 ((equivalent to approximate HK$11,800,000) was paid by 博思夢想(中國)有限公司 and the Group had a commitment of RMB30,000,000 (equivalent to approximate HK$35,400,000) in this respect (note 32(a)).

(d) Deposits paid represented amount paid by the Disposal Group to a supplier as deposits for supply of mobile phones and related appliance and accessories during the year ended 31 December 2008.

(e) As detailed in note 11 to the financial statements, the Company entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, prepayments, trade deposits paid, other receivables and tax reserve certificate amounting to approximately HK$43,000, HK$8,200,000, HK$515,000 and HK$4,089,000, respectively of the Disposal Group were transferred to "Assets of a disposal group classified as held for sale" as at 31 December 2009. The Disposal was completed on 5 February 2010.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**21,038**	6,841	**6,032**	5,615
Time deposits	**90,465**	–	**90,465**	–
	111,503	6,841	**96,497**	5,615
Less: Transfer to assets of a disposal group classified as held for sales *(note 11)*	**–**	(77)	**–**	–
	111,503	6,764	**96,497**	5,615

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") was RMB85,424,000 (2009: RMB441,000) (equivalent to approximately HK$100,921,000 (2009: HK$503,000)). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposits rate. The bank balances are deposited with credit worthy banks with no recent history of default. The carrying amounts of the bank balances and cash approximate to their fair values.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period based on the invoice date, is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Over 90 days	–	219
	–	219
Less: Transfer to liabilities directly associated with the assets as held for sales *(note 11)*	–	(219)
	–	–

The trade payables are non-interest-bearing and are normally settled on 60 day terms.

25. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and has no fixed repayment terms.

26. CONVERTIBLE BONDS

On 30 December 2009, the Company issued zero-coupon convertible bonds (the "Convertible Bonds") with a nominal value of HK$595,000,000 as part of the consideration for the Legend Acquisition (note 30 (b)). The Convertible Bonds are interest-free and convertible at the option of the bondholders into ordinary shares of the Company on or before 30 December 2012 at a conversion price of HK$0.125 (subject to change) each. On 15 June 2010, the conversion price for the Convertible Bonds had been adjusted to HK$0.037 per share as a result of the completion of the Rights Issue (note 27(iii)) on 6 July 2010. The Company has the right to mandatorily convert the outstanding of the Convertible Bonds at the maturity date on 30 December 2012.

26. CONVERTIBLE BONDS *(Continued)*

The details and the movement of the Convertible Bonds during the year and outstanding as at the end of the reporting period were as follows:

	Nominal value *HK$'000*	Equity component *HK$'000*	Liability component *HK$'000*	Total *HK$'000*
As at 31 December 2010				
Balance at beginning of the year	**595,000**	**460,768**	**–**	**460,768**
Less: Amount converted into the shares of the Company during the year *(note 27(iv))*	**(89,403)**	**(69,234)**	**–**	**(69,234)**
Balance at the end of the reporting period	**505,597**	**391,534**	**–**	**391,534**
As at 31 December 2009				
Nominal value of convertible bonds issued during the year	595,000	595,000	–	595,000
Fair value adjustment	–	(134,232)	–	(134,232)
	595,000	460,768	–	460,768
Less: Amount converted into the shares of the Company during the year	–	–	–	–
Balance at the end of the reporting period	595,000	460,768	–	460,768

26. CONVERTIBLE BONDS *(Continued)*

The fair value of the Convertible Bonds was estimated at the issuance date by using the closing share price of the Company and the Black-Scholes Option Pricing Model by Ascent Partners Transaction Service Limited, an independent valuer. The inputs into the model were as follows:

	30 December 2009 (issuance date)
Stock price	HK$0.117
Expiration	6 months
Risk-free rate	0.17%
Volatility	62%

27. SHARE CAPITAL

(a) Shares

	2010 *HK$'000*	2009 *HK$'000*
Authorised:		
30,000,000,000 ordinary shares of HK$0.01 each	**300,000**	300,000
Issued and fully paid:		
6,635,001,932 ordinary shares (2009: 703,739,500) of HK$0.01 each	**66,350**	7,037

27. SHARE CAPITAL *(Continued)*

(a) Shares *(Continued)*

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000 (note 29(b))	Total HK$'000
At 1 January 2009	586,451,500	5,865	68,379	74,244
Placement of shares *(i)*	117,288,000	1,172	7,037	8,209
Share issue expenses	–	–	(86)	(86)
At 31 December 2009 and 1 January 2010	703,739,500	7,037	75,330	82,367
Issue of shares *(note (ii))*	140,000,000	1,400	16,100	17,500
Rights issues *(note (iii))*	3,374,958,000	33,750	101,248	134,998
Rights issues expenses	–	–	(2,186)	(2,186)
Conversion of convertible bonds *(note (iv))*	2,416,304,432	24,163	45,071	69,234
At 31 December 2010	6,635,001,932	66,350	235,563	301,913

Notes:

(i) On 31 December 2008, the Company entered into a placing agreement with a placing agent to place a total of 117,288,000 shares of the Company of HK$0.01 each at a placing price of HK$0.07 per share (the "Placing"). The Placing was completed on 21 January 2009 with a net proceed of approximately HK$8,123,000. The purpose of the Placing was to enlarge the shareholders base and to provide additional working capital for the Group's operation.

27. SHARE CAPITAL *(Continued)*

(a) Shares *(Continued)*

Notes: (Continued)

(ii) Upon completion of the Nopo Acquisition (note 30(a)) on 22 January 2010, a total of 140,000,000 consideration shares of HK$0.01 each of the Company were allotted and issued to Nopo Vendor at a consideration of HK$0.125 per share on 25 January 2010.

(iii) Pursuant to an ordinary resolution passed by the shareholders of the Company on 14 June 2010, the Company issued a total of 3,374,958,000 rights shares (the "Rights Shares") on the basis of 1 existing share for 4 Rights Shares (the "Rights Issue") at a subscription price of HK$0.04 per Rights Share. The issue of Rights Shares was completed on 8 July 2010 with a gross proceed of approximately HK$134,998,000. The Company intends to use part of the net proceeds as to approximately HK$100 million for the development of the Group's energy management contract business and the balance as general working capital of the Group.

(iv) On 7 July 2010, the Company received conversion notices from the holders of the Convertible Bonds to exercise the conversion rights attaching to the Convertible Bonds for the principal amount of approximately HK$460,768,000 at an adjusted conversion price of HK$0.037 per share following the completion of the Right Issue. Upon completion of the conversion, 2,416,304,432 shares of HK$0.01 each of the Company were allotted and issued on 9 July 2010.

(b) Share options

Details of the Company's share option scheme are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

Pursuant to a written resolution of all the shareholders of the Company passed on 16 July 2002, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentive to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 30 July 2012. Under the Scheme, the directors of the Company may grant options to eligible employees, including executive directors of the Company, and any of its subsidiaries, to subscribe for shares of the Company.

28. SHARE OPTION SCHEME *(Continued)*

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue, or if such 10% limit is refreshed, the maximum aggregate number of shares which may be issued upon the exercise of all outstanding options grant and yet to be exercised under the Scheme must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of HK$5,000,000 in the 12 month period up to the date of grant, then the grant must be approved in advance by the Company's shareholders.

A consideration of HK$1 shall be paid to the Company upon acceptance of the grant. Options may be exercised in accordance with the terms of the Scheme at any time during a year to be determined and notified by the directors of the Company, which period may not expire earlier than 3 years and later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. The exercise price is determined by the directors of the Company, and will not be less than the higher of closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

On 9 April 2008, the Company granted a total of 40,000,000 share options to the directors and eligible employees under the Scheme of the Company. As at 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 27,500,000, representing 3.91% of the shares of the Company in issue.

28. SHARE OPTION SCHEME *(Continued)*

Details of the options granted under the Scheme and outstanding at 31 December 2010 are as follows:

Grantee	Date of grant	Exercise period	Outstanding as at 1 January 2010	Granted during the year	Adjustment *(note 2)*	Exercised during the year	Outstanding as at 31 December 2010	Exercise price per share option *HK$*
Directors								
Xiang Xin	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	5,000,000	–	9,973,262	–	14,973,262	0.0935
Wong Chak Keung	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	5,000,000	–	9,973,262	–	14,973,262	0.0935
Zhang Zhan Liang	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	2,500,000	–	4,986,631	–	7,486,631	0.0935
			12,500,000	–	24,933,155	–	37,433,155	
Consultant								
Li Tan Yeung, Richard	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	5,000,000	–	9,973,262	–	14,973,262	0.0935
			17,500,000	–	34,906,417	–	52,406,417	
Employees	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	10,000,000	–	19,946,524	–	29,946,524	0.0935
			27,500,000	–	54,852,941	–	82,352,941	

Notes:

1. i. The options granted on 9 April 2008 were measured using the Black-Scholes Option Pricing Model (the “Model”) which was performed by an independent valuer, RHL Appraisal Limited. The inputs into the Model are summarised as follows:

Date of grant	9 April 2008
Expected volatility	97.99%
Expected life (year)	5
Risk-free interest rate	2.113%
Expected annual dividend yield	Nil
Fair value per option (HK$)	0.18606

ii. The volatility measured at the standard deviation of expected share price is based on statistical analysis of daily shares over the period of five years from the date immediately preceding the grant date. The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the share options and the historical volatility of the Company shares set out above.

iii. The risk free rate is the yield of the 5-year Hong Kong Exchange Fund Notes as at the date of grant.

iv. The Company recognised total expenses of approximately HK$7,442,000 for the year ended 31 December 2008 in relation to share options granted.

v. The closing market price per ordinary share of HK$0.01 each of the Company immediately before the date on which the options were granted as quoted in the Hong Kong Stock Exchange’s daily quotation sheets was HK$0.23.

2. Following the completion of the Rights Issue on 8 July 2010 as described in note 27(a)(iii), the number of the options was adjusted from 27,500,000 options to 82,352,941 options and the exercise price of the options was adjusted from HK$0.28 per share option to HK$0.0935 per share option.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 34 of the financial statements.

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Warrant reserve HK$'000	Special reserve HK$'000	Equity component of convertible bonds HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	68,379	6,977	900	14,879	–	(12,402)	78,733
Placement of shares	7,037	–	–	–	–	–	7,037
Share issue expenses	(86)	–	–	–	–	–	(86)
Share options lapsed during the year	–	(1,860)	–	–	–	1,860	–
Warrant lapsed during the year	–	–	(900)	–	–	900	–
Issue of convertible bonds	–	–	–	–	460,768	–	460,768
Total comprehensive income for the year	–	–	–	–	–	(54,930)	(54,930)
At 31 December 2009 and at 1 January 2010	75,330	5,117	–	14,879	460,768	(64,572)	491,522
Issue of shares *(note 27(ii))*	16,100	–	–	–	–	–	16,100
Rights issue *(note 27(iii))*	101,248	–	–	–	–	–	101,248
Rights issue expenses	(2,186)	–	–	–	–	–	(2,186)
Conversion of convertible bonds *(note 27(iv))*	45,071	–	–	–	(69,234)	–	(24,163)
Total comprehensive income for the year	–	–	–	–	–	(7,995)	(7,995)
At 31 December 2010	235,563	5,117	–	14,879	391,534	(72,567)	574,526

29. RESERVES *(Continued)*

(b) Company *(Continued)*

Notes:

i. On 16 July 2002, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company acquired the entire issued share capital of the then holding company of a group of companies comprising the Group prior to the Reorganisation through a share swap and became the holding company of the companies in the Group.

The special reserve of the Company represents the difference between the underlying net assets of the companies in the Group acquired by the Company as at the date of the Reorganisation, and the nominal amount of the Company's share capital issued as consideration for the acquisition.

ii. Under section 34 of the Companies Law of the Cayman Islands, the special reserve and share premium account is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the special reserve and share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

	2010	2009
	HK$'000	*HK$'000*
Special reserve	**14,879**	14,879
Share premium account	**235,563**	75,330
Accumulated losses	**(72,567)**	(64,572)
	177,875	25,637

30. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Nopo International Limited ("Nopo")

On 10 December 2009, the Company entered into a sale and purchase agreement (the "Nopo Agreement") with an independent third party (the "Nopo Vendor"), pursuant to which, the Company agreed to acquire the entire issued share capital of Nopo (the "Nopo Acquisition") which is principally engaged as an agent of the products of a mobile location-based service provider in the PRC and the sole franchised dealer in overseas markets under a distribution agreement, at a consideration of HK$19,493,000. A refundable deposit of HK$1,993,000 (note 22(b)), without interest, had been paid by the Company to the Nopo Vendor upon signing of the Nopo Agreement. The Nopo Acquisition has been completed on 22 January 2010 with the balance of the consideration of HK$17,500,000 being settled by the issue of 140,000,000 consideration shares of the Company of HK$0.01 each at an issue price of HK$0.125 per share.

30. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Acquisition of Nopo International Limited ("Nopo") *(Continued)*

The fair value of the identifiable assets and liabilities of Nopo as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Intangible assets *	15	19,485	–
Cash and bank balances		2	2
Due from a director		10	10
Other payables and accruals		(4)	(4)
		19,493	8
Satisfied by:			
Cash	22 (b)	1,993	
Fair value of Consideration Shares	27 (ii)	17,500	
		19,493	

* *Intangible assets of HK$19,485,000 represents the right granted by a mobile location-based service provider to Nopo as an agent of the products of the mobile location-based services provider in the PRC and the sole franchised dealer in overseas markets.*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Nopo is as follows:

	HK$'000
Cash consideration *(note 34 (a))*	1,993
Cash and bank balances acquired	(2)
	1,991
Less: Deposits paid in last year	(1,993)
Net inflow of cash and cash equivalents in respect of the acquisition of Nopo	(2)

30. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Acquisition of Legend Century Investments Limited ("Legend")

On 30 December 2009, the Group acquired a 100% equity interest in Legend and its subsidiaries, namely China Net-PC Limited, Boss Systems Limited, 博思（中國）信息系統有限公司 (now known as 博思夢想（中國）有限公司), Boss Power Limited and Boss Education Limited (collectively referred as the "Legend Group") at a consideration of HK$600,000,000, which were satisfied as to (i) the net-off of a deposit of HK$5,000,000 placed with Ocean Space Development Limited upon signing of a memorandum of understanding on 18 December 2007; and (ii) the issue of three-year convertible bonds in the amount of HK$595,000,000 *(note 26)* entitling the holders of the convertible bonds rights to convert the outstanding amount into the share of HK$0.01 each of the Company at a conversion price of HK$0.125 per share which was subsequently adjusted to HK$0.037 per share following the Rights Issue *(note 27(iii))*.

Legend Group is principally engaged in the LED/LCD solution business and media business.

The Legend Group has entered into a co-operation agreement (the "CY Co-operation Agreement") with CY Foundation Group Limited ("CY Foundation") in July 2008. Pursuant to the CY Co-operation Agreement, the parties have agreed to develop an online network operation in 30,000 internet cafes operated by CY Foundation in the PRC for 15 years, extensible for another 15 years. Legend Group will provide LED/LCD-NC terminals to the internet cafes and CY Foundation will provide the computer software. Users of the terminals in the internet cafes will be charged on an hourly basis and profits will be shared between the Legend Group and CY Foundation equally. Pursuant to the CY Co-operation Agreement, both parties also agreed to offer an advertisement service at the terminals in the internet cafes and share the profit therefrom.

At the end of the reporting period, none of the business as mentioned in the CY Co-operative Agreement has been carried out by the parties.

30. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Acquisition of Legend Century Investments Limited ("Legend") *(Continued)*

The fair value of the identifiable assets and liabilities of the Legend Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Property, plant and equipment	*13*	667	667
Intangible assets *	*15*	482,794	–
Cash and bank balances		277	277
Due from a director		798	798
Other payables and accruals		(316)	(316)
Due to a director		(18,452)	(18,452)
		465,768	(17,026)
Satisfied by:			
Satisfied by convertible bonds	*26*	460,768	
Fair value of Consideration Shares	*22 (a)*	5,000	

* *Intangible assets of HK$482,794,000 represents the right is sharing of profit steams for online network operation in internet cafes arising from the CY Co-operation Agreement entered into between a subsidiary of the Company and CY Foundation.*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the Legend Group is as follows:

	HK$'000
Cash consideration net-off with the deposit	–
Cash and bank balances acquired	798
Net inflow of cash and cash equivalents in respect of the acquisition of Legend Group	798

31. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 10 years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010	2009
	HK$'000	*HK$'000*
Within one year	**1,773**	1,755
In the second to fifth years, inclusive	**2,210**	3,447
After five years	**88**	75
	4,071	5,277

32. OTHER COMMITMENTS AND EVENT AFTER THE REPORTING PERIOD

In addition to the operating lease commitments as detailed in note 31 above, the Group and the Company had the following commitments at the end of the reporting period:

(a) Capital commitment for investment in the establishment and operation of an online education platform, video production platform, reward redemption platform and advertisement broadcasting platform of RMB30,000,000 (equivalent to approximately HK$35,400,000).

(b) On 7 January 2011, the Company entered into a sale and purchase agreement with Joy China Group Limited, pursuant to which, the Company will acquire 100% equity interest in Full Smart Asia Limited at a consideration of HK$228,000,000.

The acquisition constitutes a major transaction of the Company under the GEM Listing Rules. At the date of approving this audited financial statements, the acquisition is still subject to, inter alias, the approval of the independent shareholders of the Company.

33. RELATED PARTY TRANSACTIONS

(i) Save as those disclosed elsewhere in these financial statements, the Group and the Company had the following material transactions with related parties during the year:

The Group

	2010 HK$'000	2009 HK$'000
New Era Group (China) Limited *(note a)*		
Rental paid	960	960
Rental deposit paid	160	160
New Era Foundation (China) Limited *(note b)*		
Rental paid	990	–
Rental deposit paid	177	170
博思夢想文化傳播有限公司 (Formerly:博大偉業(北京)教育發展有限公司)		
Services fee *(note c)*	950	–
Deposit paid for establishment and operation of Online Platforms *(note 22(c))*	11,800	–

The Company

	2010 HK$'000	2009 HK$'000
New Era Group (China) Limited *(note a)*		
Rental paid	960	960
Rental deposit paid	160	160

(a) The Company entered into a tenancy agreement (the "Tenancy Agreement A") with New Era Group (China) Limited ("New Era"), a company of which Mr. Xiang Xin, a director of the Company, is also a director. Pursuant to the Tenancy Agreement A, New Era agreed to lease to the Company an office premise for a term of 36 months commencing on 1 July 2008. The Company shall pay a deposit of HK$160,000 and a monthly rental of HK$80,000 to New Era. The deposit was included in prepayments, deposits and other receivables (note 22) in the statement of financial position.

33. RELATED PARTY TRANSACTIONS *(Continued)*

(i) *(Continued)*

(b) On 1 December 2009, a subsidiary of the Company 博思夢想(中國)有限公司 entered into a tenancy agreement (the "Tenancy Agreement B") with New Era Foundation (China) Limited ("New Era China"), a company of which Mr. Xiang Xin, a director of the Company, is also a director. Pursuant to the Tenancy Agreement B, New Era China agreed to lease to 博思夢想(中國)有限公司 two office premises for a term of 36 months commencing on 1 January 2010, 博思夢想(中國)有限公司 shall pay a deposit of RMB150,000 (equivalent to approximately HK$177,000) and a monthly rental of RMB71,000 to New Era China with no rent free period. The deposit was included in prepayments, deposits and other receivables (note 22) in the statement of financial position.

(c) 博思夢想(中國)有限公司, a subsidiary of the Company, paid services fee to 博思夢想文化傳播有限公司, a related company of which Ms. Yu Lei (于蕾) is a common director of both companies, in respect of its provision of human resources for assisting the daily operation of the business of 博思夢想(中國)有限公司.

The related party transactions were conducted on terms negotiated between the Company and the related company.

(ii) Compensation of key management personnel of the Company:

	2010 ***HK$'000***	2009 *HK$'000*
Short term employee benefits	**653**	857
Post-employment benefits	**–**	–
Equity-settled share option expenses	**–**	–
	653	857

Further details of directors' emoluments are included in note 7 to the financial statements.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

31 December 2010

(a) On 25 January 2010, the Company issued new shares (note 27(a)(ii)) with a fair value of HK$17,500,000 as part of the consideration for the acquisition of Nopo International Limited (note 30)

(b) On 7 September 2010, the consideration for the acquisition of the copy right of a film library 神探威威貓 was net-off against a deposit of HK$25,000,000 (note 22(a)) paid in the previous year.

31 December 2009

(a) On 30 December 2009, the cash consideration for the Legend Acquisition was net-off against with the deposit of HK$5,000,000 (note 30(b)) paid previously.

(b) On 30 December 2009, the Company issued convertible bonds (note 26) with a fair value of HK$460,768,000 as part of the consideration for the Legend Acquisition (note 30(b)).

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2010

Financial assets

Group

	Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000	Financial assets at fair value through profit or loss – held for trading HK$'000	Held-to-maturity investments HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	–	–	–	–	–
Financial assets included in prepayments, deposits and other receivables	–	–	–	12,534	–	12,534
Cash and bank balances	–	–	–	111,503	–	111,503
	–	–	–	124,037	–	124,037

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000	Financial liabilities at fair value through profit or loss – held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	–	–	902	902
Due to a director	–	–	13,840	13,840
	–	–	14,742	14,742

35. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

31 December 2009

Financial assets

Group

	Financial assets at fair value through profit or loss – designated as such upon initial recognition	Financial assets at fair value through profit or loss – held for trading	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments	–	–	–	–	–	–
Trade receivables	–	–	–	–	–	–
Financial assets included in prepayments, deposits and other receivables	–	–	–	27,574	–	27,574
Cash and bank balances	–	–	–	6,764	–	6,764
	–	–	–	34,338	–	34,338

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	–	–	–
Financial liabilities included in other payables and accruals	–	–	2,727	2,727
Due to a director	–	–	18,520	18,520
	–	–	21,247	21,247

35. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

31 December 2010

Financial assets

Company

	Financial assets at fair value through profit or loss – designated as such upon initial recognition	– held for trading	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets included in prepayments, deposit and other receivables	–	–	–	160	–	160
Due from subsidiaries	–	–	–	35,333	–	35,333
Cash and bank balances	–	–	–	96,497	–	96,497
	–	–	–	131,990	–	131,990

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition	– held for trading	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	–	–	498	498
	–	–	498	498

35. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

31 December 2009

Financial assets

Company

	Financial assets at fair value through profit or loss – designated as such upon initial recognition	– held for trading	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets included in prepayments, deposit and other receivables	–	–	–	27,321	–	27,321
Due from subsidiaries	–	–	–	4	–	4
Cash and bank balances	–	–	–	5,615	–	5,615
	–	–	–	32,940	–	32,940

Financial liabilities

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition	– held for trading	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	–	–	2,212	2,212
Due to a subsidiary	–	–	264	264
Due to a director	–	–	68	68
	–	–	2,544	2,544

36. FAIR VALUE HIERARCHY

Fair value of financial instruments

– the fair value of financial assets and financial liabilities with standards terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask price respectively; and

– the fair value of other financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

The directors consider that the carrying amounts to the Group's other financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The carrying amounts and fair values of the Company's financial instruments are as follow:

Fair value hierarchy of financial instruments

HKFRS 7 requires disclosure of financial instruments that are measured at fair value by level of the following fair value measurement hierarchy.

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

At the end of the reporting period, the Group did not have any financial assets which are measured at its fair value.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise trust receipt loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group has no significant interest-bearing financial assets and liabilities with a floating interest rate. The Group's results and operating cash flows are substantially independent of changes in a market interest rate.

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in United States Dollar ("USD"), Renminbi ("RMB") and Hong Kong dollar ("HKD"). 100% (2009: 85%) of the Group's sales are dominated in currencies other than the functional currency of the operating units marking the sales, and 100% (2009: 84%) of costs are dominated in currencies other than the units' functional currency.

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in USD, RMB and HKD, of which the exchange rate of USD was quite stable during the years ended 31 December 2010 and 2009.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in exchange rate of RMB, with all other variable held constant, of the Group's loss before tax.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Foreign currency risk *(Continued)*

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in loss before tax *HK$000*	Increase/ (decrease) in equity* *HK$000*
31 December 2010			
If HKD weakens against RMB	5%	(5,666)	–
If HKD strengthens against RMB	5%	5,666	–
31 December 2009			
If HKD weakens against RMB	5%	(32)	–
If HKD strengthens against RMB	5%	32	–

* Excluding retained profits/accumulated losses.

At 31 December 2009 and 2010, the Group had not hedged any foreign currency sales to reduce such foreign currency risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from subsidiaries and a joint ventures and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group manages its fund conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Liquidity risk is minimal as the Group has sufficient cash and bank balances and current assets to meet its liquidity requirement.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. At the end of the reporting period, the Group has not significant equity price risk.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes other payables and accruals and due to a director, less cash and bank balances. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Other payables and accruals	**902**	2,727
Due to a director	**13,840**	18,520
Less: Cash and bank balances	**(111,503)**	(6,764)
Net (cash)/debt	**(96,761)**	14,483
Total capital:		
Equity attributable to equity holders	**640,876**	498,925
Capital and net debt	**544,115**	513,408
Gearing ratio	**N/A**	2.8%

38. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2011.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The financial statements for the years ended 31 December 2008 and 2009 had been disclaimed by the auditors of the Company. Details of the disclaim has been set out in the 2008 and 2009 annual report of the Company.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**37,108**	51,183	81,127	380,523	250,523
Cost of sales	**(36,730)**	(50,589)	(84,409)	(359,220)	(230,725)
Gross profit/(loss)	**378**	594	(3,282)	21,303	19,798
Other income and gains	**2,776**	608	194	465	1,885
Selling and distribution costs	**–**	–	–	–	–
Administrative and other operating expenses	**(12,193)**	(8,906)	(25,835)	(10,546)	(7,992)
Impairment of assets of a disposal group	**–**	(39,655)	–	–	–
Other impairment loss	**–**	(2,415)	(2,677)	(17,604)	(4,268)
Finance costs	**–**	–	(758)	(1,503)	(2,397)
PROFIT/(LOSS) FOR THE YEAR	**(9,039)**	(49,774)	(32,847)	(8,199)	6,224
Attributable to:					
Owners of the Company	**(8,813)**	(49,774)	(32,847)	(8,199)	6,224
Non-controlling interests	**(226)**	–	–	–	–
	(9,039)	(49,774)	(32,847)	(8,199)	6,224
ASSETS AND LIABILITIES					
TOTAL ASSETS	**655,664**	528,107	89,021	127,218	123,178
TOTAL LIABILITIES	**(14,788)**	(29,182)	(9,213)	(22,005)	(29,226)
	640,876	498,925	79,808	105,213	93,952