



# 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)

Annual Report **2011**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

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*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 and Chief Executive Officer*  
 Mr. Liang Xiaojin  
 Mr. Chen Banyan

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## COMPLIANCE OFFICER

Mr. Xiang Xin  
 Mr. Chen Banyan

## COMPANY SECRETARY

Mr. Liu Wai Kin

## AUTHORISED REPRESENTATIVES

Mr. Xiang Xin  
 Mr. Liu Wai Kin

## EXECUTIVE COMMITTEE

Mr. Xiang Xin, *Chairman*  
 Mr. Liang Xiaojin  
 Ms. Chen Banyan

## AUDIT COMMITTEE AND REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

Mr. Xiang Xin, *Chairman*  
 Mr. Zhang Zhan Liang  
 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

26/F, No. 9 Des Voeux Road West  
 Sheung Wan  
 Hong Kong

## PRINCIPAL BANKERS

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

## PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

HSBC Trust (Cayman) Limited  
 PO Box 484, HSBC House  
 68 West Bay 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

ANDA 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](http://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 2011.

## FINANCIAL REVIEW

During the year ended 31 December 2011, the Group recorded a revenue of approximately HK\$85,367,000 (2010: HK\$37,108,000), representing an increase of 130%. The increase in revenue was due to the expansion the trading business of the Group.

During the year ended 31 December 2011, the Group incurred a loss of approximately HK\$502,338,000 (2010: HK\$9,039,000) in which the loss attributable to the shareholders of the Company was approximately HK\$502,368,000 (2010: HK\$8,813,000). The loss was mainly due to the impairment losses on intangible assets.

## OPERATIONAL REVIEW

1. On 7 January 2011, the Company entered into the sale and purchase agreement with Joy China Group Limited (the "Vendor"), pursuant to which the Company has agreed to acquire 100% equity interest in Full Smart Asia Limited at a consideration of HK\$228,000,000 (the "Acquisition"), HK\$11,400,000 was paid in cash by the Company to the Vendor as deposit.

On 29 June 2011, the Company entered into a supplemental agreement with the Vendor to vary the terms of the agreement in respect of the Acquisition. An additional HK\$11,400,000 was paid in cash by the Company to the Vendor as interest-free refundable deposit.

On 23 December 2011, the Company entered into a second supplemental agreement with the Vendor to vary the terms of the agreement and first supplemental agreement of the Acquisition, with effect from 1 January 2012, (i) the Company and the Vendor have agreed to turn HK\$22,800,000 deposit paid by the Company into 20% of the sale share; and (ii) the Company reserve the right to acquire the remaining 80% of the sale share before 1 January 2015 by paying HK\$113,740,000 convertible bonds and HK\$91,460,000 promissory note to the Vendor when the net asset value of Full Smart Asia Limited and Dooda Innovation (China) Limited reach HK\$228,000,000.

2. On 1 September 2011, the Company entered into a cooperative framework agreement with independent third party and Boss Dream Cultural Communication Company Limited "Boss Cultural" to acquire the entire issued share capital of Beijing Need Education Technology Company Limited ("Beijing Need Education"). The Company also terminated the Project Cooperation Agreement signed by a subsidiary of Company, Boss (China) Systems Limited and Boss Cultural dated 9 November 2010.

On 17 February 2012, the Company decided to suspend acquiring the entire share capital of Beijing Need Education.

# CHAIRMAN'S STATEMENT

## OUTLOOK AND PROSPECT

The Group is principally engaged in (i) trading of electronic technology and related products, and (ii) the low-carbon energy-saving applications for digital products. The applications mainly make use of the energy performance contracting (EPC) and BOT mechanism which would ultimately apply to different sectors in the society and different cities. With the transfer of turnover from traditional products sales to EPC services, the Group believes the switch would enhance the earnings.

According to the EPC 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 five years. The Group will then realize its investment return and profit by sharing 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  
5 March 2012

# 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 3.0 (2010: 8.5) and total cash and bank balances amounted to approximately HK\$57,095,000 (2010: HK\$111,503,000) with no pledged deposits placed in banks for securing any borrowings or banking facilities.

## CAPITAL STRUCTURE AND FLUCTUATION IN EXCHANGE

Details in the changes of the capital structure of the Company during the year ended 31 December 2011 are set out in note 24 to the financial statements. The capital of the Company comprised ordinary shares only as at 31 December 2011. 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 2011, 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.

## EMPLOYEES

As at 31 December 2011, there were a total of 15 (2010: 21) full-time staff employed by the Group. The staff costs including directors' remuneration for the year were approximately HK\$2,271,000 (2010: HK\$2,574,000). There was no equity-settled share option expenses (2010: 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 acquisition of the 20% of the issued share capital of Full Smart Asia Limited (note 15 to the financial statements) completed on 1 January 2012, 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 2011.

## PROPOSED ACQUISITION

On 23 December 2011, the Company entered into a second supplemental agreement with Joy China Group Limited, with effect from 1 January 2012, the Company reserve the right to acquire the remaining 80% of the group of Full Smart Asia Limited before 1 January 2015 by paying HK\$113,740,000 convertible bonds and HK\$91,460,000 promissory note to the Vendor when the net asset value of group of Full Smart Asia Limited reach HK\$228,000,000.

## CHARGE, CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2011, the Group had commitments under operating lease amounting to approximately HK\$5,887,000 (2010: HK\$4,071,000) 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 29 to the financial statements.

# MANAGEMENT PROFILE

## EXECUTIVE DIRECTORS

**Mr. Xiang Xin** (“Mr. Xiang”), aged 48, was the Chairman of the Board and the chief executive officer. 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. Liang Xiaojin** (“Mr. Liang”), aged 52, received his bachelor degree in science from Guangzhou teacher’s College. Mr. Liang has over 25 years of management experience in the movie, multimedia and entertainment industry in People’s Republic of China. Prior to his joining of the Company, he was the general manager of Pearl River Film Digital Media Company Limited (珠影數字音畫傳媒有限公司), a company established under the laws of the People’s Republic of China. Mr. Liang joined the Company on 20 June 2011.

**Mr. Chen Banyan** (“Mr. Chen”), aged 26, holds a master degree of Economics from the University of Hong Kong and a bachelor degree of Economics from Sun Yat-Sen University. Mr. Chen is specializing in venture capital investment and he has substantial experience in Project Management, Corporate Financing, Accounting and Mergers and Acquisitions. Mr. Chen joined the Company on 20 June 2011 as a non-executive Director and re-designated to an executive Director with effect from 14 September 2011.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Zhang Zhan Liang** (“Mr. Zhang”), aged 41, 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 50, 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 40, 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.

\* For identification purpose only



# 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 2011.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in (i) trading of LED/LCD and related products, and (ii) developing the energy-saving applications for digital products. The applications mainly make use of the energy performance contracting (EPC) and BOT mechanism which would ultimately apply to different sectors in the society.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 24.

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 68. 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 24 to the financial statements.

Details of movements in the Company's share options during the year are set out in note 25 to the financial statements.

## CONVERTIBLE BONDS

Details of movements in the Convertible Bonds of the Company during the year are set out in note 23 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 2011 are disclosed in note 31 to the financial statements.

# REPORT OF THE DIRECTORS

## 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 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

## 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 72.9%. 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 49.5%.

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. Liang Xiaojin	(Appointed as an executive director on 20 June 2011)
Mr. Chen Banyan	(Appointed as a non-executive director on 20 June 2011, re-designated from a non-executive director to an executive director on 14 September 2011)
Ms. Lu Yuhe	(Resigned as an executive director on 14 September 2011)
Mr. Wong Chak Keung	(Resigned as an executive director on 20 June 2011)
Mr. Yang Gaocai	(Resigned as an executive director on 3 May 2011)

### Non-executive director:

Mr. Law Gerald Edwin	(Resigned as a non-executive director on 20 June 2011)
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### Independent non-executive directors:

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

In accordance with article 87(1) of the Articles of Association of the Company, each of Mr. Zhang Zhan Liang and Mr. Kwok Chi Hung shall retire by rotation at the AGM of the Company. Mr. Kwok Chi Hung has informed the Company that he has elected not to offer himself for re-election at the forthcoming annual general meeting of the Company. Mr. Zhang Zhan Liang, being eligible, offer himself 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, each of Mr. Liang Xiaojin and Mr. Chen Banyan shall retire, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

# REPORT OF THE DIRECTORS

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 6 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 31 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 31 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.

# REPORT OF THE DIRECTORS

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

As at 31 December 2011, 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 ( <i>note 2</i> )	Interest of controlled corporation	1,650,914,973 (L)	24.88%

### (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 <i>HK\$</i>	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%
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 ( <i>note 2</i> )	Interest of controlled corporation	3,827,193,135 (L)	57.68%

Notes:

- The letter "L" denotes the shareholders' long position in the Shares.
- 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 and his family member(s) are the ultimate beneficiaries of such company.



# REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2011, 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, underlying Shares or debentures 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 2011, 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 were 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%
New Times Global Capital Inc. (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%
Morgan Strategic Limited	Beneficial owner	1,236,032,432 (L)	18.63%
Top Ten International s.a.r.l. (note 3)	Interest of controlled corporation	1,236,032,432 (L)	18.63%
Chen Darren (note 3)	Interest of controlled corporation	1,236,032,432 (L)	18.63%
Tao Xue Juan (note 4)	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 5)	Interest of controlled corporation	141,564,000 (L)	2.13%

# REPORT OF THE DIRECTORS

## (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 <i>(note 7)</i>
China Technology Education Trust Association <i>(note 6)</i>	Beneficial owner	8,311,405,405 (L)	125.27%
Honour Sky International Limited	Beneficial owner	3,827,193,135 (L)	57.68%
New Times Global Capital Inc. <i>(note 2)</i>	Interest of controlled corporation	3,827,193,135 (L)	57.68%
Kung Ching <i>(note 2)</i>	Interest of controlled corporation	3,827,193,135 (L)	57.68%
Joy China Group Limited <i>(note 7)</i>	Trustee	2,843,500,000 (L)	42.86%
Ding Yi Ning <i>(note 7)</i>	Interest of controlled corporation	2,843,500,000 (L)	42.86%
Ocean Space Development Limited	Beneficial owner	975,057,621 (L)	14.70%
Zhang Shao Cai <i>(note 5)</i>	Interest of controlled corporation	975,057,621 (L)	14.70%

### Notes:

- The letter "L" denotes the shareholders' long position in the Shares.
- Honour Sky International Limited is a private company wholly and beneficially owned by New Times Global Capital Inc.. Accordingly, New Times Global Capital Inc. 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, owns 50% share of New Times Global Capital Inc. and is also the director of the company and is taken to be interested in the shares and underlying shares of the Company held by Honour Sky International Limited.
- 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.
- Morgan Strategic Limited is a private company 60% owned by Ms. Tao Xue Juan. Accordingly, Ms. Tao Xue Juan is interested in the shares of the Company held by Morgan Strategic Limited.
- 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.

# REPORT OF THE DIRECTORS

6. 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.
7. As disclose in section "PROPOSED ACQUISITION" on page 5, part of the consideration shall be settled by the Company in convertible bonds which may convert into 2,843,500,000 new shares if exercise in full. Mr. Ding Yi Ning is the ultimate beneficiary of Joy China Group Limited. The completion of acquisition remains subject to the fulfillment of the conditions, and subject to the approval of the independent shareholders of the Company.
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 2011.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, as at 31 December 2011, there was no person (other than a Director or chief executive of the Company) who 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 2011, there were the outstanding options granted by the Company to subscribe for in aggregate of 37,433,155 shares, representing 0.56% 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 15 to 18.

# REPORT OF THE DIRECTORS

## 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 2011.

## 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 2011.

## EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the reporting period of the Company are set out in note 29 to the financial statements.

## AUDITORS

The financial statements for the years ended 31 December 2009 and 2010 were audited by Ascenda Cachet CPA Limited.

During the year, Ascenda Cachet CPA Limited resigned as auditors of the Company and ANDA CPA Limited was appointed as auditors of the Company to fill the causal vacancy so arising.

A resolution for the re-appointment of ANDA 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  
5 March 2012



# 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. Mr. Xiang Xin is the Chairman of the Board and the Chief Executive Officer of the Company. Such practice deviates from code provision A.2.1 of the CG Code which requires that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Xiang, the Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Xiang to hold both positions as the chairman and the chief executive officer of the Company as it helps to maintain the continuity of the policies and the stability of the operations of the Company.
2. The Company has no fixed terms of appointment for non-executive directors. The 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.

## 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. Liang Xiaojin	(Appointed as an executive director on 20 June 2011)
	Mr. Chen Banyan	(Appointed as a non-executive director on 20 June 2011, re-designated from a non-executive director to an executive director on 14 September 2011)
	Ms. Lu Yuhe	(Resigned as an executive director on 14 September 2011)
	Mr. Wong Chak Keung	(Resigned as an executive director on 20 June 2011)
	Mr. Yang Gaocai	(Resigned as an executive director on 3 May 2011)
Non-executive director:	Mr. Law Gerald Edwin	(Resigned as a non-executive director on 20 June 2011)
Independent non-executive directors:	Mr. Zhang Zhan Liang	
	Mr. Kwok Chi Hung	
	Ms. An Jing	

# CORPORATE GOVERNANCE REPORT

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 2011, the Board held 28 meetings. The attendance of each director at the board meetings during the year are as follows:

<b>Directors</b>	<b>Number of attendance</b>
Mr. Xiang Xin	27/28
Mr. Liang Xiaojin	(Appointed on 20 June 2011) 5/13
Mr. Chen Banyan	(Appointed on 20 June 2011) 9/13
Ms. Lu Yuhe	(Resigned on 14 September 2011) 20/23
Mr. Wong Chak Keung	(Resigned on 20 June 2011) 13/13
Mr. Law Gerald Edwin	(Resigned on 20 June 2011) 6/13
Mr. Yang Gaocai	(Resigned on 3 May 2011) 1/9
Mr. Zhang Zhan Liang	1/28
Mr. Kwok Chi Hung	2/28
Ms. An Jing	(Appointed on 31 January 2011) 3/24

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 AND CHIEF EXECUTIVE OFFICER

Mr. Xiang Xin is the Chairman of the Board and the Chief Executive Officer of the Company.

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

## EXECUTIVE COMMITTEE

An executive committee (the "Executive Committee") was established by the Board on March 2012 and delegated with powers from the Board to deal with all matters relating to the daily operations of the Company. The Executive Committee currently comprises three members, including all executive Directors of the Company.

Full minutes of Executive Committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the Executive 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.

# CORPORATE GOVERNANCE REPORT

The Executive Committee held periodical meetings during the financial year to review, discuss and evaluate the business performance and operational matters of the Company.

## 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. The attendance of each member at the meeting(s) during the year is set out as follows:

	<b>Number of attendance</b>
Mr. Zhang Zhan Liang	1/1
Mr. Kwok Chi Hung	0/1
Ms. An Jing	1/1

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

The Remuneration Committee determines the policy for the remuneration of executive directors, assesses performance of executive directors and approves the terms of executive directors' service contracts.

## EXTERNAL AUDITORS

For the year ended 31 December 2011, the following external auditors, provided the following services to the Group:

	<i>HK\$'000</i>
<b>ANDA CPA Limited</b>	
Annual audit services	240

# CORPORATE GOVERNANCE REPORT

## 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 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:

	<b>Number of attendance</b>
Mr. Zhang Zhan Liang	1/2
Mr. Kwok Chi Hung	2/2
Ms. An Jing	2/2

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 Audit 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.

## NOMINATION COMMITTEE

A nomination committee (the "Nomination Committee") was established by the Board on March 2012 in accordance with the requirements of the GEM Listing Rules. The Nomination Committee currently comprises three directors of the Company, Mr. Xiang Xin as the Chairman and Zhang Zhan Liang and Ms. An Jing as the members.

Full minutes of Nomination Committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the Nomination 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.

In considering the new appointment of Directors, the Nomination Committee will make reference to certain criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibility effectively.



# INDEPENDENT AUDITORS' REPORT



## TO THE SHAREHOLDERS OF CHINA TRENDS HOLDINGS LIMITED

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

We have audited the consolidated financial statements of China Trends Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 24, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 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 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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 Hong Kong Institute of Certified Public Accountants. 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 auditor's 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 auditor considers internal control relevant to the entity's preparation of the 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 Company and of the Group as at 31 December 2011, and of the Group's results and cash flows 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.

### ANDA CPA Limited

*Certified Public Accountants*

### Sze Lin Tang

Practising Certificate Number P03614

Hong Kong, 5 March 2012

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
REVENUE	5	<b>85,367</b>	37,108
Cost of sales		<b>(79,222)</b>	(36,730)
Gross profit		<b>6,145</b>	378
Other income and gains	5	<b>2,313</b>	2,776
Administrative and other operating expenses		<b>(8,517)</b>	(12,193)
Impairment losses on intangible assets		<b>(502,279)</b>	—
LOSS BEFORE TAX	6	<b>(502,338)</b>	(9,039)
Income tax expenses	9	—	—
LOSS FOR THE YEAR		<b>(502,338)</b>	(9,039)
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		<b>2,540</b>	678
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<b>(499,798)</b>	(8,361)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company	10	<b>(502,368)</b>	(8,813)
Non-controlling interests		<b>30</b>	(226)
		<b>(502,338)</b>	(9,039)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		<b>(499,854)</b>	(8,141)
Non-controlling interests		<b>56</b>	(220)
		<b>(499,798)</b>	(8,361)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	11		
Basic (HK cents per share)		<b>(7.57)</b>	(0.24)
Diluted (HK cents per share)		<b>N/A</b>	N/A

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	3,082	2,835
Intangible assets	14	25,000	527,279
Deposit paid for acquisition of an investment	15	22,800	—
Total non-current assets		50,882	530,114
<b>CURRENT ASSETS</b>			
Inventories	17	1,137	1,164
Trade and bills receivables	18	40,341	—
Prepayments, deposits and other receivables	19	36,744	12,883
Cash and bank balances	20	57,095	111,503
Total current assets		135,317	125,550
<b>CURRENT LIABILITIES</b>			
Trade payables	21	1,598	—
Deposits received		38,372	—
Other payables and accruals		544	902
Tax payable		—	46
Due to a director	22	4,607	13,840
Total current liabilities		45,121	14,788
NET CURRENT ASSETS		90,196	110,762
TOTAL ASSETS LESS CURRENT LIABILITIES		141,078	640,876
NET ASSETS		141,078	640,876
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	24	66,350	66,350
Equity component of convertible bonds	23	391,534	391,534
Other reserves	26	(318,280)	181,574
		139,604	639,458
Non-controlling interests		1,474	1,418
Total equity		141,078	640,876

Approved by:

**Xiang Xin**  
Director

**Chen Banyan**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company										
	Issued capital	Share premium account	Share option reserve	Foreign	Equity	Special reserve	Capital reserve	Accumulated losses	Total	Non-	Total equity
				currency	component of					controlling	
				translation	convertible					interests	
reserve	bonds	reserve	interests								
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2010	7,037	75,330	5,117	—	460,768	11,157	—	(60,484)	498,925	—	498,925
Total comprehensive income/(loss) for the year	—	—	—	672	—	—	—	(8,813)	(8,141)	(220)	(8,361)
Acquisition of non-controlling interests	—	—	—	—	—	—	—	(1,638)	—	(1,638)	1,638
Issue of shares (note 24(a))	1,400	16,100	—	—	—	—	—	—	17,500	—	17,500
Rights issues (note 24(a))	33,750	101,248	—	—	—	—	—	—	134,998	—	134,998
Rights issues expenses (note 24(a))	—	(2,186)	—	—	—	—	—	—	(2,186)	—	(2,186)
Conversion of convertible bonds (note 23)	24,163	45,071	—	—	(69,234)	—	—	—	—	—	—
At 31 December 2010 and 1 January 2011	66,350	235,563	5,117	672	391,534	11,157	(1,638)	(69,297)	639,458	1,418	640,876
Total comprehensive income/(loss) for the year	—	—	—	2,514	—	—	—	(502,368)	(499,854)	56	(499,798)
At 31 December 2011	66,350	235,563	5,117	3,186	391,534	11,157	(1,638)	(571,665)	139,604	1,474	141,078



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK\$'000	2010 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	<b>(502,338)</b>	(9,039)
Adjustments for:		
Impairment losses on intangible assets	<b>502,279</b>	—
Interest income	<b>(390)</b>	(478)
Exchange gains, net	<b>(1,404)</b>	(1,824)
Depreciation of property, plant and equipment	<b>686</b>	649
Operating cash flows before working capital changes	<b>(1,167)</b>	(10,692)
Change in inventories	<b>27</b>	14
Change in trade and bills receivables	<b>(40,341)</b>	—
Change in prepayments, deposits and other receivables	<b>14,511</b>	(11,982)
Change in trade payables	<b>1,598</b>	—
Change in other payables and accruals	<b>(358)</b>	(1,829)
Cash used in operations	<b>(25,730)</b>	(24,489)
Interest received	<b>390</b>	478
Net cash flow used in operating activities	<b>(25,340)</b>	(24,011)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<b>(830)</b>	(1,881)
Net cash inflow from acquisition of subsidiaries	<b>—</b>	2
Net cash outflow from deposit paid for acquisition of an investment	<b>(22,800)</b>	—
Net cash flows used in investing activities	<b>(23,630)</b>	(1,879)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceed from issue of ordinary shares, net	<b>—</b>	132,812
Repayment to a director	<b>(9,233)</b>	(4,670)
Net cash flows (used in)/generated from financing activities	<b>(9,233)</b>	128,142
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of year	<b>111,503</b>	6,764
Effect of foreign exchange	<b>3,795</b>	2,487
CASH AND CASH EQUIVALENTS AT END OF YEAR	<b>57,095</b>	111,503
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>26,729</b>	21,038
Non-pledged time deposits with original maturity of less than three months when acquired	<b>30,366</b>	90,465
	<b>57,095</b>	111,503

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	<i>Notes</i>	<b>2011</b> <b>HK\$'000</b>	2010 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	571	683
Intangible assets	14	25,000	25,000
Deposit paid for acquisition of an investment	15	22,800	—
Interests in subsidiaries	16	54,924	517,558
<b>Total non-current assets</b>		<b>103,295</b>	543,241
<b>CURRENT ASSETS</b>			
Inventories	17	1,137	1,160
Prepayments, deposits and other receivables	19	509	476
Cash and bank balances	20	30,913	96,497
<b>Total current assets</b>		<b>32,559</b>	98,133
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		253	498
Due to a subsidiary	16	8	—
<b>Total current liabilities</b>		<b>261</b>	498
<b>NET CURRENT ASSETS</b>		<b>32,298</b>	97,635
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>135,593</b>	640,876
<b>NET ASSETS</b>		<b>135,593</b>	640,876
<b>EQUITY</b>			
Issued capital	24	66,350	66,350
Reserves	26	69,243	574,526
<b>Total equity</b>		<b>135,593</b>	640,876

Approved by:

**Xiang Xin**  
*Director*

**Chen Banyan**  
*Director*

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 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 principal activity of the Company is investment holding. The Group is principally engaged in the trading of electronic equipments, components and LCD/LED products. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

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 and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "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 ("GEM Listing Rules") 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

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2.1 BASIS OF PREPARATION *(Continued)*

### **Basis of consolidation** *(Continued)*

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 2.2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Impairment of assets**

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of other tangible and intangible assets, except for investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Related parties

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (B) An entity is related to the Group (reporting entity) if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (A).
  - (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment and depreciation

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

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

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

### 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 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 that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to its present location and condition, is calculated using the first-in, first-out method. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

### Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### Provisions and contingent liabilities

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

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

### Income tax

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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 profits will be available to allow all or part of the asset to be recovered.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Income tax** *(Continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Revenues from sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers; and
- (b) Interest income is recognised on a time-proportion basis using the effective interest method.

### **Employee benefits**

#### **(a) Employee leave entitlements**

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### **(b) Pension obligations**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("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 5% of the employees' relevant income, subject to a ceiling of monthly relevant income of HK\$20,000 and are charged to profit or loss 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.

The Group also participates in a defined contribution retirement scheme organised by the government in the People's Republic of China (the "PRC"). The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits *(Continued)*

#### *(c) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

### Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

#### *(b) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss. Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currency translation *(Continued)*

#### *(c) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

### Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 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.

### Critical judgements in applying accounting policies

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 statements.

#### *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 in prior years, 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 27 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### **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.

### ***Impairment of intangible assets***

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

At the end of the reporting period, the carrying value of intangible assets was approximately HK\$25,000,000. The Group estimates that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments made in future periods, if future market activity indicates that such adjustments are appropriate.

### ***Useful lives of property, plant and equipment***

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will 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 the current creditworthiness and the past collection history of each customer.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 4. OPERATING SEGMENT INFORMATION

The Group's revenue and result for the year ended 31 December 2011 were mainly derived from its operating segment of trading of electronic equipments, components and LCD/LED products. For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segment as follows:

- (a) the trading of electronic equipments, components and LCD/LED products; and
- (b) the media operating segment is involved in provision of online media platforms and multi-media and advertising business.

During the reporting period, the Group intends to extend its energy management contract in developing the energy-saving applications for digital products, which mainly make use of the energy management contract (CEM) and BOT mechanism. The intention in marketing of mobile appliance has been ceased in light of changes in economic conditions.

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, impairment losses on intangible assets, and exchange gains as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude the amount due to a director, tax payable and other unallocated head office and corporate liabilities, as these liabilities are managed on a group basis.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 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.

	For the year ended 31 December					
	Trading of electronic equipments, components and LCD/LED products		Media business		Consolidated total	
	2011 HK'000	2010 HK'000	2011 HK'000	2010 HK'000	2011 HK'000	2010 HK'000
<b>Segment revenue:</b>						
Sales to external customers	85,367	37,108	—	—	85,367	37,108
Intersegment sales	—	—	—	—	—	—
	<b>85,367</b>	37,108	—	—	<b>85,367</b>	37,108
<b>Segment results</b>	<b>(3,014)</b>	378	—	—	<b>(3,014)</b>	378
Reconciliation:						
Other income and gains					2,313	2,776
Impairment losses on intangible assets					(502,279)	—
Unallocated expenses					642	(12,193)
Loss before tax					(502,338)	(9,039)
Income tax expenses					—	—
Loss for the year					<b>(502,338)</b>	(9,039)
<b>Segment assets</b>	<b>79,061</b>	—	<b>25,000</b>	552,440	<b>104,061</b>	552,440
Unallocated assets					82,138	103,224
Total assets					<b>186,199</b>	655,664
<b>Segment liabilities</b>	<b>40,083</b>	—	—	14,233	<b>40,083</b>	14,233
Unallocated liabilities					5,038	555
Total liabilities					<b>45,121</b>	14,788
<b>Other segment information:</b>						
Capital expenditure	830	1,881	—	—	830	1,881
Depreciation	253	239	433	410	686	649

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

### Geographical information

#### (a) Revenue from external customers

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Mainland China (excluding HK)	<b>85,367</b>	37,108

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

#### (b) Non-current assets (excluding Intangible assets and deposits)

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>588</b>	718
Mainland China (excluding HK)	<b>2,494</b>	2,117
	<b>3,082</b>	2,835

### Information about a major customer

Revenue of approximately HK\$62,216,000 was derived from sales to a single customer during the year ended 31 December 2011 (2010: HK\$24,738,000).



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 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:

	2011 HK\$'000	2010 HK\$'000
Revenue		
Sales of goods	<b>85,367</b>	37,108
Other income and gains		
Bank interest income	<b>390</b>	478
Exchange gains, net	<b>1,404</b>	1,824
Others	<b>519</b>	474
	<b>2,313</b>	2,776

## 6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	2011 HK\$'000	2010 HK\$'000
Cost of sales	<b>79,222</b>	36,730
Auditors' remuneration		
— Annual audit	<b>240</b>	232
— Other assurance services	<b>—</b>	188
Total auditors' remuneration	<b>240</b>	420
Employee benefits expenses (including directors' remuneration ( <i>note 7</i> )):		
— Wages, salaries and allowances	<b>1,990</b>	2,268
— Other benefits in kind	<b>246</b>	251
— Pension scheme contributions	<b>35</b>	55
Total employee benefits expenses	<b>2,271</b>	2,574
Depreciation	<b>686</b>	649
Minimum lease payments under operating leases, land and buildings	<b>1,935</b>	2,274
Impairment losses on intangible assets	<b>502,279</b>	—

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 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:

	2011 HK\$'000	2010 HK\$'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	560	635
Pension scheme contributions	2	18
	<b>562</b>	653
	<b>562</b>	653

For the year ended 31 December 2011					
	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
Executive directors:					
Mr. Xiang Xin	—	—	—	—	—
Mr. Wong Chak Keung	—	65	—	—	65
Mr. Yang Gaocai	—	—	—	—	—
Ms. Lu Yuhe	—	294	—	—	294
Mr. Liang Xiaojin	—	101	—	—	101
Mr. Chen Banyan	—	—	—	—	—
	—	<b>460</b>	—	—	<b>460</b>
Non-executive directors:					
Mr. Law Gerald Edwin	—	100	2	—	102
Mr. Chen Banyan	—	—	—	—	—
	—	<b>100</b>	<b>2</b>	—	<b>102</b>
Independent non-executive directors:					
Mr. Zhang Zhan Liang	—	—	—	—	—
Mr. Kwok Chi Hung	—	—	—	—	—
Ms. An Jing	—	—	—	—	—
	—	<b>560</b>	<b>2</b>	—	<b>562</b>

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 7. DIRECTORS' REMUNERATION (Continued)

		For the year ended 31 December 2010				
	Notes	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
Executive directors:						
Mr. Xiang Xin		—	—	—	—	—
Mr. Wong Chak Keung	(a)	—	120	6	—	126
Mr. Yang Gaocai	(b)	—	—	—	—	—
Ms. Lu Yuhe	(c)	—	35	—	—	35
		—	155	6	—	161
Non-executive director:						
Mr. Law Gerald Edwin	(a)	—	480	12	—	492
Independent non-executive directors:						
Mr. Zhang Zhan Liang		—	—	—	—	—
Ms. Lu Yuhe	(c)	—	—	—	—	—
Mr. Kwok Chi Hung		—	—	—	—	—
		—	—	—	—	—
		—	635	18	—	653

Notes:

- (a) Resigned on 20 June 2011
- (b) Resigned on 3 May 2011
- (c) Re-designated as executive director on 1 December 2010 and resigned on 14 September 2011
- (d) Appointed on 20 June 2011
- (e) Appointed on 20 June 2011 and re-designated as executive director on 14 September 2011
- (f) Appointed on 31 January 2011

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

No emolument was paid to the director as an inducement to join or upon joining the Company; or as compensation for loss of office during the reporting period (2010: Nil).

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 7. DIRECTORS' REMUNERATION (Continued)

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

Emolument band:	Number of directors	
	2011	2010
HK\$nil–HK\$1,000,000	10	7

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2010: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2010: three) non-directors, highest paid employees for the year are as follows:

	2011 HK\$'000	2010 HK\$'000
Salaries, allowances and benefits in kind	502	355
Equity-settled share option expenses	—	—
Pension scheme contributions	25	16
	527	371

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

Emolument band:	Number of employees	
	2011	2010
HK\$nil–HK\$1,000,000	3	3

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 9. INCOME TAX EXPENSES

Hong Kong profits tax has not been provided for the years ended 31 December 2010 and 2011 as the Group did not generate any assessable profits arising in Hong Kong during the years. Tax arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of subsidiaries of the Company in the PRC is 25% for both years.

	2011 HK\$'000	2010 HK\$'000
Hong Kong Profits Tax — Current	—	—
PRC on Enterprise Income Tax — Current	—	—
Deferred tax	—	—
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:

The reconciliation between the income tax for the year and the loss before tax multiplied by the Hong Kong profits tax rate is as follows:

	2011 HK\$'000	2010 HK\$'000
Loss before tax:	<b>(502,338)</b>	(9,039)
Tax at the statutory tax rate of 16.5% (2010: 16.5%)	<b>(83,375)</b>	(455)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>740</b>	(1,036)
Income not subject to tax	<b>(366)</b>	(381)
Expenses not deductible for tax	<b>78,259</b>	—
Tax effect of taxes losses not recognised	<b>4,742</b>	1,872
Tax charge at the Group's effective tax rate	—	—

At 31 December 2011, the Group has unused tax losses of approximately HK\$57,556,000 (2010: HK\$32,497,000) available indefinitely for offset against future profits. No deferred tax asset (2010: HK\$nil) has been recognised in respect of such tax losses, due to the unpredictability of future profit streams.

## 10. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company for the year ended 31 December 2011 includes a loss of HK\$505,283,000 (2010: HK\$7,995,000) which has been dealt with in the financial statements of the Company (note 26(b)).



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 11. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the year attributable to owners 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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Loss for the year attributable to owners of the Company, used in the basic loss per share calculation	<b>(502,368)</b>	(8,813)
<b>Number of shares</b>		
	<b>2011</b>	2010
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	<b>6,635,001,932</b>	3,693,818,700

No adjustment has been made to the basic loss per share presented for the years ended 31 December 2010 and 2011 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.

## 12. DIVIDENDS

The Directors do not recommend the payment of any dividend for each of the years ended 31 December 2011 and 2010.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 13. PROPERTY, PLANT AND EQUIPMENT

	Year ended 31 December 2011				
	Leasehold improvement HK'000	Furniture and fixtures HK'000	Office and computer equipments HK'000	Motor vehicles HK'000	Total HK'000
<b>GROUP</b>					
<b>Cost</b>					
At 1 January 2011	838	146	1,354	1,837	4,175
Additions	136	6	688	—	830
Exchange realignment	—	4	72	84	160
At 31 December 2011	974	156	2,114	1,921	5,165
<b>Accumulated depreciation</b>					
At 1 January 2011	387	73	694	186	1,340
Charge for the year	183	28	304	171	686
Exchange realignment	—	1	39	17	57
At 31 December 2011	570	102	1,037	374	2,083
<b>Carrying amount</b>					
At 31 December 2011	404	54	1,077	1,547	3,082
	Year ended 31 December 2010				
	Leasehold improvement HK'000	Furniture and fixtures HK'000	Office and computer equipments HK'000	Motor vehicles HK'000	Total HK'000
<b>GROUP</b>					
<b>Cost</b>					
At 1 January 2010	838	146	1,267	—	2,251
Additions	—	—	44	1,837	1,881
Exchange realignment	—	—	43	—	43
At 31 December 2010	838	146	1,354	1,837	4,175
<b>Accumulated depreciation</b>					
At 1 January 2010	219	46	398	—	663
Charge for the year	168	27	268	186	649
Exchange realignment	—	—	28	—	28
At 31 December 2010	387	73	694	186	1,340
<b>Carrying amount</b>					
At 31 December 2010	451	73	660	1,651	2,835

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

	Year ended 31 December 2011			
	Leasehold improvement HK'000	Furniture and fixtures HK'000	Office and computer equipments HK'000	Total HK'000
<b>COMPANY</b>				
<b>Cost</b>				
At 1 January 2011	838	136	217	1,191
Additions	136	6	—	142
At 31 December 2011	974	142	217	1,333
<b>Accumulated depreciation</b>				
At 1 January 2011	387	63	58	508
Charge for the year	183	28	43	254
At 31 December 2011	570	91	101	762
<b>Carrying amount</b>				
At 31 December 2011	404	51	116	571
Year ended 31 December 2010				
	Leasehold improvement HK'000	Furniture and fixtures HK'000	Office and computer equipments HK'000	Total HK'000
<b>COMPANY</b>				
<b>Cost</b>				
At 1 January 2010 and 31 December 2010	838	136	217	1,191
<b>Accumulated depreciation</b>				
At 1 January 2010	219	36	15	270
Charge for the year	168	27	43	238
At 31 December 2010	387	63	58	508
<b>Carrying amount</b>				
At 31 December 2010	451	73	159	683

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 14. INTANGIBLE ASSETS

	Year ended 31 December 2011				Total HK\$'000
	Trade mark HK\$'000	Rights in sharing of profit streams from online network operation in internet cafes HK\$'000 (note (a))	Copyright of a film library HK\$'000 (note (b))	Right granted by a mobile location-based service provider HK\$'000 (note (c))	
<b>GROUP</b>					
At 1 January 2011					
Cost	—	482,794	25,000	19,485	527,279
Accumulated amortisation and impairment	—	—	—	—	—
Net carrying amount	—	482,794	25,000	19,485	527,279
At 1 January 2011, net of accumulated amortisation and impairment	—	482,794	25,000	19,485	527,279
Impairment	—	(482,794)	—	(19,485)	(502,279)
At 31 December 2011, net of accumulated amortisation and impairment	—	—	25,000	—	25,000
At 31 December 2011					
Cost	—	482,794	25,000	19,485	527,279
Accumulated amortisation and impairment	—	(482,794)	—	(19,485)	(502,279)
Net carrying amount	—	—	25,000	—	25,000

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 14. INTANGIBLE ASSETS (Continued)

	Year ended 31 December 2010				Total HK\$'000
	Trade mark HK\$'000	Rights in sharing of profit streams from online network operation in internet cafes HK\$'000 (note (a))	Copyright of a film library HK\$'000 (note (b))	Right granted by a mobile location-based service provider HK\$'000 (note (c))	
<b>GROUP</b>					
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	—	—	—	19,485	19,485
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



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 14. INTANGIBLE ASSETS (Continued)

	Year ended 31 December 2011		
	Trade mark HK\$'000	Copyright of a film library HK\$'000 (note (b))	Total HK\$'000
<b>COMPANY</b>			
At 1 January 2011			
Cost	—	25,000	25,000
Accumulated amortisation and impairment	—	—	—
Net carrying amount	—	25,000	25,000
At 1 January 2011, net of accumulated amortisation and impairment	—	—	—
Additions	—	—	—
At 31 December 2011, net of accumulated amortisation and impairment	—	—	—
At 31 December 2011			
Cost	—	25,000	25,000
Accumulated amortisation and impairment	—	—	—
Net carrying amount	—	25,000	25,000

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 14. INTANGIBLE ASSETS (Continued)

	Year ended 31 December 2010		
	Trade mark HK\$'000	Copyright of a film library HK\$'000 (note (b))	Total HK\$'000
<b>COMPANY</b>			
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
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	—	—	—
Net carrying amount	—	25,000	25,000

*Notes:*

- (a) The rights (the "C Y Rights") in sharing of profit streams (the "Profit Streams") from online network operation in internet cafes of approximately HK\$482,794,000 represents the C Y Rights arising from an co-operation agreement (the "C Y Co-operation Agreement") entered into between a subsidiary of the Company and C Y Foundation Group Limited. Pursuant to the C Y Co-operation Agreement, the Group is entitled to participate in the co-operation and share the Profits Streams for a period of 15 years.

During the year, the execution of the C Y Co-operation Agreement was interrupted. Due to the unpredictability of future profit streams, an impairment loss of the C Y Rights of approximately HK\$482,794,000 was recognised in the consolidated financial statements for the year.

- (b) 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 named 神探威威貓 and the related music songs which was acquired during the last reporting period, with an indefinite useful lives at a consideration of HK\$25,000,000. The fair value of the Copyright has been assessed by the directors under the cost methodology. No impairment has been provided as the fair value less costs to sell is higher than its carrying amount at the end of the reporting period.

In determining the fair value less costs to sell, the directors had based on the assumptions that there will be no material change in existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of the Company.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 14. INTANGIBLE ASSETS (Continued)

Notes: (Continued)

- (c) As detailed in note 27 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.

During the year, the execution of the project was interrupted. Due to the unpredictability of future profit streams, an impairment loss of the Agent Rights of approximately HK\$19,485,000 was recognised in the consolidated financial statements for the year.

## 15. DEPOSIT PAID FOR ACQUISITION OF AN INVESTMENT

	2011 HK\$'000	2010 HK\$'000
Deposit paid for acquisition of Full Smart Asia Limited (note (a))	<b>22,800</b>	—

Note:

- (a) On 7 January 2011, the Company, entered into a sale and purchase agreement with Joy China Group Limited (the "Vendor") and Mr. Ding Yi Ning (the "Guarantor") (collectively as "All Parties"), pursuant to which the Company will acquire 100% equity interest in Full Smart Asia Limited ("Full Smart") (collectively as "Sales Shares") and its subsidiaries (the "Target Group") of the Vendor at a consideration of HK\$228,000,000 (the "Full Smart Agreement"). The consideration shall be satisfied by the Company in the following manner: (i) cash amounting to HK\$11,400,000 as deposit, (ii) HK\$113,740,000 shall be satisfied by issuing convertible bonds to the Vendor; and (iii) the balance of HK\$102,860,000 shall be satisfied by issuing the promissory note to the Vendor at completion. The proposed completion of this transaction was on or before 29 July 2011. Details of the terms and conditions of Full Smart Agreement are set out in the Company's announcement dated 7 January 2011.

During the reporting period, the Company has paid a deposit of HK\$11,400,000 ("First Deposit") to the Vendor pursuant to the Full Smart Agreement. On 29 June 2011, All Parties entered into a supplemental agreement ("First Supplemental Agreement"), the Company is required to pay the Vendor with an additional HK\$11,400,000 in cash ("Second Deposit"), since the Company need additional time to consider the structure of the Target Group with the Vendor. All Parties agreed that the completion of this transaction was postponed to on or before 31 December 2011. The balance of HK\$22,800,000 represents the total First Deposit and Second Deposit paid to the Vendor, the said deposits are interest-free and refundable in accord to the conditions of the Full Smart Agreement. Details of the First Supplemental Agreement are set out in the Company's announcement dated 29 June 2011.

On 23 December 2011, all Parties entered into a second supplemental agreement ("Second Supplemental Agreement") to vary the terms of the Full Smart Agreement and First Supplemental Agreement. Pursuant to Second Supplemental Agreement, the Company and the Vendor have agreed to turn HK\$22,800,000 deposit paid by the Company into 20% of the Sale Share in next reporting period on 1 January 2012. The Company also reserve the right to acquire the remaining 80% of the equity interest in Full Smart before 1 January 2015.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 16. INTERESTS IN SUBSIDIARIES

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
<b>Company</b>		
Unlisted shares, at cost	<b>485,262</b>	485,262
Due from subsidiaries	<b>74,977</b>	35,333
	<b>560,239</b>	520,595
Less: Impairments	<b>(505,315)</b>	(3,037)
	<b>54,924</b>	517,558
Due to a subsidiary	<b>(8)</b>	—

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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 16. 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	Principal activities
<b>Directly held:</b>				
Friendly Group Limited	British Virgin Islands ("BVI")	100 ordinary shares of US\$1 each	100%	Investment holding
Legend Century Investments Limited	BVI	1 ordinary share of US\$1 each	100%	Investment holding
Nopo International Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	Inactive
<b>Indirectly held:</b>				
China Trends Technologies Limited (Formerly named as Pacific Vision Technologies Limited)	Hong Kong	1 ordinary share of HK\$1 each	100%	Inactive
China Net-PC Limited ("CNPL")	BVI	50,000,000 ordinary shares of US\$0.01 each	100%	Investment holding
Boss Systems Limited	BVI	500 ordinary shares of US\$1 each	99%	Investment holding
Boss (China) Systems Limited* (the "BCSL") 博思夢想(中國)有限公司 (note (a))	People Republic of China	RMB200,000,000	99%	Trading of electronic equipments, components and LCD/LED products
Boss Power Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	Inactive
Boss Education Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	100%	Inactive

\* The English names are for identification only



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 16. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

- (a) The subsidiary is registered as a sino-foreign investment enterprise under the PRC laws.

## 17. INVENTORIES

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Finished goods	<b>1,137</b>	1,164	<b>1,137</b>	1,160

## 18. TRADE AND BILLS RECEIVABLES

The Group grants a credit period normally ranging from cash on delivery to 30-180 days to its trade customers.

	Group	
	2011 HK\$'000	2010 HK\$'000
Trade receivables	<b>1,969</b>	—
Bills receivable	<b>38,372</b>	—
Less: impairments	—	—
	<b>40,341</b>	—

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	
	2011 HK\$'000	2010 HK\$'000
Within 30 days	<b>1,969</b>	—

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Prepayments	468	349	345	316
Deposit paid for a co-operation agreement (note (a))	—	11,800	—	—
Rental deposit (note 31)	429	337	160	160
Trade deposit	35,839	—	—	—
Other receivables	8	397	4	—
	<b>36,744</b>	12,883	<b>509</b>	476

Note:

- (a) On 7 July 2010, the BCSL, a subsidiary of the Company, entered into a cooperation agreement (the "Project Cooperation Agreement") with 博思夢想文化傳播有限公司 (Boss Dream Cultural Communication Company Limited\*) (the "BDCCL"), a related company of the Company, of which 于蕾女仕 ("Ms. Yu\*\*") 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 Project Cooperation Agreement, the BCSL 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 the BDCCL 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) ("First Phase Deposit") was paid by the BCSL and the Group had a commitment of RMB30,000,000 (equivalent to approximate HK\$35,400,000) in this respect (note 27(a)).

On 1 September 2011, BCSL and BDCCL had agreed that the Project Cooperation Agreement has been terminated. The First Phase Deposit has been refunded to BCSL during the reporting period.

\* The English name is for identification only

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Cash and bank balances	26,729	21,038	547	6,032
Time deposits	30,366	90,465	30,366	90,465
	<b>57,095</b>	111,503	<b>30,913</b>	96,497

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") was RMB42,149,000 (2010: RMB85,424,000) (equivalent to approximately HK\$52,012,000 (2010: HK\$100,921,000)). 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.

## 21. 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	
	2011 HK\$'000	2010 HK\$'000
Within 30 days	1,598	—

The trade payables are non-interest-bearing and are normally settled on 30 to 180 day terms.

## 22. DUE TO A DIRECTOR

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

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 23. 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 of HK\$600,000,000 for acquiring 100% equity interest in Legend Century Investments Limited and its subsidiaries. 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 Issues (note 24(a)(iii)) on 8 July 2010. The Company has the right to mandatorily convert the outstanding of the Convertible Bonds at the maturity date on 30 December 2012.

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

	<b>Nominal value</b>	<b>Equity</b>	<b>Liability</b>	<b>Total</b>
	HK\$'000	component	component	HK\$'000
		HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2010	595,000	460,768	—	460,768
Less: amount converted into the shares of the Company during the year (note 24(a)(iii))	(89,403)	(69,234)	—	(69,234)
Balance at 31 December 2010, 1 January 2011 and 31 December 2011	505,597	391,534	—	391,534

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:

	At 30 December 2009 (issuance date)
Stock price	HK\$0.117
Expiration	6 months
Risk-free rate	0.17%
Volatility	62.00%

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 24. SHARE CAPITAL

### (a) Shares

	2011 HK\$'000	2010 HK\$'000
Authorised:		
30,000,000,000 ordinary shares of HK\$0.01 each	<b>300,000</b>	300,000
Issued and fully paid:		
6,635,001,932 ordinary shares of HK\$0.01 each	<b>66,350</b>	66,350

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

	Number of shares in issue	Issued share capital	Share premium account	Total
Notes	HK\$'000	HK\$'000	HK\$'000 (note 24(b))	
At 1 January 2010	703,739,500	7,037	75,330	82,367
Issue of shares (note (i))	(i) 140,000,000	1,400	16,100	17,500
Rights issues (note (ii))	(ii) 3,374,958,000	33,750	101,248	134,998
Rights issues expenses	—	—	(2,186)	(2,186)
Conversion of convertible bonds (note (iii))	(iii) 2,416,304,432	24,163	45,071	69,234
At 31 December 2010 and 2011	6,635,001,932	66,350	235,563	301,913

Notes:

- (i) Upon completion of the acquisition of Nopo International Limited (note 27) 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 an independent third party (the "Nopo Vendor") at a consideration of HK\$0.125 per share on 25 January 2010.
- (ii) 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 Issues") at a subscription price of HK\$0.04 per each of the Rights Shares. The issue of Rights Shares was completed on 8 July 2010 with a gross proceed of approximately HK\$134,998,000.
- (iii) 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\$89,403,000 at an adjusted conversion price of HK\$0.037 per share following the completion of the Rights Issues. 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 25 to the financial statements.



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 25. 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, employees and consultants, unless otherwise cancelled or amended, will expire on 30 July 2012.

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 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 37,433,155, representing 0.56% of the shares of the Company then in issue.

Details of the options granted under the Scheme and outstanding at 31 December 2011 are as follows:

Grantee	Date of grant	Exercise period	Number of share options				Exercise price per share option HK\$	
			Outstanding as at 1 January 2011	Granted during the year	Lapsed during the year	Exercised during the year		Outstanding as at 31 December 2011
<b>Directors</b>								
Xiang Xin	9 April 2008	9 April 2008–8 April 2013	14,973,262	—	—	—	14,973,262	0.0935
Wong Chak Keung	9 April 2008	9 April 2008–8 April 2013	14,973,262	—	(14,973,262)	—	—	0.0935
Zhang Zhan Liang	9 April 2008	9 April 2008–8 April 2013	7,486,631	—	—	—	7,486,631	0.0935
			<b>37,433,155</b>	<b>—</b>	<b>(14,973,262)</b>	<b>—</b>	<b>22,459,893</b>	
<b>Consultant</b>								
Li Tan Yeung, Richard	9 April 2008	9 April 2008–8 April 2013	14,973,262	—	(14,973,262)	—	—	0.0935
			<b>52,406,417</b>	<b>—</b>	<b>(29,946,524)</b>	<b>—</b>	<b>22,459,893</b>	
<b>Employees</b>								
	9 April 2008	9 April 2008–8 April 2013	29,946,524	—	(14,973,262)	—	14,973,262	0.0935
			<b>82,352,941</b>	<b>—</b>	<b>(44,919,786)</b>	<b>—</b>	<b>37,433,155</b>	

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

Notes:

- (a) (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                  | 5 years      |
| 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 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.
- (b) Following the completion of the Rights Issues on 8 July 2010 as described in note 24(a)(ii), 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 26. 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 22 of the financial statements.

### (b) Company

		Share premium account	Share option reserve	Special reserve	Equity component of convertible bonds	Accumulated losses	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010		75,330	5,117	14,879	460,768	(64,572)	491,522
Issue of shares	24(a)(i)	16,100	—	—	—	—	16,100
Rights issues	24(a)(ii)	101,248	—	—	—	—	101,248
Rights issues expenses		(2,186)	—	—	—	—	(2,186)
Conversion of convertible bonds	24(a)(iii)	45,071	—	—	(69,234)	—	(24,163)
Total comprehensive loss for the year		—	—	—	—	(7,995)	(7,995)
At 31 December 2010 and 1 January 2011		235,563	5,117	14,879	391,534	(72,567)	574,526
Total comprehensive loss for the year		—	—	—	—	(505,283)	(505,283)
At 31 December 2011		235,563	5,117	14,879	391,534	(577,850)	69,243

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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 26. RESERVES (Continued)

### (c) Nature and purpose of reserves

#### (i) Special reserve

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.

#### (ii) Capital reserve

The Company had made a capital contribution to a subsidiary but no equivalent capital was injected by the non-controlling interest. Capital reserve represents the difference between the capital injected by the Company and the adjustment of non-controlling interest.

## 27. ACQUISITION OF SUBSIDIARIES

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

On 10 December 2009, the Company entered into a sale and purchase agreement (the "Nopo Agreement") with 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, 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.

The amount 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	Amount HK\$'000
Intangible assets*	14(c)	19,485
Cash and bank balances		2
Due from a director		10
Other payables and accruals		(4)
		<u>19,493</u>
Satisfied by:		
Cash		1,993
Consideration Shares	27	17,500
		<u>19,493</u>

\* 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 27. ACQUISITION OF SUBSIDIARIES (Continued)

### Acquisition of Nopo International Limited ("Nopo") (Continued)

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	1,993
Cash and bank balances acquired	(2)
	1,991
Less: deposits paid in prior year	(1,993)
	(2)
Net inflow of cash and cash equivalents in respect of the acquisition of Nopo	(2)

## 28. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2011 HK\$'000	2010 HK\$'000
Within one year	2,345	1,773
In the second to fifth years, inclusive	3,542	2,210
After five years	—	88
	5,887	4,071

## 29. OTHER COMMITMENTS AND EVENTS AFTER THE REPORTING PERIOD

In addition to the operating lease commitments as detailed in note 28 above, the Group and the Company had the following commitments at the end of the reporting period:

At 31 December 2010, the capital commitment for investment in the establishment and operation of an online education platform, video production platform, reward redemption platform and advertisement broadcasting platform (the "Investment Project") of RMB30,000,000 (equivalent to approximately HK\$35,400,000), this Investment Project has been terminated, agreed by both parties during the reporting period.

## 30. CONTINGENT LIABILITIES

As at 31 December 2011, the Group and the Company did not have any significant contingent liabilities (2010: Nil).



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 31. RELATED PARTY TRANSACTIONS

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

	Notes	Group	
		2011 HK\$'000	2010 HK\$'000
New Era Group (China) Limited	(a)		
Rental paid		960	960
Rental deposit paid		160	160
New Era Foundation (China) Limited	(b)		
Rental paid		627	990
Rental deposit paid		177	177

Notes:

- (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, has control. 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 19) in the statement of financial position. On 1 January 2011, the term of Tenancy Agreement A has been extended a 36 months commencing from 1 July 2011, agreed by both the Company and New Era.
- (b) On 1 December 2009, a subsidiary of the Company, the BCSL 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, has control. Pursuant to the Tenancy Agreement B, New Era China agreed to lease to the BCSL two office premises for a term of 36 months commencing on 1 January 2010, the BCSL 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 19) in the statement of financial position.

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

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 31. RELATED PARTY TRANSACTIONS *(Continued)*

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

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>560</b>	635
Equity-settled share option expenses	—	—
Pension scheme contributions	<b>2</b>	18
	<b>562</b>	653

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

## 32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Major non-cash transactions

- (a) On 25 January 2010, the Company issued new shares (note 24(a)(ii)) with a fair value of HK\$17,500,000 as part of the consideration for the acquisition of Nopo International Limited (note 27).
- (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 19(a)) paid in the prior year.
- (c) During the year ended 31 December 2011, the Group received four bills of exchange from a customer as a trade deposit of approximately of RMB31,095,000 (equivalent to approximately HK\$38,372,000), for a sales contract.

## 33. FINANCIAL INSTRUMENTS BY CATEGORY

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

### Financial assets

#### *The Group*

	<b>Loans and receivables</b>	
	<b>For the year ended 31 December</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Financial assets included in prepayments, deposits and other receivables	<b>437</b>	12,534
Trade and bills receivables	<b>40,341</b>	—
Cash and bank balances	<b>57,095</b>	111,503
	<b>97,873</b>	124,037

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

### Financial liabilities

#### The Group

	Financial liabilities at amortised cost	
	For the year ended 31 December	
	2011 HK\$'000	2010 HK\$'000
Financial liabilities included in other payables and accruals	544	902
Trade payables	1,598	—
Due to a director	4,607	13,840
	<b>6,749</b>	<b>14,742</b>

### Financial assets

#### The Company

	Loans and receivables	
	For the year ended 31 December	
	2011 HK\$'000	2010 HK\$'000
Financial assets included in prepayments, deposits and other receivables	164	160
Due from subsidiaries	54,924	35,333
Cash and bank balances	30,913	96,497
	<b>86,001</b>	<b>131,990</b>

### Financial liabilities

#### The Company

	Financial liabilities at amortised cost	
	For the year ended 31 December	
	2011 HK\$'000	2010 HK\$'000
Financial liabilities included in other payables and accruals	253	498

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 34. FINANCIAL RISK MANAGEMENT

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

### 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 currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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.

	<b>Increase/ (decrease) in exchange rate</b>	<b>Increase/ (decrease) in loss before tax HK\$'000</b>	<b>Increase/ (decrease) in equity* HK\$'000</b>
<b>31 December 2011</b>			
If HKD weakens against RMB	<b>5%</b>	<b>(1,527)</b>	—
If HKD strengthens against RMB	<b>5%</b>	<b>1,527</b>	—
<b>31 December 2010</b>			
If HKD weakens against RMB	<b>5%</b>	<b>(5,666)</b>	—
If HKD strengthens against RMB	<b>5%</b>	<b>5,666</b>	—

\* Excluding retained profits/accumulated losses

### Credit risk

The carrying amounts of the cash and bank balances and trade and bills receivables included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has concentration of credit risk as 100% (2010: nil) of the trade receivables due from the Group's five largest customers.

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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 34. FINANCIAL RISK MANAGEMENT (Continued)

### Credit risk (Continued)

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.

### Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

### 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.

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	
	2011 HK\$'000	2010 HK\$'000
Other payables and accruals	544	902
Due to a director	4,607	13,840
Less: Cash and bank balances	<b>(57,095)</b>	(111,503)
Net cash	<b>(51,944)</b>	(96,761)
Total capital:		
Equity attributable to owners of the Company	<b>141,078</b>	640,876
Capital and net debt	<b>89,134</b>	544,115
Gearing ratio	<b>N/A</b>	N/A

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 5 March 2012.



# FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling 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.

## RESULTS

	Year ended 31 December				
	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
REVENUE	<b>85,367</b>	37,108	51,183	81,127	380,523
Cost of sales	<b>(79,222)</b>	(36,730)	(50,589)	(84,409)	(359,220)
Gross profit/(loss)	<b>6,145</b>	378	594	(3,282)	21,303
Other income and gains	<b>2,313</b>	2,776	608	194	465
Administrative and other operating expenses	<b>(8,517)</b>	(12,193)	(8,906)	(25,835)	(10,546)
Impairment of assets of a disposal group	—	—	(39,655)	—	—
Other impairment loss	<b>(502,279)</b>	—	(2,415)	(2,677)	(17,604)
Finance costs	—	—	—	(758)	(1,503)
LOSS BEFORE TAX	<b>(502,338)</b>	(9,039)	(49,774)	(32,358)	(7,885)
Income tax expenses	—	—	—	(489)	(314)
LOSS FOR THE YEAR	<b>(502,338)</b>	(9,039)	(49,774)	(32,847)	(8,199)
Attributable to:					
Owners of the Company	<b>(502,368)</b>	(8,813)	(49,774)	(32,847)	(8,199)
Non-controlling interests	<b>30</b>	(226)	—	—	—
	<b>(502,338)</b>	(9,039)	(49,774)	(32,847)	(8,199)

## ASSETS AND LIABILITIES

	As at 31 December				
	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
TOTAL ASSETS	<b>186,199</b>	655,664	528,107	89,021	127,218
TOTAL LIABILITIES	<b>(45,121)</b>	(14,788)	(29,182)	(9,213)	(22,005)
NET ASSETS	<b>141,078</b>	640,876	498,925	79,808	105,213