

Annual Report

2011



China Bio Cassava Holdings Limited
中國生物資源控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8129)



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 high 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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Corporate Information

EXECUTIVE DIRECTORS

Mr. Kwan Kin Chung (*Managing Director*)
Mr. Tam Kam Biu William
Mr. Wan Xiaolin
Mr. Chen Man Lung

NON-EXECUTIVE DIRECTORS

Mr. Leung Lap Yan (*Chairman*)
Mr. Leung Lap Fu Warren

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsang Wai Wa
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus

COMPLIANCE OFFICER

Mr. Tam Kam Biu William

AUDIT COMMITTEE

Mr. Tsang Wai Wa
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus

REMUNERATION COMMITTEE

Mr. Tsang Wai Wa
Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Tam Kam Biu William
(resigned on 26 March 2012)

AUTHORISED REPRESENTATIVES

Mr. Kwan Kin Chung
Mr. Tam Kam Biu William

COMPANY SECRETARY

Mr. Tam Kam Biu William

QUALIFIED ACCOUNTANT

Mr. Tam Kam Biu William

AUDITORS

ZHONGLEI (HK) CPA Company Limited
Suites 313-317, 3/F,
Shui On Centre,
6-8 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
George Town
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 10/F, Culturecom Centre
47 Hung To Road,
Kwun Tong
Kowloon
Hong Kong

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS

as to Hong Kong law
S.H. Leung & Co.
Room 502
5th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

as to Cayman Islands law
Maples and Calder
53rd Floor The Center
99 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
673 Nathan Road
Mongkok, Kowloon
Hong Kong

Citibank (Hong Kong) Limited
8/F, Dorset House
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

STOCK CODE

8129

WARRANT CODE

8187

WEBSITE ADDRESS

www.bio-cassava.com

Management's Discussion and Analysis

HIGHLIGHTS OF THE YEAR

The Group recorded turnover of HK\$4,936,000 for the year ended 31 December 2011, representing a decrease of 15% from the previous year.

The Group recorded HK\$553,000 of OEM licensing revenue for the year 2011, representing a decrease of 6.2% from that of the previous year. OEM licensing revenue for the year 2011 represents about 11.2% of turnover for the year, as compared to 10.2% in the year of 2010. Q9 CIS and Qcode CIS package sales and software licensing revenue to institution customers for the year 2011 recorded a decrease of 13.9% from the previous year. Sales of third party products for the year recorded a decrease of 45.6% from the previous year.

The Group's total operating expenses in 2011 increased by HK\$20,588,000 from 2010, representing an increase of 177.3 % from that of the previous year, mainly attributable to a significant increase in equity-settled share-based remuneration expenses of HK\$19,346,000, as a result of share options granted during the year; such equity-settled share-based remuneration expenses were not existed for the year ended 31 December 2010.

The Group recorded a loss attributable to owners of the Company for the year 2011 of approximately HK\$27,725,000 (2010: HK\$5,425,000). The loss per share was HK\$0.34 cent (2010: HK\$0.07 cent).

RESULTS

The consolidated turnover of the Company and its subsidiaries for the year ended 31 December 2011 amounted to approximately HK\$4,936,000, representing a decrease of 15% from the previous year. Loss attributable to owners of the Company for the year 2011 of approximately HK\$27,725,000 (2010: HK\$5,425,000). The loss per share was HK\$0.34 cent (2010: HK\$0.07 cent).

REVIEW OF OPERATIONS

During the year, the Group substantially increased its equity-settled share based remuneration expenses of HK\$19,346,000, as a result of share options granted during the year; such equity-settled share-based remuneration expenses were not existed for the year ended 31 December 2010. As a result, the Group's total operating expenses in 2011 was increased by HK\$20,588,000 from 2010, representing an increase of 177.3% from that of the previous year

EVENT AFTER THE REPORTING PERIOD

- (i) The Company's head office and principle place of business in Hong Kong has changed to Room B, 10th Floor, 47 Hung To Road, Kwun Tong, Kowloon with effect from 9 March 2012.
- (ii) Pursuant to the announcement of the Company dated 22 March 2012, on 22 February 2012, the Company as purchaser entered into the conditional Agreement with a citizen in PRC and a substantial shareholder of the PRC Company who is an independent third party (the "Guarantor") and Harvest Time Global Investments Limited (the "Vendor") in relation to the acquisition of the entire equity interests of New Crown Alliance Limited (the "Target Company"). The Agreement would constitute a major transaction on the part of the Company.

Management's Discussion and Analysis

The Target Company is a company incorporated in the British Virgin Islands with limited liabilities and is principally engaged in investment holdings. The Target Company is indirectly holding 20% equity interests of the PRC Company, which in turn is principally engaged in rare earth related business in the PRC.

After the entering into the Agreement, the Company and the Vendor entered into further negotiations in respect of certain terms and conditions of the Agreement. Up to the date of this report, the negotiations are still in progress.

PROSPECTS

The focus of the Group's efforts for the year 2012 will be to continue to explore and develop new business opportunities to derive new sources of revenue, and continue its marketing effort in promoting Q9 CIS to institutional customers and the end user markets with minimum resources.

COMMITMENTS

The Group has no credit facilities and no borrowing outstanding as at 31 December 2011 (2010: Nil).

(a) Capital commitments

At 31 December 2011, the Group had no capital commitment (2010: Nil).

(b) Commitments under operating leases

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011	2010
	HK\$'000	HK\$'000
Within one year	1,005	1,112
In the second to the fifth year inclusive	74	803
	1,079	1,915

(c) Other commitment

At 31 December 2011, the Group had no other commitment (2010: Nil).

Management's Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group has no interest bearing debt. The Group relies on its internal resources, the net proceeds from its IPO and the subsequent issue of warrants and rights issue as the sources of funding. The Group keeps most of its cash in Hong Kong dollars in the bank accounts and a minimum amount of cash in Renminbi in the bank account of its subsidiary in the PRC as working capital of the Group.

There was no charge on the Group's assets as at 31 December 2011 (2010: Nil).

The Group had no debt as at 31 December 2011 (2010: Nil).

The gearing ratio of the Group, based on total debt to shareholder's equity, was nil as at 31 December 2011 (2010: Nil).

ORDER BOOK

Due to the nature of the Group's business, the Group does not maintain an order book (prospects for new business was discussed in the Management's Discussion and Analysis section).

INVESTMENT

Other than the establishment of the two new subsidiaries during the year ended 31 December 2011 (31 December 2010: Nil), there was no significant investment made.

ACQUISITION, DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 17 January 2011, Q9-Tech Energy Development Limited, a wholly owned subsidiary of the Company, acquired a subsidiary, named as Growlong Company Limited from Culturecom Limited, which is a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company at a consideration of HK\$35,000.

On 26 August 2011, Q9-Tech Energy Development Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement for the disposal of the entire equity interest of China Mahjong Super League Group Limited at a consideration of HK\$2,680 to Culture.com Technology Limited, which is a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company.

On 26 August 2011, the Company entered into a sale and purchase agreement for the disposal of the entire equity interest of China Super Mahjong League Group Limited at a consideration of HK\$129,050 to Culture.com Technology Limited, which is a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company.

Save as disclosed above, the Group did not have any other material acquisition and disposal of subsidiaries or affiliated companies for the year ended 31 December 2011.

Management's Discussion and Analysis

On 28 January 2010, Q9-Tech Energy Development Limited, a wholly owned subsidiary of the Company, as vendor, Deng Jiankun, Xie Yueyuan and Deng Jing, collectively as purchasers, and 羅定市豐智發展有限公司 (Luoding Fengzhi Development Company Limited)* as guarantor entered into a sale and purchase agreement regarding discloseable transaction. Pursuant to the sale and purchase agreement, the purchasers agreed to purchase and the vendor agreed to sell the entire equity interest in 雲浮市九方農業科技發展有限公司 (Yunfu City Jiufang Agriculture Science and Technology Development Company Limited)*, a wholly owned subsidiary of the Company, at a cash consideration of RMB2,000,000 (approximately HK\$2,298,851). The details are set out in the Company's announcement dated 28 January 2010.

Save as disclosed above, the Group did not have any other material acquisition and disposal of subsidiaries or affiliated companies for the year ended 31 December 2010.

* English name for identification purposes only

HUMAN RESOURCES

Staff number

As at 31 December 2011, the Group employed 29 staff (2010: 30). Total staff costs, including directors' emoluments were approximately HK\$6.4 million for the year ended 31 December 2011 as compared with those of approximately HK\$4.8 million in 2010.

Remuneration policies

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share options may be granted to the eligible staff by reference to the Group's performance as well as individual's performance.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Except for the plan to acquire the entire equity interests of the Target Company as announced by the Company on 22 March 2012, which indirectly holding 20% equity interests of the PRC Company, which in turn is principally engaged in rare earth related business in the PRC. As at the date hereof, the negotiations are still in progress and further announcement will be made by the Company in compliance with the GEM Listing Rules should there be any significant progress in the negotiations.

Except for the above, the Group does not have any other plan for material investments or capital assets. The Group will continue to focus its efforts in promoting Q9 CIS to institutional customers and end users in the Greater China region and to explore and develop new business opportunities to diversify the scope of business.

Management's Discussion and Analysis

HEDGING POLICY

The Group does not have any material exposure to fluctuations in exchange or interest rates. Therefore, no hedging measures have been taken at present.

CONTINGENT LIABILITIES

The Group does not have any contingent liabilities as at 31 December 2011 (2010: Nil).

CREDIT POLICY

The credit terms given to customers are generally based on the financial strengths of individual customers. The Group generally allows an average credit term of 30-90 days to its trade customers.

SEGMENTAL INFORMATION

Details of the segmental information are set out in Note 5 to the consolidated financial statements.

Chairman's Statement

Dear Shareholders,

During the past few years, the Group attempted to diversify into other business areas to derive new and steady source of income to the Group. The Board announced on 22 March 2012, that the Company as purchaser entered into a conditional Agreement with the Guarantor and the Vendor in relation to the acquisition of the entire equity interests of the Target Company. The Agreement would constitute a major transaction on the part of the Company.

The Target Company is a company incorporated in the British Virgin Islands with limited liabilities and is principally engaged in investment holdings. The Target Company is indirectly holding 20% equity interests of the PRC Company, which in turn is principally engaged in rare earth related business in the PRC.

After the entering into of the Agreement, the Company and the Vendor entered into further negotiations in respect of certain terms and conditions of the Agreement. As at the date hereof, the negotiations are still in progress and further announcement will be made by the Company in compliance with the GEM Listing Rules should there be any significant progress in the negotiations.

The Group will continue to promote Q9 CIS with its existing resources, and continue to look for new business opportunities to diversify the business scope of the Group.

With the above measures, we strive to create positive values for the shareholders with our best efforts and existing resources.

Leung Lap Yan

Chairman

Hong Kong, 26 March 2012

Corporate Governance Report

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules (Code") takes effect from 1 January 2005. The Company is committed to maintain a high standard of corporate governance. To maintain a good and solid framework of corporate governance will ensure the Company to run its business in the best interests of the shareholders. The Company has complied with the Code throughout the year.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adapted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rule. The Company has also made specific enquiry of the directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

BOARD OF DIRECTORS

The Board comprises of nine members, including four executive directors (namely Messrs. Kwan Kin Chung, Tam Kam Biu William, Wan Xiaolin and Chen Man Lung), two non-executive directors (namely Messrs. Leung Lap Yan and Leung Lap Fu Warren) and three independent non-executive directors (namely Messrs. Ip Chi Wai, Tse Wang Cheung Angus and Tsang Wai Wa). The directors' biographical details are set out on pages 16 to 18 of this annual report.

The Board of directors is accountable to shareholders for the activities and performance of the Group and for the preparation of financial statements which give a true and fair view. It oversees the Group's overall strategic plans, reviews the financial performance, supervises the management of the business and affairs and approves the strategic plans. The Board delegate the corporate matters to Management of the Group, including preparation of annual, interim and quarterly accounts, execution of the business strategies and adopted by the Board, implementation of internal controls system and compliance with relevant statutory requirement and other rules and regulations. Management is required to present an annual budget and proposals for major investment, addition of capital assets, and changes in business strategies for the Board's approval.

During the year, the Board held four meetings to exercise its duties including discussing and making decisions on the Group's business strategic development, finance matters, material operational matters and other matters as required.

Currently, at every annual general meeting of the Company, all directors including the independent non-executive directors shall retire from office by rotation. A retiring director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat.

Corporate Governance Report

All three independent non-executive directors ("INDs") come from professional backgrounds and one of them possess the appropriate accounting and financial management expertise. The INDs render their valuable expertise and experience for safeguarding the best interests of the Group. The Company has received from each of the INDs the annual confirmation of his independent pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the INDs are independent.

The INDs and the non-executive directors of the Company are not appointed for a specific terms but are subject to retirement by rotation and re-election at every annual meeting of the Company.

The Board conducted four regular Board meetings approximately at each quarter of the year in addition to other Board meetings to review the performance and finance matters of the Groups, and for statutory purpose.

The Board has established committees, namely Audit Committee and Remuneration Committee to oversee other particular aspects of the Company's affairs.

Statistics of director's attendance at the regular Board Meeting:

Name of director	Title	Attendance at Board Meetings/No. of Board Meeting held
Mr. Leung Lap Yan	Chairman and Non-executive director	4/4
Mr. Kwan Kin Chung	Managing Director	4/4
Mr. Tam Kam Biu William	Executive Director	4/4
Mr. Wan Xiaolin	Executive Director	0/4
Mr. Chen Man Lung	Executive Director	3/4
Mr. Leung Lap Fu Warren	Non-executive Director	3/4
Mr. Ip Chi Wai	Independent non-executive director	3/4
Mr. Tse Wang Cheung Angus	Independent non-executive director	3/4
Mr. Tsang Wai Wa	Independent non-executive director	1/4
(appointed on 12 August 2011)		

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was formed in March 2012 with defined terms of reference. It is mainly responsible for the development and review of the Corporate Governance policy, making recommendation to the Board, and implementing the Corporate Governance policies laid down by the Board.

The Corporate Governance Committee shall meet at least twice a year and whenever it considers necessary.

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee was reconstituted in March 2012 with defined terms of reference. Its role is to review and determine the policy for the remunerations of the directors and other senior management members. Currently, it comprises three independent non-executive directors, Mr. Tsang Wai Wa, Mr. Ip Chi Wai and Mr. Tse Wang Cheung Angus and is headed by the chairman, Mr. Tsang Wai Wa.

The Committee held two meetings during the year to discuss the policy and structure of the remuneration of the directors and other senior management members.

The Remuneration Committee is mainly responsible for:

- (a) Formulating remuneration policy for approval by the Board, which shall take into consideration factors such as salaries paid by comparable companies, employment conditions, and responsibilities, and individual performance of the directors, senior management, and the general staff. Performance shall be measured against corporate goals and objectives resolved by the Board from time to time; and implement the remuneration policy laid down by the Board;
- (b) Establishing guidelines for the recruitment of the chief executive and senior management;
- (c) Recommending to the Board the policy and structure for the remuneration of directors (including non-executive directors, and the chief executive as an ex-officio member) and senior management whilst ensuring no director or any of his associates is involved in deciding his own remuneration;
- (d) determining the remuneration of executive directors (including the chief executive who is an ex-officio member) and senior management, including benefits in kind, pension right, compensation payment (including compensation for loss of office or appointment etc). The chairman and/or the chief executive shall be consulted respectively about their proposals relating to the remuneration of the chief executive and/or senior management, as the case may be;
- (e) reviewing and approving the compensation arrangements in connection with any loss or termination of their office or appointment, or dismissal or removal for misconduct to executive directors and senior management which shall be fair and not excessive;
- (f) determining the criteria for assessing employee performance, which should reflect the Company's business objectives and targets;
- (g) considering the annual performance bonus for executive directors, senior management, and the general staff, having regard to their achievements against the performance criteria and by reference to market norms, and make recommendation to the Board;

Corporate Governance Report

- (h) engage such external professional advisors to assist and/or advise the Committee on issues as it considers necessary;
- (i) do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board; and
- (j) conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by applicable legislation and regulations.

Statistics of Remuneration Committee members' attendance at the Remuneration Committee Meeting:

Name of member	Attendance at Remuneration Committee Meetings/ No. of Remuneration Committee Meeting held
Mr. Tsang Wai Wa (<i>Chairman</i>) (appointed on 12 August 2011)	0/2
Mr. Ip Chi Wai	1/2
Mr. Tse Wang Cheung Angus	2/2
Mr. Tam Kam Biu William (resigned on 26 March 2012)	1/2

NOMINATION COMMITTEE

The Nomination Committee was formed in March 2012 with defined terms of reference. It is mainly responsible for the formulation of the nomination policy, reviewing the structure, size and composition of the Board, nomination of candidates to fill casual vacancies of elected directors, assessing non-executive directors' independence, reviewing the time required from a director to perform his responsibilities, and making recommendations to the Board on the succession planning for the chairman, the chief executive as well as the senior management.

The Nomination Committee shall meet at least annually and whenever it considers necessary.

During the year, the Board held one meeting for the nomination of a director.

AUDIT COMMITTEE

The Audit Committee has been established since the listing of the Company on the GEM Board. Currently, it comprises three INDs, namely Mr. Tsang Wai Wa (as the Chairman of the Committee), Mr. Tse Wang Cheung Angus and Mr. Ip Chi Wai. The term of reference describing the authorities and duties of the Audit Committee were adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountant and the Code Provision published by the Stock Exchange of Hong Kong Limited.

Corporate Governance Report

The Audit Committee meets regularly to review the reporting of financial and other information to shareholders.

Statistics of Audit Committee members' attendance at the Audit Committee Meeting:

Name of member	Attendance at Audit Committee Meetings/No. of Audit Committee Meeting held
Mr. Tsang Wai Wa (<i>Chairman</i>) (appointed on 12 August 2011)	1/2
Mr. Ip Chi Wai	1/2
Mr. Tse Wang Cheung Angus	2/2

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring that an adequate system of internal controls is maintained in place within the Group, and for reviewing its effectiveness together with the Audit Committee.

The internal control system of the Group comprises of a well defined management structure with specified limits of authority and control procedures, designed to achieve the following objectives: (a) ensure proper maintenance of account records; (b) ensure the completeness and accuracy of accounting transactions recorded in the accounting system, and timely reporting of actual financial results of the Group with comparison against budgets; (c) safeguard the Group's assets and management acts within its limits of authorities; and (d) ensure compliance with relevant legislation, regulations and listing rules, including but not limited to the present a balanced, clear and understandable assessment and regular review of the Group's financial reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

The Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Group. All material financial results and internal control system of the Group have been discussed and reviewed.

Management maintains and monitors the system of internal controls on an ongoing basis. Based on the evaluations made by the Board and external auditors, the Audit Committee is satisfied that the Group has fully complied with the Code Provisions on internal controls during the year as set forth in the Code; except that an internal audit function has not been set up within the Group. Nevertheless, nothing has come to the Board's attention to cause the Audit Committee to believe that the existing system of internal control is inadequate or ineffective.

Corporate Governance Report

EXTERNAL AUDITORS

During the year, the external auditors, ZHONGLEI (HK) CPA Company Limited, provided its annual audit services, review of the interim results and taxation advisory service to the Group. The Audit Committee is responsible for considering the appointment of the external auditors and reviewing the non-audit functions, if any, performed by the external auditors. In particular, the Audit Committee also considers, before they are contracted for such service, whether such non-audit service could lead to any potential material conflict of interest. Nothing has come to the Board's attention to cause the Audit Committee to believe that the non-audit services provided by the external auditors affect their independence, objectivity and effectiveness in the audit processes in accordance with applicable standards.

The remuneration in respect of services provided by ZHONGLEI (HK) CPA Company Limited for the year ended 31 December 2011 are as follow:

	2011
	HK\$
Annual audit services, review of interim results and taxation advisory service	270,000

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Kwan Kin Chung, aged 42, joined the Group in February 2001 and was appointed as an executive director of the Company. He was appointed as the managing director of the Company in January 2007 and responsible for the restructuring of the group businesses and corporate investments. He is also a director of a number of subsidiaries of the Company. Mr. Kwan held the position as a vice president of Culturecom Holdings Limited (a substantial shareholder of the Company) ("Culturecom") from 1998 to 2002. He is currently the managing director of Culturecom. He holds a Bachelor of Arts in Economics from Zhongshan University, Guangzhou, the PRC.

Mr. Tam Kam Biu, William, aged 55, joined the Group in January 2000 as a non-executive director of the Company. In August 2000, Mr. Tam became the chief financial officer and in September 2000 as an executive director of the Company. He was appointed as the chairman of remuneration committee of the Company in September 2006. Mr. Tam held the position as the company secretary of the Company from September 2006 to April 2010 and from December 2011. He is also a director of a number of subsidiaries of the Company. He was appointed as the company secretary of Culturecom on 2 March 2012 (a company whose shares are listed on the Main Board of the Stock Exchange of Hong Kong). Immediately before he joined the Group on a full time basis, Mr. Tam was the chief financial officer, company secretary and executive director of ViaGOLD Capital Limited, a company whose shares are listed on the Australian Stock Exchange. Mr. Tam has remained a non-executive director of ViaGOLD Capital Limited. He is also an independent non-executive director of China Technology Solar Power Holdings Limited (formerly known as "Soluteck Holdings Limited") (a company whose shares are listed on the Growth Enterprises Market of the Stock Exchange). Mr. Tam was an independent non-executive director of China Solar Energy Holdings Limited (stock code: 155). Mr. Tam has over 20 years of experience in financial management and corporate finance, gained with a number of Hong Kong listed companies and international groups. Mr. Tam obtained a degree in Master of Business Administration in 1981 from York University in Toronto, Canada and became an associate member of the Hong Kong Institute of Certified Public Accountants in September 1987 and an associate of the Association of Chartered Certified Accountants in May 1988.

Mr. Wan Xiaolin, aged 54, was appointed as executive director of the Company in September 2003. He is an executive director of Culturecom and is responsible for its administration, human resources and training, accounts and finance and information technology related management activities. He holds a Bachelor of Arts in Economics from Shanghai Maritime University, Shanghai, the PRC.

Biographical Details of Directors

Mr. Chen Man Lung, aged 46, he was appointed as an executive director of the Company in May 2007. He is currently an executive director of Culturecom. Mr. Chen was an independent non-executive director of Opes Asia Holdings Limited and Mobile Telecom Network Holdings Limited, both companies whose shares are listed on the Main Board of the Stock Exchange, and the chief financial officer of ViaGOLD Capital Limited, a company whose shares are listed on Australian Stock Exchange. On public services, he currently serves as the chairman of Academic Advisory Board of the Humanities program under Faculty of Arts of the Hong Kong Baptist University, the director of the Hong Kong Baptist University Alumni Association Limited and founding member of the International Federation of Creative and Technology. He served as Academic Advisor of Academy of Visual Art of Hong Kong Baptist University, the director of the Hong Kong Comics & Animation Federation Limited (HKCAF) and Committee Member of the Inbound Travel Agent Association Limited (HKITA) as well as Hong Kong Travel Industry Council (HKTIC). He was granted the Degree of Bachelor of Arts in Sociology and the Degree of Master of Arts in Chinese Studies by the Hong Kong Baptist University and The Hong Kong University of Science and Technology respectively. Mr. Chen has over 18 years of solid experience in investment.

NON-EXECUTIVE DIRECTORS

Mr. Leung Lap Yan, aged 63, was appointed as the chairman and an executive director of the Company in 2001. Mr. Leung has been re-designated as a non-executive director of the Company in May 2007 and remains as the chairman of the Company after the re-designation. He is also a director of a number of subsidiaries of the Company. Apart from being an inventor, Mr. Leung is a well known script writer, having written such dramas as New Justice Pao, Dynasty and The Pride of Chao Zhou. From 1978 to 1980, Mr. Leung was employed as the manager of programme planning of Rediffusion Television and from 1986 to 1989 as the assistant to the controller of production of Television Broadcasts Limited. During the period 1983 to 1986, he was the director (drama) of the Singapore Broadcasting Corporation. In 1993, he moved to Taiwan where he developed the first version of QCode, a character input system. A year later he worked together with Mr. Lau Man Kin to upgrade QCode and founded the Group. He is a brother of Mr. Leung Lap Fu Warren (a non-executive director of the Company).

Mr. Leung Lap Fu Warren, aged 61, was appointed as an executive director of the Company in 2001. He has been re-designated as a non-executive director of the Company in May 2007. He is also a director of a number of subsidiaries of the Company. For most of the 1970's, Mr. Leung worked for multinational companies, Wallem Ship Management Company Limited and C.N. Company, a member of the Swire Group, as a marine engineer specialising in automatic control systems projects. Between 1979 and 1981, he was a business manager with a subsidiary of the Kowloon Development Group. Thereafter he worked as a plant superintendent first with HSBC Property (Asia) Limited, then as senior engineer with the Macau Jockey Club and lastly with the Lee Garden Hotel Management Group. He has a number of engineering and technical qualifications, including being a high-tension electrical engineering worker registered by Electrical & Mechanical Services Department of Hong Kong Government. He is a brother of Mr. Leung Lap Yan (a non-executive director of the Company).

Biographical Details of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Chi Wai, aged 44, graduated from the University of Hong Kong with a bachelor's degree in law. He is a solicitor admitted in Hong Kong and has over 10 years of experience in the legal profession. He was appointed as an independent non-executive director of the Company in September 2000. He is a member of audit committee and remuneration committee of the Company. Mr. Ip is also an independent non-executive director, a member of audit committee and remuneration committee of Asia Standard Hotel Group Limited.

Mr. Tse Wang Cheung Angus, aged 46, is a partner in the law firm of Tse Yuen Ting Wong. He was appointed as an independent non-executive director of the Company in September 2000 and is member of audit committee and remuneration committee.

Mr. Tsang Wai Wa, aged 50, has been appointed as an independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company on 12 August 2011. Mr. Tsang is also an independent non-executive director of Culturecom Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange of Hong Kong, since 17 November 2009. Mr. Tsang is a holder of a Bachelor degree in Finance and Accounting and a Master degree in Business Administration. He is a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in auditing and accounting. Mr. Tsang was an independent non-executive director of Opes Asia Development Limited (stock code: 810) which is listed in Hong Kong.

Directors' Report

The directors of the Company present their report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 35 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 and the state of its affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 32 to 105.

The directors of the Company do not recommend the payment of a dividend.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out on page 37 and note 34(c) to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 24 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for last five financial years is set out on page 106.

DISTRIBUTABLE RESERVES

In accordance with the Companies Law of the Cayman Islands, the Company has no reserves available for distribution to the shareholders as at 31 December 2011 (2010: Nil). The payment of dividends and distribution out of the share premium account is however subject to a solvency test of the Company and the provisions of the Articles of Association of the Company.

Directors' Report

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

DIRECTORS

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

Executive Directors:

Mr. Kwan Kin Chung
Mr. Tam Kam Biu William
Mr. Wan Xiaolin
Mr. Chen Man Lung

Non-Executive Directors:

Mr. Leung Lap Yan
Mr. Leung Lap Fu Warren

Independent non-executive directors:

Mr. Ip Chi Wai
Mr. Tse Wang Cheung Angus
Mr. Tsang Wai Wa (appointed on 12 August 2011)
Mr. Shiu Kwok Keung (resigned on 14 May 2011)

In accordance with Article 116 of the Company's Articles of Association, all the directors of the Company retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors of the Company are set out on pages 16 to 18.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

Mr. Tam Kam Biu William has entered into a service contract with the Group whereby he was employed as the chief financial officer of the Group.

None of directors of the Company has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, save for the interest of the directors in share options as below, neither of the directors nor the chief executive of the Company had interests and or short positions in the shares of the Company ("Shares"), underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)("SFO") which (i) are required 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 are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

Directors' Report

LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

Share Option

As at 31 December 2011, there were a total of 101,000,000 outstanding share options of the Company granted to the directors of the Company, details of which are summarised in the following table:

Director	Date of grant	Options to subscribe for shares of the Company				Outstanding as at 31 December 2011	Option exercise period	Exercise price per share	Approximate percentage of shareholding
		Outstanding as at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period				
Former Director:									
Shiu Kwok									
Keung (Note (i))	29/5/2007	4,000,000	-	-	(4,000,000)	-	29/5/2007 to 28/5/2017	HK\$0.1125	-
Directors:									
Kwan Kin Chung	29/5/2007	16,000,000	-	-	-	16,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	0.26%
	21/9/2011	-	5,000,000	-	-	5,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Tam Kam Biu William	29/5/2007	20,000,000	-	-	-	20,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	0.26%
	21/9/2011	-	1,000,000	-	-	1,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Wan Xiaolin	29/5/2007	12,000,000	-	-	-	12,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	0.16%
	21/9/2011	-	1,000,000	-	-	1,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Chen Man Lung	29/5/2007	16,000,000	-	-	-	16,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	0.21%
	21/9/2011	-	1,000,000	-	-	1,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Leung Lap Yan	29/5/2007	8,000,000	-	-	-	8,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	0.11%
	21/9/2011	-	1,000,000	-	-	1,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Leung Lap Fu Warren	29/5/2007	8,000,000	-	-	-	8,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	0.11%
	21/9/2011	-	1,000,000	-	-	1,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Ip Chi Wai	29/5/2007	4,000,000	-	-	-	4,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	0.06%
	21/9/2011	-	1,000,000	-	-	1,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Tse Wang Cheung Angus	29/5/2007	4,000,000	-	-	-	4,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	0.06%
	21/9/2011	-	1,000,000	-	-	1,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Tsang Wai Wa (Note(ii))	21/9/2011	-	1,000,000	-	-	1,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	0.01%
Total		<u>92,000,000</u>	<u>13,000,000</u>	<u>-</u>	<u>(4,000,000)</u>	<u>101,000,000</u>			

Directors' Report

Notes:

- (i) Mr. Shiu Kwok Keung resigned as independent non-executive director of the Company with effect from 14 May 2011. The options granted to Mr. Shiu were lapsed.
- (ii) Mr. Tsang Wai Wa was appointed as independent non-executive director of the Company with effect from 12 August 2011.
- (iii) The option exercise period is commenced from the date of grant for ten years. The options may be exercised at any time within the option period provided that the options have been vested. As at 31 December 2011, all options have been vested.
- (iv) The above share options were granted pursuant to the Company's share option scheme adopted on 27 April 2007.

Save as disclosed above, none of the directors or the chief executives of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2011.

SHARE OPTION SCHEMES

On 27 April 2007, a new share option scheme (the "New Share Option Scheme") was adopted by the shareholders of the Company and the share option scheme adopted by the Company on 30 April 2002 (the "Old Share Option Scheme") was terminated accordingly on the same date. No share option was outstanding under the Old Share Option Scheme. A summary of the New Share Option Scheme is as follows:

1. Purpose

The purpose of the New Share Option Scheme is to enable the Board to grant options to eligible participants as incentives and/or rewards in recognition or acknowledgement of the contributions that eligible participants have made and/or will make to the Group.

The New Share Option Scheme will provide the eligible participants with an opportunity to have a personal stake in the Company and the directors of the Company believe this will motivate the eligible participants to utilise their performance and efficiency for the benefit of the Group and will attract and retain or otherwise maintain an on-going relationship with the eligible participants whose contributions are or will be beneficial to the long term growth of the Company.

Directors' Report

2. Eligible participants

The eligible participants of the New Share Option Scheme may include:

- (a) any director (whether executive, non-executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or advisers of or contractor to the Group or any Invested Entity;
- (b) any discretionary trust whose discretionary objects include any director (whether executive, non-executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity; and
- (c) any company beneficially owned by any director (whether executive, non-executive or independent non-executive director), employee (whether full time or part time employee), consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity.

3. Total number of shares available for issue

The total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme must not in aggregate exceed 1,522,060,000 Shares, representing about 18.6% of the shares in issue at the date of this report.

4. Maximum entitlement of each eligible participant

Unless approved by the shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each eligible participant (including both exercised and outstanding options) in any 12 month period must not exceed 1% of the shares in issue. Where any further grant of options to an eligible participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be separately approved by the shareholders in general meeting with such eligible participant and his associates abstaining from voting. The Company must send a circular to the shareholders and the circular must disclose the identity of the eligible participant, the number and terms of the options to be granted (and options previously granted to such eligible participant).

Directors' Report

5. Time of exercise of option

An option shall be exercisable at any time during an option period to be notified by the Board to each grantee, provided that no option shall be exercisable later than ten years after its date of grant.

6. Minimum period for which any option must be held

Unless otherwise determined by the Board at its sole discretion, there is no minimum period for which an option must be held before such an option can be exercised under the terms of the New Share Option Scheme.

7. Amount payable upon acceptance of option

HK\$1.00 is payable by each eligible participant to the Company on acceptance of an offer of an option, which shall be paid on or before the last day by which the offer must be accepted.

8. Basis of determining the exercise price

The exercise price shall be at the discretion of the Board, but it must be at least the highest of: (a) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a business day; and (b) the average of the closing prices of the shares as shown on the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

9. The remaining life of the New Share Option Scheme

The New Share Option Scheme shall commence on the date on which the New Share Option Scheme is approved by a resolution of shareholders at a general meeting of the Company and shall continue in force until and including the date immediately preceding the tenth anniversary of the date of commencement.

Directors' Report

As at 31 December 2011, options to subscribe for up to an aggregate of 1,517,760,000 shares of HK\$0.0025 each had been granted by the Company under the New Share Option Scheme. Details of the share options which had been granted under the Share Option Scheme are as follows:

Category of participant	Date of grant	Options to subscribe for shares of the Company					Outstanding as at 31 December 2011	Option exercise period	Exercise price per share
		Outstanding as at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 December 2011			
Directors of the Company	29/5/2007	92,000,000	-	-	(4,000,000)	88,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	
	21/9/2011	-	13,000,000	-	-	13,000,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Employees other than the directors of the Company	29/5/2007	12,000,000	-	-	-	12,000,000	29/5/2007 to 28/5/2017	HK\$0.1125	
	21/9/2011	-	5,500,000	-	-	5,500,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Consultants	29/5/2007	652,760,000	-	-	-	652,760,000	29/5/2007 to 28/5/2017	HK\$0.1125	
	21/9/2011	-	746,500,000	-	-	746,500,000	21/9/2011 to 20/9/2021	HK\$0.0430	
Total		<u>756,760,000</u>	<u>765,000,000</u>	<u>-</u>	<u>(4,000,000)</u>	<u>1,517,760,000</u>			

Notes:

- (i) The option exercise period is commenced from the date of grant for ten years. The options may be exercised at any time within the option period provided that the options have been vested. As at 31 December 2011, all options have been vested.
- (ii) During the year, there were no options being exercised and cancelled, but 4,000,000 share options were lapsed.

Details of options granted to directors of the Company under the Share Option Scheme are set out in the sub-section headed "Long Position in Underlying Shares of the Company" under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

Directors' Report

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

As at 31 December 2011, according to the register of interests kept by the Company under Section 336 of the SFO, the following parties (in addition to those disclosed above in respect of the directors and chief executives) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Long positions in shares of the Company

Name of shareholders	Number of shares	Approximate percentage holding
Winway H.K. Investments Limited	2,098,490,000	25.58%
Culturecom Holdings Limited (Note)	2,098,490,000	25.58%

Note:

Winway H.K. Investments Limited is a wholly-owned subsidiary of Culturecom Investments Limited, which is, in turn, a wholly-owned subsidiary of Culturecom Holding (BVI) Limited. Culturecom Holding (BVI) Limited is a wholly-owned subsidiary of Culturecom Holdings Limited. Each of Culturecom Investments Limited, Culturecom Holding (BVI) Limited and Culturecom Holdings Limited is deemed to be interested in 2,098,490,000 shares through its controlling interest (100%) in Winway H.K. Investments Limited.

Save as disclosed above, as at 31 December 2011, the directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which were interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	26.6%
– five largest suppliers combined	80.0%

Sales

– the largest customer	18.6%
– five largest customers combined	42.3%

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of the independent non-executive directors of the Company and the Company considers all existing independent non-executive directors to be independent.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of the directors and the Company and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

Directors' Report

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on page 10 to 15 of the annual report.

AUDIT COMMITTEE

The audit committee, currently comprises three independent non-executive directors, namely Mr. Ip Chi Wai, Mr. Tse Wang Cheung Angus and Mr. Tsang Wai Wa, with written terms of reference in compliance with code provision C.3.3 of the Code as set out in Appendix 15 of the GEM Listing Rules. Mr. Tsang Wai Wa is the chairman of the audit committee.

The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control procedures. The Group's audited annual report has been reviewed by the audit committee together with management, which was of the opinion that the preparation of such results were complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITORS

The consolidated financial statements have been audited by ZHONGLEI (HK) CPA Company Limited, who will retire and being eligible at the forthcoming annual general meeting.

On behalf of the Board

Leung Lap Yan

Chairman

Hong Kong, 26 March 2012

Independent Auditors' Report



中磊（香港）會計師事務所有限公司
ZHONGLEI (HK) CPA Company Limited

TO THE MEMBERS OF CHINA BIO CASSAVA HOLDINGS LIMITED

中國生物資源控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Bio Cassava Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 105, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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, in accordance with our agreed terms of engagement 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.

Independent Auditors' Report

AUDITOR'S RESPONSIBILITY *(Continued)*

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 judgment, 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 Group as at 31 December 2011 and of the Group's loss 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.

ZHONGLEI (HK) CPA Company Limited

Certified Public Accountants (Practising)

Ho Yiu Hang, Ricky

Practising Certificate Number: P05494

Suites 313 – 317, 3/F., Shui On Centre,
6-8 Harbour Road,
Wan Chai,
Hong Kong

26 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Revenue	5	4,936	5,808
Cost of sales		(486)	(600)
Gross profit		4,450	5,208
Other revenue	6	27	981
Selling and distribution expenses		(1,752)	(2,966)
Research and development expenses		(2,982)	(2,973)
General and administrative expenses		(7,603)	(4,713)
Equity-settled share-based payment		(19,346)	–
Other operating expenses		(519)	(962)
Operating loss		(27,725)	(5,425)
Finance costs		–	–
Loss before income tax		(27,725)	(5,425)
Income tax expense	8	–	–
Loss for the year	7	(27,725)	(5,425)
Loss per share	9		
– Basic		(HK\$0.34 cent)	(HK\$0.07 cent)
– Diluted		N/A	N/A

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 HK\$'000	2010 HK\$'000
Loss for the year		(27,725)	(5,425)
Other comprehensive expense			
Reclassification adjustment for translation reserve released upon disposal of a subsidiary	28	—	(436)
Total comprehensive expense for the year		(27,725)	(5,861)
Total comprehensive expense attributable to:			
– Owners of the Company		(27,725)	(5,861)

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	347	524
Prepaid lease payments	14	–	–
Intangible asset	15	–	–
Available-for-sales investment	16	–	–
		347	524
CURRENT ASSETS			
Inventories	17	77	101
Financial assets at fair value through profit or loss	18	299	1,195
Trade receivables	19	421	438
Prepayments, deposits and other receivables		2,116	3,076
Amount due from a shareholder	20	–	136
Amount due from a director	20	30	–
Bank balances and cash	21	10,667	9,527
		13,610	14,473
CURRENT LIABILITIES			
Trade payables	22	51	31
Other payables and accrued expenses		1,936	1,710
Amount due to a related company	23	–	2
Amount due to a director	23	96	91
		2,083	1,834
NET CURRENT ASSETS		11,527	12,639
NET ASSETS		11,874	13,163
CAPITAL AND RESERVES			
Share capital	24	20,508	20,508
Reserves		(8,634)	(7,345)
TOTAL EQUITY		11,874	13,163

The consolidated financial statements on pages 32 to 105 were approved and authorised for issue by the Board of Directors on 26 March 2012 and are signed on its behalf by:

Kwan Kin Chung
Director

Tam Kam Biu, William
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
OPERATING ACTIVITIES			
Loss before income tax		(27,725)	(5,425)
Adjustments for:			
Interest income		(1)	(1)
Depreciation of property, plant and equipment		223	226
Gain on disposal of subsidiaries	28	(12)	(930)
Loss on disposal of financial assets at fair value through profit or loss		16	–
Net fair value loss on financial assets at fair value through profit or loss		502	27
Reversal of provision of obsolete stock		(7)	–
Write-off of obsolete inventories		1	8
Reversal of provision of unpaid annual leave		(7)	–
Equity-settled share-based payment	34(c)(a)	19,346	–
Write-off of prepaid lease payments		–	285
Write-off of property, plant and equipment		–	610
Write-down of inventories to net realisable value		–	33
Operating cash flows before movements in working capital		(7,664)	(5,167)
Decrease in inventories		30	19
Decrease (increase) in trade receivables, prepayments, deposits and other receivables		857	(1,125)
Increase in amount due from a director		(30)	–
Decrease in amount due from a shareholder		136	248
Increase (decrease) in trade and other payables and accrued expenses		253	(600)
Decrease in amount due to a related company		(2)	–
Increase in amount due to a director		5	68
NET CASH USED IN OPERATING ACTIVITIES		(6,415)	(6,557)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
INVESTING ACTIVITIES			
Interest received		1	1
Acquisition of a subsidiary		(35)	–
Purchase of property, plant and equipment		(11)	(10)
Proceeds from sale of financial assets at fair value through profit or loss		378	–
Net cash inflow from disposal of subsidiaries	28	132	1,000
NET CASH FROM INVESTING ACTIVITIES		465	991
FINANCING ACTIVITIES			
Proceeds from issuance of warrants		8,000	–
Payment or warrants issue costs		(910)	–
NET CASH FROM FINANCING ACTIVITIES		7,090	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,140	(5,566)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		9,527	15,087
Effect of foreign exchange rate changes, net		–	6
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash		10,667	9,527

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital HK\$'000	Share premium HK\$'000	Share options reserve HK\$'000	Capital redemption reserve HK\$'000 (Note a)	Warrant reserve HK\$'000 (Note b)	Reorganisation reserve HK\$'000 (Note c)	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2010	20,508	120,370*	33,514*	37*	-*	3,000*	291*	(158,696)*	19,024
Loss for the year	-	-	-	-	-	-	-	(5,425)	(5,425)
Reclassification adjustment for translation reserve released upon disposal of a subsidiary (Note 28)	-	-	-	-	-	-	(436)	-	(436)
Total comprehensive expense for the year	-	-	-	-	-	-	(436)	(5,425)	(5,861)
At 31 December 2010 and 1 January 2011	20,508	120,370*	33,514*	37*	-*	3,000*	(145)*	(164,121)*	13,163
Loss for the year, representing total comprehensive expense for the year	-	-	-	-	-	-	-	(27,725)	(27,725)
Recognition of share-based payments (Note 34(c)(a))	-	-	19,346	-	-	-	-	-	19,346
Transfer to reserves upon lapse of share options	-	-	(176)	-	-	-	-	176	-
Placement of new warrants (Note b)	-	-	-	-	8,000	-	-	-	8,000
Transactions costs attributable to issue of warrants (Note b)	-	-	-	-	(910)	-	-	-	(910)
At 31 December 2011	20,508	120,370*	52,684*	37*	7,090*	3,000*	(145)*	(191,670)*	11,874

Notes:

- (a) Capital redemption reserve of the Group represents repurchased 3,650,000 of its own shares at an aggregate consideration of HK\$174,000 during the year 2002. All the shares repurchased were subsequently cancelled.
- (b) Warrant reserve represents the proceeds from the placing of 800,000,000 warrants ("Warrants") completed on 16 February 2011 as detailed in Note 25. The subscription period of the Warrants will be expired on 17 February 2013.
- (c) Reorganisation reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the HK\$7,500,000 loan capitalised and the nominal value of the shares issued by the Company as the consideration thereof.

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL

China Bio Cassava Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in the annual report. The shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in computer software and embedded systems development, sales and licensing of the software and systems, and development of biotech and renewable energy. There were no significant changes in the Group's operations during the year. Details of the principal activities of its subsidiaries are set out in Note 35 to the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied a number of new and revised standards, amendments and interpretations ("New and Revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effect for 2011 financial year ends.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material effect on the consolidated financial statements of the Group for the current and prior and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets ¹ Disclosures – Offsetting Financial Assets and Financial Liabilities ² Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁵
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets ⁴
HKAS 19 (Revised in 2011)	Employee Benefits ²
HKAS 27 (Revised in 2011)	Separate Financial Statements ²
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures ²
HKAS 32 (Amendments)	Presentation – Offsetting Financial Assets and Financial Liabilities ⁶
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2015

⁴ Effective for annual periods beginning on or after 1 January 2012

⁵ Effective for annual periods beginning on or after 1 July 2012

⁶ Effective for annual periods beginning on or after 1 January 2014

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments (Continued)

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised Standards on consolidation, joint arrangements, associates and disclosures (Continued)

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that the application of these five standards would not have significant impact on amounts reported in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKAS 19 (as revised in 2011) Employee Benefits

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to HKAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to HKAS 19 would not have significant impact on amounts reported in the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3.2 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Revenue recognition *(Continued)*

Revenue from licensing is recognised when the rights to receive payment are established in accordance with the underlying licensing agreement, which is normally when the licensees used the licensing services.

Interest income from a financial asset (other than a financial asset at fair value through profit or loss) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.3 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which cases the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3.5 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3.6 Retirement benefit costs and short-term employee benefits

(a) Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF") and state-managed retirement benefits schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

(b) Short-term employee benefits

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.7 Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received. The fair values of the services received are recognised as expenses with a corresponding increase in equity (share options reserve) and when the counterparties render services, unless the services qualify for recognition as assets.

3.8 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated 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. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences 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 associated with investments in subsidiaries, 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Property, plant and equipment

Property, plant and equipment including building held for use in the production or supply of goods or services, or for administrative purposes as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.10 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period with the effective of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Intangible assets *(Continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3.11 Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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 the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is indication that they may be impaired.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Impairment of tangible and intangible assets *(Continued)*

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 had no impairment loss been recognised for the asset 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 under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

3.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less estimated costs of completion and cost necessary to make the sale.

3.13 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS"), and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, amount due from a director, amount due from a shareholder and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the asset's amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, the transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Other financial liabilities

Other financial liabilities including trade payables, other payables and accrued expenses, amount to a related company and amount due to a director are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments is an equity instrument. Otherwise, they would be classified as derivative financial instruments, which are recognised at their fair values at the date of issue. Changes in fair values in subsequent periods are recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of the ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

3.16 Related parties

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

- (a) the party is a person or a close member of that person's family and 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 Group or of a parent of the Group; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group 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;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (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 the Consolidated Financial Statements

For the year ended 31 December 2011

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

i. *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could be changed significantly as a result of competitors' actions in response to changes in market condition. Management reassesses these estimates at the end of the reporting period.

ii. *Estimated impairment of trade and other receivables*

The policy for the impairment of trade and other receivables of the Group is based on the evaluation of collectability and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the collateral security. If the financial conditions of the borrowers of the Group deteriorate, resulting in impairment of their ability to make repayments, additional provision may be required. If the financial conditions of the borrowers of the Group, on whose account provision for impairment has been made, are improved and no impairment of their ability to make payments were noted, reversal of provision for impairment may be required.

The movement of allowance for doubtful debts for trade receivables during the year is set out in Note 19.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

iii. *Estimation of option value*

Equity-settled share-based payments are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of binomial valuation models which require inputs such as the risk-free rate, expected dividend yield, expected volatility and the expected option life and is expensed over the vesting period. Some of the inputs used, such as the expected option life, are not market observable and are based on estimates derived from available data, such as employee exercise behavior. The different in use of input estimate and valuation model could produce different option values that would result in the recognition of a higher or lower expense.

5. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents the total invoiced value of goods sold, and licensing income. Revenue recognised during the year is as follows:

	2011	2010
	HK\$'000	HK\$'000
Sale of goods	4,323	5,218
Licensing income	613	590
	4,936	5,808

The Group's operation segments, based on information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

Specially, the Group's reportable and operating segments under HKFRS 8 are as follows:

- (a) Sales and licensing of software and embedded systems
- (b) Development of biotech renewable energy

In addition, the chief operating decision maker further evaluates the result on a geographical basis (Hong Kong, Mainland China and Macau).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Business segments

The following is an analysis of the Group's revenue and results by reportable and operating segment:

	Sales and licensing of software and embedded systems		Development of biotech renewable energy		Total	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Segment revenue						
Sales to external customers	<u>4,936</u>	<u>5,808</u>	<u>-</u>	<u>-</u>	<u>4,936</u>	<u>5,808</u>
Segment results						
Interest income	(797)	(128)	(2,396)	(1,694)	(3,193)	(1,822)
Gain on disposal of subsidiaries					1	1
Reversal of provision of unpaid annual leave					12	930
Reversal of provision of obsolete stock					7	-
Sundry income					7	-
Loss on disposal of financial assets at fair value through profit or loss					-	50
Net fair value loss on financial assets at fair value through profit or loss					(16)	-
Equity-settled share-based payment					(502)	(27)
Unallocated expenses					(19,346)	-
Operating loss					(4,695)	(4,557)
Finance costs					(27,725)	(5,425)
					-	-
Loss for the year					<u>(27,725)</u>	<u>(5,425)</u>
Segment assets						
Unallocated assets	1,789	1,957	2,530	3,098	4,319	5,055
Total assets					<u>9,638</u>	<u>9,942</u>
Segment liabilities						
Unallocated liabilities	(1,507)	(1,434)	(251)	(197)	(1,758)	(1,631)
Total liabilities					<u>(325)</u>	<u>(203)</u>
					<u>(2,083)</u>	<u>(1,834)</u>
Other segment information						
Depreciation and amortisation	34	42	38	39	72	81
Unallocated depreciation					151	145
Total depreciation and amortisation					<u>223</u>	<u>226</u>
Capital expenditure	<u>-</u>	<u>10</u>	<u>11</u>	<u>-</u>	<u>11</u>	<u>10</u>
Write-down of inventories to net realisable value	<u>-</u>	<u>33</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33</u>
Write-off of obsolete inventories					<u>1</u>	<u>8</u>
Unallocated write-off of prepaid lease payments					<u>-</u>	<u>285</u>
Unallocated write-off of property, plant and equipment					<u>-</u>	<u>610</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment loss represents the loss from each segment without allocation of central administration costs and directors' salaries. This is the measure report to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

(b) Geographical information

The following table presents revenue, assets and expenditure information for the Group's geographical information for the years ended 31 December 2011 and 2010:

	Hong Kong		Mainland China		Macau		Total	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Revenue								
Sales to external customers	<u>4,936</u>	5,805	-	3	-	-	<u>4,936</u>	5,808
Segment assets	<u>2,300</u>	3,625	<u>20</u>	30	<u>2,097</u>	1,903	<u>4,417</u>	5,558
Unallocated assets							<u>9,540</u>	9,439
Total assets							<u>13,957</u>	14,997
Capital expenditure	<u>11</u>	10	-	-	-	-	<u>11</u>	10

Sales are based on the country in which the Group's customers are located and segment assets and capital expenditure are where the assets are located.

(c) Information about major customers

Revenue from customer of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

Customer	Details	2011 HK\$'000	2010 HK\$'000
A	Sales and licensing of software and embedded systems	<u>916</u>	<u>909</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. OTHER REVENUE

	2011	2010
	HK\$'000	HK\$'000
Interest income	1	1
Gain on disposal of subsidiaries (Note 28)	12	930
Reversal of provision of obsolete stock	7	–
Reversal of provision of unpaid annual leave	7	–
Sundry income	–	50
	27	981

7. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2011	2010
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses, including	486	600
– Write-down of inventories to net realisable value	–	33
Auditor's remuneration		
– current year	270	270
Depreciation of property, plant and equipment	223	226
Staff costs (including directors' emoluments) (Note 10)	6,365	4,830
Loss on disposal of financial assets at fair value through profit or loss*	16	–
Net fair value loss on financial assets at fair value through profit or loss*	502	27
Operating lease charges in respect of land and buildings (Note 27)	1,398	1,568
Write-off of prepaid lease payments*	–	285
Write-off of property, plant and equipment*	–	610
Write-off of obsolete inventories*	1	8
Research and development costs recognised as an expense	2,982	2,973
Net foreign exchange loss	3	1
Equity-settled share-based payment	19,346	–

* included in other operating expenses

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong profits tax has been provided in both years as the Group did not generate any assessable profits arising in Hong Kong for the years ended 31 December 2011 and 2010.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.

No profits taxes have been provided for the subsidiaries which are operating outside Hong Kong as these subsidiaries have not generated any assessable profits in the respective jurisdictions.

The income tax expense for the year can be reconciled to the loss before income tax per the consolidated income statement as follows:

	2011	2010
	HK\$'000	HK\$'000
Loss before income tax	(27,725)	(5,425)
Tax calculated at the rates applicable to the tax jurisdiction concerned	(4,233)	(620)
Tax effect of expenses not deductible for tax purpose	4,122	754
Tax effect of income not taxable for tax purpose	(24)	(155)
Tax effect of temporary differences not recognised	-	4
Tax effect of tax losses not recognised	135	40
Utilisation of tax losses previously not recognised	-	(23)
Income tax expense for the year	-	-

At 31 December 2011, the Group has deferred tax assets mainly arising from tax losses of the subsidiaries operating in Hong Kong and in the PRC of approximately HK\$6,006,000 and HK\$1,001,000 (2010: HK\$5,254,000 and HK\$927,000) respectively. However, deferred tax assets have not been recognised as it is uncertain whether sufficient future taxable profits will be available for utilising the accumulated tax losses. The tax losses of the subsidiary which is operating in the PRC can be carried forward for five years and tax losses of the companies within the Group which are operating in Hong Kong will not be expired under the current tax legislation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

9. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the consolidated loss for the year attributable to the owners of the Company of approximately HK\$27,725,000 (2010: HK\$5,425,000) and the weighted average of 8,203,300,000 (2010: 8,203,300,000) ordinary shares of the Company in issue during the year.

Diluted loss per share for the year ended 31 December 2011 and 2010 is not presented because the existence of outstanding share options and warrants during the year have anti-dilutive effect on the basic loss per share.

10. EMPLOYEES' EMOLUMENTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2011	2010
	HK\$'000	HK\$'000
Wages and salaries	6,186	4,655
Pension costs – defined contribution plans	179	175
	6,365	4,830

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

(a) Directors' emoluments

The emoluments paid or payable to each of ten (2010: nine) directors were as follow:

2011	Fees HK\$'000	Salaries, allowances and benefits in kind* HK\$'000	Discretionary bonuses** HK\$'000	Contributions to pension scheme HK\$'000	Total HK\$'000
Executive directors					
Mr. Tam Kam Biu, William	-	408	62	12	482
Mr. Kwan Kin Chung	360	140	30	-	530
Mr. Wan Xiaolin	-	28	-	-	28
Mr. Chen Man Lung	-	28	-	-	28
Sub-total	360	604	92	12	1,068
Non-executive directors					
Mr. Leung Lap Yan	120	208	-	-	328
Mr. Leung Lap Fu, Warren	60	88	-	-	148
Sub-total	180	296	-	-	476
Independent non-executive directors					
Mr. Ip Chi Wai	60	28	-	-	88
Mr. Shiu Kwok Keung (Note i)	23	-	-	-	23
Mr. Tse Wang Cheung, Angus	60	28	-	-	88
Mr. Tsang Wai Wa (Note ii)	36	28	-	-	64
Sub-total	179	84	-	-	263
Total	719	984	92	12	1,807

* This includes the amount calculated under HKFRS 2 "Share-based payment transaction" that is attributable to the directors.

** Discretionary bonuses payment was determined based on the performance of the directors during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT*(Continued)***(a) Directors' emoluments** *(Continued)*

2010	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses** HK\$'000	Contributions to pension scheme HK\$'000	Total HK\$'000
Executive directors					
Mr. Tam Kam Biu, William	-	480	60	12	552
Mr. Kwan Kin Chung	-	-	49	-	49
Mr. Wan Xiaolin	-	-	-	-	-
Mr. Chen Man Lung	-	-	-	-	-
Sub-total	-	480	109	12	601
Non-executive directors					
Mr. Leung Lap Yan	120	180	-	-	300
Mr. Leung Lap Fu, Warren	60	60	-	-	120
Sub-total	180	240	-	-	420
Independent non-executive directors					
Mr. Ip Chi Wai	60	-	-	-	60
Mr. Shiu Kwok Keung (Note i)	60	-	-	-	60
Mr. Tse Wang Cheung, Angus	60	-	-	-	60
Sub-total	180	-	-	-	180
Total	360	720	109	12	1,201

** Discretionary bonuses payment was determined based on the performance of the directors during the year.

Notes:

- i) Resigned on 14 May 2011
- ii) Appointed on 12 August 2011

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

(Continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2010: two) were directors of the Company whose emoluments are included in the disclosures in Note 11(a) above. The emoluments of the remaining two (2010: three) individuals were as follows:

	2011	2010
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	843	982
Discretionary bonuses	28	–
Contributions to pension scheme	24	34
	895	1,016

Their emoluments were within the following bands:

	Number of individuals	
	2011	2010
Nil to HK\$1,000,000	2	3

During each of the two years ended 31 December 2011 and 2010, no emoluments were paid by the Group to the Company's directors or any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during each of the two years ended 31 December 2011 and 2010.

12. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

13. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Machinery HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
At 1 January 2010						
Cost	1,676	507	562	451	127	3,323
Accumulated depreciation and impairment	(1,073)	(282)	(272)	(352)	(2)	(1,981)
Carrying values	603	225	290	99	125	1,342
Year ended 31 December 2010						
Opening carrying values	603	225	290	99	125	1,342
Additions	-	-	10	-	-	10
Depreciation	-	(88)	(94)	(19)	(25)	(226)
Written off	(610)	-	-	-	-	(610)
Exchange difference	7	-	1	-	-	8
Closing carrying values	-	137	207	80	100	524
At 31 December 2010						
Cost	-	507	572	451	127	1,657
Accumulated depreciation and impairment	-	(370)	(365)	(371)	(27)	(1,133)
Carrying values	-	137	207	80	100	524
Year ended 31 December 2011						
Opening carrying values	-	137	207	80	100	524
Additions	-	-	11	-	-	11
Depreciation	-	(84)	(82)	(26)	(31)	(223)
Acquisition of a subsidiary (Note 30)	-	-	-	-	35	35
Closing carrying values	-	53	136	54	104	347
At 31 December 2011						
Cost	-	507	583	451	162	1,703
Accumulated depreciation and impairment	-	(454)	(447)	(397)	(58)	(1,356)
Carrying values	-	53	136	54	104	347

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	18% – 20%
Furniture, fixtures and office equipment	18% – 20%
Machinery	10% – 20%
Motor vehicle	18% – 20%

14. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2011 HK\$'000	2010 HK\$'000
Land in the PRC	–	–

Analysed for reporting purpose as:

	2011 HK\$'000	2010 HK\$'000
Non-current asset	–	–

The Group was in the process of obtaining the land use right certificate and the lease term had not confirmed by the local authorities as at 31 December 2009. The land has been disposed through the disposal of a subsidiary during the year ended 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

15. INTANGIBLE ASSET

	Technical know-how
	HK\$'000
COST	
At 1 January 2010, 31 December 2010 and 2011	2,000
AMORTISATION AND IMPAIRMENT	
At 1 January 2010, 31 December 2010 and 2011	2,000
CARRYING VALUE	
At 31 December 2011	–
At 31 December 2010	–

The technical know-how related to a production line of Bio-Cassava Energy System and a full rights, title and interest in Luoding Rhodobacteriineae (“羅定紅菌”) which was acquired by the Company from an independent third party for HK\$2,000,000 on 27 June 2007. The estimated useful life of the technical know-how is 10 years. The purposes of the acquisition of the technical know-how are to perform research and development of biotechnology and manufacturing technology to convert cassava into ethanol, which could be used as a renewable source of energy (“Biotech Project”).

As the Biotech Project has not generated revenue to the Group since its acquisition, the directors of the Company suspended the Biotech Project and full impairment was recognised in the consolidated income statement during the year ended 31 December 2009.

16. AVAILABLE-FOR-SALES INVESTMENT

	Note	2011 HK\$'000	2010 HK\$'000
Non-current			
Unlisted equity investment in the PRC, at cost	28	–	–

The available-for-sales investment has been disposed through the disposal of a subsidiary during the year ended 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17. INVENTORIES

	2011 HK\$'000	2010 HK\$'000
Merchandise	41	58
Finished goods	36	43
	77	101

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 HK\$'000	2010 HK\$'000
Listed equity securities in Hong Kong	299	801
Listed unit trusts in Hong Kong	-	394
	299	1,195

The carrying amounts of the above financial assets, all of which are held for trading, represent their market value.

The listed unit trusts in Hong Kong had been sold out for a total of HK\$378,000 during the year ended 31 December 2011 (2010: Nil).

19. TRADE RECEIVABLES

	2011 HK\$'000	2010 HK\$'000
Trade receivables	421	438
Less: Allowance for doubtful debts	-	-
	421	438

Impairment loss on trade receivables is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

19. TRADE RECEIVABLES (Continued)

At the end of each reporting period, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific provision for impairment was recognised. The Group does not hold any collateral over these balances.

The directors of the Company consider that the fair values of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

The Group generally allows an average credit period of 30 – 90 days to its customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	2011	2010
	HK\$'000	HK\$'000
0 – 30 days	232	285
31 – 90 days	189	111
91 – 180 days	–	42
	421	438

Aged analysis of trade receivables which are not impaired is as follows:

	2011	2010
	HK\$'000	HK\$'000
Neither past due nor impaired	232	280
Past due but not impaired	189	158
	421	438

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a customer with long business relationship and the trade receivables were aged within half a year. Based on past experience, management believes that no additional provision for impairment is necessary as there is no significant change in credit quality and the balances are considered to be fully recoverable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

20. AMOUNT DUE FROM A SHAREHOLDER/A DIRECTOR

Details of amount due from a shareholder/a director pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name	Relationship	Maximum amount outstanding during the year HK\$'000	2011	2010
			HK\$'000	HK\$'000
Mr. Leung Lap Fu, Warren	Non-executive director	30	30	–
Culturecom Holdings Limited	Shareholder	136	–	136
			30	136

The amount due from a shareholder/a director is unsecured, interest free and repayable on demand.

21. BANK BALANCES AND CASH

Bank balances and cash are denominated in the following currencies:

	2011	2010
	HK\$'000	HK\$'000
Hong Kong dollars ("HK\$")	10,349	9,402
United States dollars ("USD")	155	10
Renminbi ("RMB")	5	17
Macau Pataca ("MOP")	158	98
	10,667	9,527

Bank balances carry interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Bank balances carry interest at market rates ranged from 0.001% to 0.5% (2010: 0.001% to 0.36%) per annum.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

21. BANK BALANCES AND CASH *(Continued)*

Included in bank balances and cash of the Group are approximately HK\$5,000 (2010: approximately HK\$17,000) of bank balances denominated in RMB placed with the banks in the People of Republic of China ("PRC"). RMB is not a freely convertible currency. However, under the PRC'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 the banks authorised to conduct foreign exchange business.

22. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2011	2010
	HK\$'000	HK\$'000
0 – 30 days	12	13
31 – 90 days	28	7
91 – 180 days	1	2
Over 180 days	10	9
	51	31

The average credit period on purchases of goods is 30 days (2010: 30 days). The Group has financial risk management policies in place to ensure that all trade payables would be settled within the credit timeframe.

23. AMOUNT DUE TO A RELATED COMPANY/A DIRECTOR

The amounts are unsecured, interest free and repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

24. SHARE CAPITAL

The share capital of the Company consists only of ordinary shares. All shares are equally eligible to receive dividends and the repayment of capital.

	Number of shares of HK\$0.0025 each		Amount	
	2011 '000	2010 '000	2011 HK\$'000	2010 HK\$'000
Authorised:				
Ordinary shares at beginning and end of year	200,000,000	200,000,000	500,000	500,000
Issued and fully paid:				
Ordinary shares at beginning and end of year	8,203,300	8,203,300	20,508	20,508

25. WARRANTS

On 29 December 2010, the Company entered into the placing agreement with the placing agent in connection with the placing, on a fully underwritten basis, to place up to 800,000,000 warrants conferring rights to subscribe up to 800,000,000 shares at an initial subscription price of HK\$0.059 per share. The warrants are to be placed at an issue price of HK\$0.01 per warrant. Each warrant will entitle the holder thereto to subscribe for one share of HK\$0.0025 each at an initial subscription price of HK\$0.059 per share, subject to adjustment, during the two-year period commencing from the date of listing of the warrants. The placing was completed on 16 February 2011 and 800,000,000 warrants had been fully placed. Dealings in the warrants on the Hong Kong Stock Exchange commenced on 18 February 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

25. WARRANTS (Continued)

The following table discloses details of the Company's warrants issued during the year:

Date of grant	Exercise price HK\$	Exercise period	Number of warrants				Outstanding at 31 December 2011
			Outstanding at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	
18/2/2011	0.059	18/2/2011 to 17/2/2013	-	800,000,000	-	-	800,000,000

At 31 December 2011, the Company had 800,000,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 800,000,000 additional shares of HK\$0.0025 each.

26. SHARE-BASED EMPLOYEE COMPENSATION

On 27 April 2007, the Post-IPO Share Option Scheme was terminated and was replaced on the same date by the new share option scheme (the "New Share Option Scheme") which remained in force as at 31 December 2011.

Under the New Share Option Scheme, options may be granted to any directors, employees, consultants, customers, suppliers, agents, partners or advisers of or contractor to the Group ("Eligible participants") or any entity in which any member of the Group holds any interest; any discretionary trust whose discretionary objects include any Eligible participants; and a company beneficially owned by any Eligible participants; and those person or company whom or which the board has resolved is qualified to be an eligible participant must remain eligible during the period when any option granted to him or it remains outstanding.

The share options vest upon the commencement of the exercise period, which is determined by the directors at the date of grant.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

The following table discloses details of the Company's share option in issue under the New Share Option Scheme during the year:

31 December 2011

Name or category of participant	Date of grant	Exercise price HK\$	Exercise period	Number of share options				Outstanding at 31 December 2011
				Outstanding at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	
Directors								
Mr. Kwan Kin Chung	29/5/2007	0.1125	29/5/2007 to 28/5/2017	16,000,000	-	-	-	16,000,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	5,000,000	-	-	5,000,000
Mr. Tam Kam Biu, William	29/5/2007	0.1125	29/5/2007 to 28/5/2017	20,000,000	-	-	-	20,000,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	1,000,000	-	-	1,000,000
Mr. Wan Xiaolin	29/5/2007	0.1125	29/5/2007 to 28/5/2017	12,000,000	-	-	-	12,000,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	1,000,000	-	-	1,000,000
Mr. Chen Man Lung	29/5/2007	0.1125	29/5/2007 to 28/5/2017	16,000,000	-	-	-	16,000,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	1,000,000	-	-	1,000,000
Mr. Leung Lap Yan	29/5/2007	0.1125	29/5/2007 to 28/5/2017	8,000,000	-	-	-	8,000,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	1,000,000	-	-	1,000,000
Mr. Leung Lap Fu, Warren	29/5/2007	0.1125	29/5/2007 to 28/5/2017	8,000,000	-	-	-	8,000,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	1,000,000	-	-	1,000,000
Mr. Ip Chi Wai	29/5/2007	0.1125	29/5/2007 to 28/5/2017	4,000,000	-	-	-	4,000,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	1,000,000	-	-	1,000,000
Mr. Tse Wang Cheung, Angus	29/5/2007	0.1125	29/5/2007 to 28/5/2017	4,000,000	-	-	-	4,000,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	1,000,000	-	-	1,000,000
Mr. Shiu Kwok Keung (Note)	29/5/2007	0.1125	29/5/2007 to 28/5/2017	4,000,000	-	-	(4,000,000)	-
Mr. Tsang Wai Wa	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	1,000,000	-	-	1,000,000
Sub-total				92,000,000	13,000,000	-	(4,000,000)	101,000,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. SHARE-BASED EMPLOYEE COMPENSATION (Continued)**31 December 2011** (Continued)

Name or category of participant	Date of grant	Exercise price HK\$	Exercise period	Number of share options				Outstanding at 31 December 2011
				Outstanding at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	
Others								
Employees	29/5/2007	0.1125	29/5/2007 to 28/5/2017	12,000,000	-	-	-	12,000,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	5,500,000	-	-	5,500,000
Consultants	29/5/2007	0.1125	29/5/2007 to 28/5/2017	652,760,000	-	-	-	652,760,000
	21/9/2011	0.0430	21/9/2011 to 20/9/2021	-	746,500,000	-	-	746,500,000
Sub-total				664,760,000	752,000,000	-	-	1,416,760,000
Total				756,760,000	765,000,000	-	(4,000,000)	1,517,760,000

Notes to the Consolidated Financial Statements

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26. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

31 December 2010

Name or category of participant	Date of grant	Exercise price HK\$	Exercise period	Number of share options				Outstanding at 31 December 2010
				Outstanding at 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	
Directors								
Mr. Kwan Kin Chung	29/5/2007	0.1125	29/5/2007 to 28/5/2017	16,000,000	-	-	-	16,000,000
Mr. Tam Kam Biu, William	29/5/2007	0.1125	29/5/2007 to 28/5/2017	20,000,000	-	-	-	20,000,000
Mr. Wan Xiaolin	29/5/2007	0.1125	29/5/2007 to 28/5/2017	12,000,000	-	-	-	12,000,000
Mr. Chen Man Lung	29/5/2007	0.1125	29/5/2007 to 28/5/2017	16,000,000	-	-	-	16,000,000
Mr. Leung Lap Yan	29/5/2007	0.1125	29/5/2007 to 28/5/2017	8,000,000	-	-	-	8,000,000
Mr. Leung Lap Fu, Warren	29/5/2007	0.1125	29/5/2007 to 28/5/2017	8,000,000	-	-	-	8,000,000
Mr. Ip Chi Wai	29/5/2007	0.1125	29/5/2007 to 28/5/2017	4,000,000	-	-	-	4,000,000
Mr. Tse Wang Cheung, Angus	29/5/2007	0.1125	29/5/2007 to 28/5/2017	4,000,000	-	-	-	4,000,000
Mr. Shiu Kwok Keung	29/5/2007	0.1125	29/5/2007 to 28/5/2017	4,000,000	-	-	-	4,000,000
Sub-total				92,000,000	-	-	-	92,000,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

31 December 2010 (Continued)

Name or category of participant	Date of grant	Exercise price HK\$	Exercise period	Number of share options				Outstanding at 31 December 2010
				Outstanding at 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	
Others								
Employees	29/5/2007	0.1125	29/5/2007 to 28/5/2017	12,000,000	-	-	-	12,000,000
Consultants	29/5/2007	0.1125	29/5/2007 to 28/5/2017	652,760,000	-	-	-	652,760,000
Sub-total				664,760,000	-	-	-	664,760,000
Total				756,760,000	-	-	-	756,760,000

Note: As Mr. Shiu Kwok Keung resigned on 14 May 2011, his outstanding share options of 4,000,000 was lapsed according to the New Share Option Scheme, amounted to approximately HK\$176,000 in total.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

All share options as at 31 December 2010 and 31 December 2011 are accounted for under HKFRS 2 "Share-based Payment". The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 7.6 years (2010: 6.4 years). The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

	2011		2010	
	Number	Weighted average exercise price HK\$	Number	Weighted average exercise price HK\$
Exercisable period:				
29/5/2007 to 28/5/2017	752,760,000	0.1125	756,760,000	0.1125
21/9/2011 to 20/9/2021	765,000,000	0.0430	-	-
Total	1,517,760,000	-	756,760,000	0.1125

The options may be exercised at any time of the option period provided that the options have been vested. The options were vested upon commencement of exercise period.

At the end of the reporting period, the Company had 1,517,760,000 (2010: 756,760,000) share options outstanding under the New Share Option Scheme. The exercise in full of the remaining share options would under the present capital structure of the Company, resulting in issue of 1,517,760,000 (2010: 756,760,000) additional ordinary shares of the Company and additional share capital of HK\$3,794,400 (2010: HK\$1,891,900) and share premium of HK\$113,786,100 (2010: HK\$83,243,600) (before the issue expenses).

The fair value of options granted on 21 September 2011 and 29 May 2007 are of approximately HK\$19,346,000 and HK\$33,514,000 were included in the consolidated income statement for the year ended 31 December 2011 and 31 December 2007 respectively.

The fair value of services received from consultants was measured indirectly, by reference to the fair value of the options granted as the fair value of the services received could not be estimated reliably by the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

The inputs for calculating the fair value are shown as follow:

Grant date	21 September 2011	29 May 2007
	(Note a)	(Note b)
Calculation model	Binomial	Binomial
Exercise price (HK\$)	0.043	0.1125
Expected volatility	128.72%	105%
Expected life (year)	10 years	10 years
Risk-free rate	1.431%	4.47%
Expected dividend yield	0%	0%
Number of share options granted		
– Directors	13,000,000	92,000,000
– Employees	5,500,000	12,000,000
– Consultants	746,500,000	652,760,000
Fair value per share option (HK\$)		
– Directors	0.028071	0.043925
– Employees	0.025240	0.034975
– Consultants	0.025240	0.044500

Notes:

- (a) The fair value of the share option is determined by an independent professional qualified valuer, Messrs. BMI Appraisal Limited. The risk-free interest rate was based on yield of Hong Kong Exchange Fund Note. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The value of an option varies with different variables of certain subjective assumptions.
- (b) The fair value of the share option is determined by an independent professional qualified valuer, Messrs. Vigers Appraisal & Consulting Limited. The risk-free interest rate was based on yield of Hong Kong Exchange Fund Note. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The value of an option varies with different variables of certain subjective assumptions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

27. OPERATING LEASES

The Group as lessee

	2011 HK\$'000	2010 HK\$'000
Minimum lease payments paid under operating leases during the year		
– Land and buildings	1,398	1,568

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 HK\$'000	2010 HK\$'000
Within one year	1,005	1,112
In the second to the fifth year inclusive	74	803
	1,079	1,915

The Group leases premises under an operating lease. The lease runs for an initial period of one to two years (2010: one to two years), with an option to renew the lease at the expiry date or at dates mutually agreed between the Group and the landlord. The lease does not include contingent rental.

Notes to the Consolidated Financial Statements

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28. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2011

On 16 February 2011, the Group set up a subsidiary in Hong Kong, named as China Mahjong Super League Group Limited ("China Mahjong Super") with share capital of HK\$100. On 22 February 2011, the Group set up another subsidiary in Hong Kong, named as China Super Mahjong League Group Limited ("China Super Mahjong") with share capital of HK\$100.

On 26 August 2011, the Group entered into a sale and purchase agreement with Culture.com Technology Limited, a subsidiary of one of the substantial shareholder of the Company for the disposal of 100% equity interest of China Super Mahjong and China Mahjong Super at a total consideration of approximately HK\$132,000.

The net assets of China Mahjong Super and China Super Mahjong at the date of disposal were as follows:

	2011 HK\$'000
Net asset disposed of :	
Prepayments	120
Gain on disposal of subsidiaries	12
	<hr/>
Total Consideration	132
	<hr/> <hr/>
Satisfied by:	
Cash	132
	<hr/> <hr/>
Net cash inflow arising on disposal:	
Cash consideration	132
	<hr/> <hr/>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

28. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2010

On 28 January 2010, the Group entered into a sale and purchase agreement for the disposal of the entire equity interest of 雲浮市九方農業科技發展有限公司 (Yunfu City Jiufang Agriculture Science and Technology Development Company Limited) ("Yunfu") at a consideration of RMB2,000,000. The net assets of Yunfu at the date of disposal were as follows:

	2010 HK\$'000
Net assets disposed of:	
Prepaid lease payments	1,798
Available-for-sales investment	7
Release of translation reserve	(436)
	<hr/>
	1,369
Gain on disposal of a subsidiary	930
	<hr/>
Total consideration	2,299
	<hr/> <hr/>
Satisfied by:	
Other receivables	1,299
Cash	1,000
	<hr/>
	2,299
	<hr/> <hr/>
Net cash inflow arising on disposal:	
Cash consideration	1,000
	<hr/> <hr/>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

29. MATERIAL RELATED PARTY TRANSACTIONS

- (a) Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed as follows:

	Notes	2011 HK\$'000	2010 HK\$'000
Office rental expenses			
– Culturecom Centre Limited	(i)	276	378
– Winway H.K. Investments Limited	(ii)	72	400
		348	778
Consultancy fees			
– Ms. Heidi Leung	(iii)	240	360
Information technology service income			
– Culture.com Technology Limited	(iv)	60	–
Payment for acquisition of a subsidiary			
– Culturecom Limited	(v)	35	–
Receipt from disposal of subsidiaries			
– Culture.com Technology Limited	(vi)	132	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

29. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

- (i) Office rental agreements with fixed monthly rental in Kwun Tong were entered into with Culturecom Centre Limited, which is a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company. The rental agreement with Culturecom Centre Limited is ceased on 23 September 2011 since the office sold to another independent third party.
- (ii) Office rental agreements with fixed monthly rental in Cyberport and Kwun Tong were entered into with Winway H.K. Investments Limited, which is a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company. The tenancy agreement for Cyberport is expired on 31 August 2010 and the tenancy agreement for Kwun Tong is expired on 31 August 2011.
- (iii) The Group paid monthly consultancy fee of HK\$30,000 to Ms. Heidi Leung in providing marketing and public relationship services, the daughter of one of the non-executive director of the Company, Mr. Leung Lap Yan. The Company ceased to pay the consultancy fee since 1 September 2011.
- (iv) The Group received service income from Culture.com Technology Limited, which is a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company, for the IT services provided.
- (v) On 17 January 2011, the Group acquired a subsidiary, named as Growlong Company Limited from Culturecom Limited, which is a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company at a consideration of HK\$35,000 (Note 30).
- (vi) On 26 August 2011, the Group sold two subsidiaries, named as China Mahjong Super League Group Limited and China Super Mahjong League Group Limited to Culture.com Technology Limited, which is a subsidiary of Culturecom Holdings Limited, one of the substantial shareholders of the Company at a total consideration of approximately HK\$132,000 (Note 28).

Apart from the above, the Group did not have any other material related party transactions for the year ended 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

29. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel

The remuneration of directors and key executives during the year were as follows:

	2011	2010
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind*	984	720
Discretionary bonuses	92	109
Contributions to pension scheme	12	12
	<hr/> 1,088 <hr/>	<hr/> 841 <hr/>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

* This includes the amount calculated under HKFRS 2 "Share-based payment transaction" that is attributable to the key management personnel.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

30. ACQUISITION OF A SUBSIDIARY

On 17 January 2011, the Group acquired 100% of the share capital of Growlong Company Limited ("Growlong") from Culturecom Limited, a subsidiary of one of the substantial shareholders of the Company, at a consideration of approximately HK\$35,000. Growlong is inactive and it was incorporated in Hong Kong with limited liability and is wholly-owned by Culturecom Limited. The acquisition has been completed on 17 January 2011.

Details of net identifiable assets acquired from Growlong are as follows:

	Pre-acquisition carrying amount HK\$'000	Fair value adjustment HK\$'000	Fair value HK\$'000
Net assets acquired			
Property, plant and equipment	30	5	35
	<hr/>	<hr/>	<hr/>
Total identifiable net assets			35
			<hr/> <hr/>
Consideration satisfied by:			
Cash			35
			<hr/> <hr/>
Net cash outflow arising on acquisition:			
Cash consideration			35
			<hr/> <hr/>

The acquired business did not contribute any revenue or result to the Group for the period from the date of acquisition to 31 December 2011. Had the acquisition completed on 1 January 2011, total group revenue for the year would have been approximately HK\$4,936,000 and loss for the year would have been approximately HK\$27,725,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results. No gain or loss is noted for the above acquisition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

31. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are:

- (a) To ensure the Group's ability to continue as a going concern, so that it provides returns and benefits for its stakeholders;
- (b) To support the Group's stability and growth; and
- (c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity of HK\$11,874,000 (2010: HK\$13,163,000) as capital, for capital management purpose.

The directors of the Company also endeavour to ensure the steady and reliable cash flow from the normal business operation. For both years, the Group did not raise any debts.

32. FINANCIAL INSTRUMENTS

Categories of financial instrument

- (i) *Financial assets*

	2011	2010
	HK\$'000	HK\$'000
Current assets		
Financial assets at fair value through profit or loss	299	1,195
Loans and receivables:		
– Bank balances and cash	10,667	9,527
– Amount due from a director	30	–
– Amount due from a shareholder	–	136
– Trade receivables	421	438
– Deposits and other receivables	536	2,816
	11,953	14,112

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

32. FINANCIAL INSTRUMENTS (Continued)

Categories of financial instrument (Continued)

(ii) Financial liabilities

Current liabilities

Financial liabilities at amortised cost:

- Amount due to a related company
- Amount due to a director
- Trade payables
- Other payables and accrued expenses
(exclude temporary receipt)

2011 HK\$'000	2010 HK\$'000
–	2
96	91
51	31
1,883	1,658
2,030	1,782

Credit derivatives over loans or receivables at fair value

- Opening fair value
- Disposed during the year
- Change in fair value

Closing fair value

2011 HK\$'000	2010 HK\$'000
1,195	1,222
(394)	–
(502)	(27)
299	1,195

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments including financial assets at fair value through profit or loss, trade receivables, other receivables, amount due from a shareholder, amount due from a director, bank balances and cash, trade payables, other payables and accrued expenses, amount due to a related company and amount due to a director. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risk. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

33.1 Currency risk

The Group operates in Hong Kong with most of the transactions denominated and settled in HK\$. The Group's foreign currencies are mainly RMB and USD. The Group has bank balances and cash denominated in RMB and MOP while there are certain purchase transactions denominated in USD.

RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The carrying amounts of the Group's foreign currencies which denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2011	2010
	HK\$'000	HK\$'000
Net financial assets (liabilities)		
HK\$	9,605	12,036
RMB	5	17
USD	155	181
MOP	158	98
Euro ("EUR")	-	(2)
	9,923	12,330

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

33.1 Currency risk (Continued)

The Group is mainly exposed to RMB and USD. The following table details the Group's sensitivity analysis, the analysis assumes a 5% increase and decrease in RMB and USD against the HK\$, with all other variable held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates until the next reporting period. The sensitivity analysis includes only outstanding items denominated in foreign currencies other than the functional currencies of the group entities and adjusts their translation at the year end for a 5% change in foreign currency rates.

	RMB Impact		USD Impact	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss before income tax	-	1	8	9

As HK\$ is linked to USD, the Group does not have material currency risk on USD.

33.2 Interest rate risk

The Group has no borrowing. The Group's exposure to market risk for changes in interest rates relates primarily to bank balances and cash which bears floating interest rates. The Group currently does not have any interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

The directors are of the opinion that the sensitivity of the Group's loss for the year to the reasonably possible change in HK\$ interest rate in the next twelve months is low.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

33.3 Other price risk

The Group is exposed to equity price risk arising from its investments in listed equity securities and listed unit trusts which are classified as financial assets at fair value through profit or loss. The directors manage the exposure by maintaining a portfolio of investments with different risk and return profiles and will consider hedging the risk exposure should the need arise. The Group is not exposed to commodity price risk.

At 31 December 2011, it is estimated that there is a reasonably possible change of 50% (2010: 50%) in stock price and unit trust price in the next twelve months. If equity price and unit trust price had increased/decreased by 50% and all other variables were held constant, loss for the year and accumulated losses would decrease/increase by approximately HK\$150,000 (2010: HK\$598,000). This sensitivity analysis has been determined assuming that the price change had occurred at the end of the reporting period and had been applied to the Group's investments on that date.

33.4 Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss. The carrying amounts of financial assets at fair value through profit or loss, trade receivables, other receivables, amount due from a shareholder, amount due from a director and bank balances and cash represent the Group's maximum exposure to credit risk in relation to financial assets. The carrying amounts of these financial assets presented in the consolidated statement of financial position are net of impairment losses, if any. The Group monitors trade receivables, other receivables, amount due from a director and amount due from a shareholder on an ongoing basis and only trades and deals with creditworthy third parties. Accordingly, the Group's exposure to bad debt is not significant. In addition, all the Group's bank balances and cash are deposited with major banks located in Hong Kong and the Mainland China. Accordingly, the Group has no significant concentrations of credit risk.

The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a decisive level.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from financial assets at fair value through profit or loss, trade receivables and amount due from a shareholder/a director are set out in Notes 18, 19 and 20 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

33.5 Liquidity risk

As at 31 December 2011, the Group had net current assets of approximately HK\$11,527,000 (2010: HK\$12,639,000) and net assets of approximately HK\$11,874,000 (2010: HK\$13,163,000). Management considers the liquidity risk is minimal.

The Group manages its liquidity needs by carefully monitoring expected payments for potential investments as well as cash-outflows due to day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified on a monthly basis.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods, funding for long-term liquidity needs would be considered when a potential investment opportunity is identified.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities and based on the earliest date on which the Group would be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

33.5 Liquidity risk (Continued)

	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000
2011			
Trade payables	51	51	51
Other payables and accrued expenses (exclude temporary receipt)	1,883	1,883	1,883
Amount due to a director	96	96	96
	<u>2,030</u>	<u>2,030</u>	<u>2,030</u>
2010			
Trade payables	31	31	31
Other payables and accrued expenses (exclude temporary receipt)	1,658	1,658	1,658
Amount due to a related company	2	2	2
Amount due to a director	91	91	91
	<u>1,782</u>	<u>1,782</u>	<u>1,782</u>

33.6 Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

33.7 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2011			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at fair value through profit or loss				
Listed equity securities	299	–	–	299

	2010			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at fair value through profit or loss				
Listed equity securities	801	–	–	801
Listed unit trusts	394	–	–	394
	1,195	–	–	1,195

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2011 HK\$'000	2010 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		149	232
Interests in subsidiaries	(a)	2,500	2,500
		<u>2,649</u>	<u>2,732</u>
CURRENT ASSETS			
Other receivables		1,540	1,515
Amount due from a shareholder		–	136
Bank balances and cash		7,845	7,556
		<u>9,385</u>	<u>9,207</u>
CURRENT LIABILITIES			
Other payables and accrued expenses		325	203
Amounts due to subsidiaries	(b)	13,404	13,455
		<u>13,729</u>	<u>13,658</u>
NET CURRENT LIABILITIES			
		<u>(4,344)</u>	<u>(4,451)</u>
NET LIABILITIES			
		<u>(1,695)</u>	<u>(1,719)</u>
CAPITAL AND RESERVES			
Share capital		20,508	20,508
Reserves	(c)	(22,203)	(22,227)
TOTAL EQUITY			
		<u>(1,695)</u>	<u>(1,719)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

- (a) Interests in subsidiaries comprise:

	2011 HK\$'000	2010 HK\$'000
Unlisted shares, at cost	7,502	7,502
Less: Provision for impairment	(5,002)	(5,002)
	2,500	2,500

- (b) Amounts due to subsidiaries are unsecured, interest free and repayable on demand.

- (c) Reserves

	Share premium HK\$'000	Share options reserve HK\$'000 (Note a)	Warrant Reorganisation reserve HK\$'000 (Note b)	Reorganisation reserve HK\$'000 (Note c)	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2010	120,370	33,514	–	2,501	(174,892)	(18,507)
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	(3,720)	(3,720)
At 31 December 2010 and 1 January 2011	120,370	33,514	–	2,501	(178,612)	(22,227)
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	(26,412)	(26,412)
Recognition of share-based payments	–	19,346	–	–	–	19,346
Transfer to reserves upon lapse of share options	–	(176)	–	–	176	–
Placement of new warrants	–	–	8,000	–	–	8,000
Transactions costs attributable to issue of warrants	–	–	(910)	–	–	(910)
At 31 December 2011	120,370	52,684	7,090	2,501	(204,848)	(22,203)

Notes:

- (a) Share options reserve represents the portion of the grant date fair value of unexercised share options granted under the share option scheme adopted by the Company.
- (b) Warrant reserve represents the proceeds from the placing of 800,000,000 warrants ("Warrants") completed on 16 February 2011 as detailed in Note 25. The subscription period of the Warrants will be expired on 17 February 2013.
- (c) Reorganisation reserve represents the difference between the nominal value of the shares of the subsidiaries acquired and the HK\$7,500,000 loan capitalised and the nominal value of the shares issued by the Company as the consideration thereof.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

35. SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2011 are as follows:

Name of company	Place of incorporation/ registration and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company		Principal activities and place of operations
			Directly	Indirectly	
Q9 Technology (BVI) Limited	British Virgin Islands, limited liability company	100 ordinary shares of US\$1 each	100%	–	Investment holding in Hong Kong
Q9-Tech Energy Development Limited	Hong Kong, limited liability company	100 ordinary shares of HK\$1 each	100%	–	Investment holding of shares in Hong Kong
Q9-Tech Energy Development Limited	British Virgin Islands, limited liability company	100 ordinary shares of US\$1 each	100%	–	Inactive during the year
Qcode Chinese Computer Limited	Hong Kong, limited liability company	600,000 ordinary shares of HK\$1 each	–	100%	Holding patents in Hong Kong
Q9 Technology Company Limited	Hong Kong, limited liability company	1 ordinary share of HK\$1 each	–	100%	Provision of institution and corporate services in Hong Kong
Q9 Technology (Retail) Company Limited	Hong Kong, limited liability company	1 ordinary share of HK\$1 each	–	100%	Sales and licensing of computer software in Hong Kong
Q9 Technology (OEM) Company Limited	Hong Kong, limited liability company	1 ordinary share of HK\$1 each	–	100%	Development and licensing of computer software in Hong Kong
Q9 Technology (Shenzhen) Limited	PRC, limited liability company	HK\$2,000,000	–	100%	Development, sales and licensing of computer software in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

35. SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ registration and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company		Principal activities and place of operations
			Directly	Indirectly	
Q9 Investments Limited	British Virgin Islands, limited liability company	100 ordinary shares of US\$1 each	–	100%	Investments holding of shares and funds in Hong Kong
New Q9-Tech Equipment Trading Limited	Macau, limited liability company	MOP\$25,000	–	100%	Research and development for biotechnology in Macau
China Bio Cassava Group Limited	Hong Kong, limited liability company	100 ordinary shares of HK\$1 each	–	100%	Inactive during the year
China Bio Cassava Development Limited	Hong Kong, limited liability company	100 ordinary shares of HK\$1 each	–	100%	Inactive during the year
Growlong Company Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK\$1 each	–	100%	Inactive during the year

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

36. EVENT AFTER THE REPORTING PERIOD

- i) The Company's head office and principle place of business in Hong Kong has changed to Room B, 10 Floor, 47 Hung To Road, Kwun Tong, Kowloon with effect from 9 March 2012.
- ii) Pursuant to the announcement of the Company dated 22 March 2012, on 22 February 2012, the Company as purchaser entered into the conditional Agreement with a citizen in PRC and a substantial shareholder of the PRC Company who is an independent third party (the "Guarantor") and Harvest Time Global Investments Limited (the "Vendor") in relation to the acquisition of the entire equity interests of New Crown Alliance Limited (the "Target Company"). The Agreement would constitute a major transaction on the part of the Company.

The Target Company is a company incorporated in the British Virgin Islands with limited liabilities and is principally engaged in investment holdings. The Target Company is indirectly holding 20% equity interests of the PRC Company, which in turn is principally engaged in rare earth related business in the PRC.

After the entering into the Agreement, the Company and the Vendor entered into further negotiations in respect of certain items and conditions of the Agreement. Up to the date of this report, the negotiations are still in progress.

Financial Summary

FINANCIAL RESULTS

	Year ended 31 December				
	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
RESULTS					
Loss before income tax	(27,725)	(5,425)	(13,581)	(12,978)	(41,225)

	As at 31 December				
	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
ASSETS AND LIABILITIES					
Property, plant and equipment	347	524	1,342	1,646	816
Intangible assets	-	-	-	1,700	1,900
Prepaid lease payments	-	-	2,097	2,092	2,025
Deposits paid for construction of property, plant and equipment	-	-	-	3,042	1,419
Available-for-sales investment	-	-	7	-	-
Long term other receivable	-	-	-	1,200	-
Others assets	13,610	14,473	17,944	19,098	33,365
Total liabilities	(2,083)	(1,834)	(2,366)	(3,749)	(2,384)
Total equity	11,874	13,163	19,024	25,029	37,141