2012
Annual Report

M DREAM INWORLD LIMITED
聯夢活力世界有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8100

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Corporate Information

DIRECTORS

Executive Directors

Mr. Chi Chi Hung, Kenneth *(Chairman)*
Mr. Ng Kay Kwok *(Chief Executive Officer)*

Independent Non-Executive Directors

Mr. Billy B Ray Tam
Ms. Chan Hoi Ling
Mr. Yu Pak Yan, Peter

COMPANY SECRETARY

Mr. Lam Wai Hung

COMPLIANCE OFFICER

Mr. Chi Chi Hung, Kenneth

AUTHORIZED REPRESENTATIVES

Mr. Chi Chi Hung, Kenneth
Mr. Lam Wai Hung

AUDIT COMMITTEE

Ms. Chan Hoi Ling *(Chairman)*
Mr. Billy B Ray Tam
Mr. Yu Pak Yan, Peter

REMUNERATION COMMITTEE

Mr. Billy B Ray Tam *(Chairman)*
Ms. Chan Hoi Ling
Mr. Yu Pak Yan, Peter

NOMINATION COMMITTEE

Mr. Yu Pak Yan, Peter *(Chairman)*
Mr. Billy B Ray Tam
Ms. Chan Hoi Ling

REGISTERED OFFICE

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Ugland House
Grand Cayman KY1-1104
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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110–116 Queen's Road Central, Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada
Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26 Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Limited
Wing Hang Bank Limited

AUDITOR

Baker Tilly Hong Kong Limited
Certified Public Accountants

STOCK CODE

8100

WEBSITE

http://www.mdreaminworld.com.hk

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of M Dream Inworld Limited (the "Company", together with its subsidiaries referred to as the "Group"), I would like to present the audited consolidated results of the Group for the year ended 31 December 2012 (the "Year") together with a summary relating to the Group's strategy and prospect.

FINANCIAL RESULTS

The Group reported a loss from its continuing operations of HK$26,338,000 for the Year (2011: HK$4,637,000).

The Group's consolidated loss attributable to the owners of the Company for the Year amounted to HK$26,626,000 (2011: HK$6,146,000).

DIVIDEND

The Directors do not recommend the payment of any dividend for the Year (2011: HK$nil).

REVIEW OF OPERATIONS

During the Year, the Group continued to consolidate its existing businesses of website development, electronic learning products and services. Even though there is loss recorded in relation to the impairment loss on goodwill arising from the acquisition of KanHan Educational Services Limited ("KanHan EDU") in July 2010, However, the Group still believes that demand for electronic learning products and services in Hong Kong remains positive. This segment is expected to record good results in the future by launching quality electronic teaching solutions targeting various age groups.

The Year 2012 marked a milestone in the Group's expansion of business diversification. The Group announced that it had entered into an acquisition agreement pursuant to the acquisition of 50.5% of the issued share capital of Apperience Corporation ("Apperience", together with its subsidiaries referred to as the "Apperience Group") on 15 November 2012. The Apperience Group is principally engaged in the research and development and distribution of software for personal computer performance and security as well as mobile applications which are available for download by customers through internet worldwide. It is expected that through this acquisition of the Apperience, the Group will be able to tap into the international Information technology ("I.T.") market by expanding into the I.T. sector of PC and mobile communication devices and providing its customers with a more comprehensive business platform. On 12 March 2013, the acquisition was duly approved by the shareholders of the Company at the extraordinary general meeting. Completion has yet taken place as at the date hereof.

As at 31 December 2012, the Group had cash and cash equivalents amounting to approximately HK$140,737,000 and net current assets of approximately HK$124,134,000. Based on such solid financial position, the management will carefully look for investment opportunities with positive prospects.

Chairman's Statement

PROSPECT

Looking forward, assuming the acquisition is completed, the Group will strive to enhance its product portfolio and increase market coverage. It will also consider expanding the business of the Apperience Group into other emerging markets and seeking channels for strategic cooperation, including cross-marketing initiatives with leading I.T. companies, thereby bringing optimal benefits to its shareholders.

APPRECIATION

Lastly, I would like to take this opportunity to thank all our business partners and shareholders for their continuing confidence in the Group. I would also like to express my deepest appreciation to staff of all levels and our Board of Directors for their effort and dedication to the Group.

Chi Chi Hung, Kenneth
Chairman

15 March 2013

Management Discussion and Analysis

BUSINESS REVIEW

During the Year, the Group is principally engaged in provision of website development, electronic learning products and services.

(i) Provision of website development, electronic learning products and services (the "E-learning business") — Continuing operations

Total revenue of the E-learning business for the Year amounted to approximately HK$4,137,000, an increase of 13.8% compared to approximately HK$3,636,000 in last year. The segment result recorded a loss of approximately HK$18,577,000 (2011: Profit of approximately HK$2,338,000). The reason for the loss was mainly due to impairment loss on goodwill of amount approximately HK$20,831,000 arising from the acquisition of the entire issued share capital of KanHan EDU.

Besides, pursuant to the acquisition agreement, the vendor of KanHan EDU (the "Vendor") irrevocably warrants and guarantees to the Group that the audited net profits before tax and any extraordinary or exceptional items (the "Actual Profits") of KanHan EDU will not be less than HK$450,000, HK$2,200,000 and HK$6,500,000 for the years ended 31 December 2010, 2011 and 2012 (the "Guaranteed Profits") respectively. The Vendor is required to pay the Group in cash an amount by which the Actual Profits of KanHan EDU are less than the Guaranteed Profits.

The Actual Profits of KanHan EDU for the years ended 31 December 2010 and 2011 were approximately HK$488,000 and HK$2,356,000 respectively which satisfied the criteria of the Guaranteed Profits for the years ended 31 December 2010 and 2011. For the Year, the Group has recognized an income of approximately HK$4,235,000 from the profit guarantee as the unaudited profit before tax of KanHan EDU for the Year was approximately HK$2,265,000.

However, the Board is of the view that the impairment is a non-cash adjustment and working capital sufficiency of the Group will not be affected for the Year. The details of the Acquisition are set out in the Company's announcements dated 14 July 2010, 19 July 2010, 3 July 2012 and 28 December 2012, and the details of the impairment are set out in the notes 5(a), 20, 32 and 37(b) to the consolidated financial statements.

In order to develop a platform for E-learning business, the Group entered into a subscription agreement in September 2012 with Wise Action Limited, an indirect wholly-owned subsidiary of Modern Education Group Limited (stock code: 1082) ("Modern Education Group"), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange in respect of the convertible notes in the principal amount of HK$20,000,000. The convertible notes shall mature in one year and carry an interest of 2% per annum and can be converted at an initial conversion price of HK$0.1. The net proceeds will be applied in funding website development, electronic learning products and services as well as other web-based businesses. The Group believes that leveraging on the solid foundation of Modern Education Group in the education sector and with the Group's own experience in electronic learning, the market share of the Group's electronic learning platform will be increased.

(ii) Sales of optical display equipment, components and related technology (the "Optical display business") — Discontinued operation

The Optical display business recorded no turnover for the Year, and the loss for the Year from this discontinued operation recorded approximately HK$288,000.

As the performance of the Optical display business so far was not satisfactory, in May 2012, the Board decided to close the business carried out by the indirect wholly-owned subsidiary of the Company, 廣泰益昌（北京）科技有限公司 ("廣泰"). On 26 November 2012, 廣泰 completed the deregistration from the State Administration for Industry and Commerce in the People's Republic of China (the "PRC"). Details of the discontinued operation are set out in notes 5(a) and 12 to the consolidated financial statements.

(iii) Very Substantial Acquisition

On 15 November 2012, Access Magic Limited ("Access Magic"), Ace Source International Limited ("Ace Source"), Well Peace Global Limited ("Well Peace"), Wealthy Hope Limited ("Wealthy Hope"), IDG-Accel China Growth Fund II L.P. ("IDG-Accel"), IDG-Accel China Investors II L.P. ("IDG-Accel Investors") and THL A1 Limited ("THL") (which is a subsidiary of Tencent Holdings Limited (stock code: 700), the issued shares of which is listed on the Main Board of the Stock Exchange) as vendors (collectively, the "Vendors"), and Dong Yuguo, Xue Qiushi, Lian Ming and Chen Liang as warrantors (collectively, the "Warrantors") and the Company as purchaser entered into an acquisition agreement ("Acquisition Agreement") pursuant to which the Company has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, the 10,436,667 shares of US$0.001 each in the issued share capital of Apperience Corporation ("Apperience"), which in aggregate represent 50.5% of the issued share capital of Apperience (the "Acquisition"). On 11 December 2012, a supplemental agreement to the Acquisition Agreement has been entered into by and among the same parties. The maximum aggregate amount of the consideration payable by the Company to the Vendors shall be HK$548,985,500 (subject to adjustment) which would be satisfied partly by the creation and issue of the zero coupon convertible notes in the principal amount of up to HK$392,132,500 (the "Convertible Notes") (and where applicable) partly by the allotment and issue of the performance shares at the issue price of HK$0.108 per performance share, the maximum number of which shall be 1,452,342,588 subject to adjustment (the "Performance Shares").

The Apperience and its subsidiaries ("Apperience Group") are principally engaged in the research and development and distribution of software for personal computer performance and security as well as mobile applications which are available for download by customers through internet worldwide. The Apperience Group focuses on the development and sale of mobile phone applications, downloadable via mobile phones by customers.

The Apperience Group's major product, Advanced SystemCare, has been undergoing updates and upgrades periodically. The latest version no. 6 has been formally launched in November 2012. Based on the internal sales database of the Apperience Group, Advanced SystemCare has accumulated over 800,000 paid subscribers. According to the internal sales database of the Apperience Group, there are over 5,000,000 free and paid active users (which refer to users who have used the product at least one time in that month) in October 2012. The Apperience Group also derives income from toolbar advertisement. During the installation of the Apperience Group's software products, internet users can select whether to install toolbar developed by customers of the Apperience Group into their computers. The Apperience Group would receive advertising income based on the number of users who installed the toolbar and kept for a required timeframe. The principal market of the Apperience Group is the United States, which contributed to approximately 56% of its total revenue for the year ended 30 September 2012 based on the audited financial statements of the Apperience Group. The target customers of the Apperience Group are principally individual consumers.

Immediately after completion of the Acquisition ("Completion"), the Company will hold 50.5% of the entire issued share capital of Apperience and take management control of the Apperience Group. The results of the Apperience Group will be consolidated into the financial statements of the Group upon Completion. The Acquisition constitutes a very substantial acquisition ("Very Substantial Acquisition") for the Company, and the Acquisition was approved by the shareholders at the extraordinary general meeting ("EGM") of the Company held on 12 March 2013. The result of EGM is set out in the Company's announcement dated 12 March 2013.

As at the date of this report, the Completion has not yet taken place.

The Group believes that synergies can be achieved by acquiring the Apperience Group. Multi-angle development in products and technology will be implemented to better-equip the Group for further development and become a driving force behind the Group's income growth.

Details of the Acquisition, Convertible Notes and Performance Shares are set out in the announcements dated 27 November 2012, 5 December 2012, 23 February 2013 and 12 March 2013 respectively and the Company's circular dated 23 February 2013.

FINANCIAL REVIEW

Turnover

For the Year under review, the turnover of the Group from its continuing operations was approximately HK$4,137,000, representing an increase of approximately 13.8% compared to the turnover for the year ended 31 December 2011 of approximately HK$3,636,000. The turnover for the Year was mainly contributed by the E-learning business.

Gross profit

The gross profit of the Group for the Year from its continuing operations increased by 15.9% to approximately HK$3,909,000 from approximately HK$3,372,000 for the last year.

Loss for the Year

The Group's loss attributable to shareholders was approximately HK$26,626,000 (2011: HK$6,146,000), representing a basic loss per share of HK2.13 cents (2011: HK0.55 cents). The reason for the increase in loss was mainly due to the impairment loss on goodwill of approximately HK$20,831,000.

Management Discussion and Analysis

Liquidity, financial resources and capital structure

As at 31 December 2012, the Group's cash and cash equivalents amounted to approximately HK$140,737,000 (2011: HK$118,105,000), which were principally denominated in Renminbi and Hong Kong dollar.

The Group generally finances its operation using internally generated resources and proceeds raised from issue of new shares in previous years.

As at 31 December 2012, the share capital of the Company consisted of 1,248,894,324 ordinary shares of HK$0.10 each. During the Year, the Company issued convertible notes with principal amount of HK$20,000,000 as alternative financing instruments. The notes bear interest at 2% per annum, are unsecured and have a maturity date on 13 November 2013. The noteholder has the right to convert the notes into ordinary shares of the Company at conversion price of HK$0.1 per ordinary share up to 9 November 2013. The details of the issued convertible notes are set out in note 27 to the consolidated financial statements and the Company's announcements dated 28 September 2012 and 14 November 2012.

On 12 March 2013, an ordinary resolution relating to the authorised share capital of the Company be increased from HK$400,000,000 divided into 4,000,000,000 shares of HK$0.10 each to HK$800,000,000 divided into 8,000,000,000 shares of HK$0.10 each by the creation of an additional 4,000,000,000 shares of the Company and such shares shall rank pari passu with all existing shares of the Company was approved by the shareholders of the Company in an extraordinary general meeting. As at the date of this report, the authorised share capital of the Company is HK$800,000,000 divided into 8,000,000,000 shares of HK$0.10 each.

Gearing ratio

As at 31 December 2012, total assets of the Group were approximately HK$160,974,000 (2011: HK$161,647,000), whereas the total liabilities were approximately HK$22,894,000 (2011: HK$3,257,000). The gearing ratio of the Group, calculated as total liabilities over total asset, was 14.2% (2011: 2%).

Dividend

The Board of the Company does not recommend the payment of any dividend for the Year (2011: HK$nil).

Pledge of assets

On 13 February 2012, the Company's indirect wholly-owned subsidiary, Elipva (Greater China) Holdings Limited, purchased a property in Hong Kong at a consideration of HK$6,500,000 and took out a bank loan in the principal amount of HK$3,250,000, denominated in Hong Kong dollar, at the interest rate of 2% below prime rate per annum, and payable in 180 monthly instalments each inclusive of interest, commencing one month after drawdown and due in February 2027. The bank loan plus interests and other charges are guaranteed by the Company. As at 31 December 2012, the carrying value of the property was approximately HK$6,585,000.

Foreign exchange exposure

During the Year the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Directors did not consider the Group was exposed to any significant foreign currency exchange risks.

Significant event

Issue of convertible notes

On 28 September 2012, the Company and Wise Action Limited, an indirect wholly-owned subsidiary of Modern Education Group entered into a subscription agreement in respect of the issue of 2% coupon unsecured convertible notes due on 13 November 2013 in an aggregate principal amount of HK$20,000,000. The noteholder has the right to convert the notes into ordinary shares of the Company at a conversion price of HK$0.1 per ordinary share up to 9 November 2013. The Company has the right to redeem any portion of the convertible notes at any time before the maturity date at the principal amount. The net proceeds from the convertible notes of approximately HK$19,500,000 will be used (i) as to approximately HK$5,000,000 for financing the business of website development, electronic learning products and services; and (ii) as to approximately HK$14,500,000 for future investments in e-commerce and/or other information technology related business as and when opportunities arise. Details of the transactions are set out in the Company's announcement dated 28 September 2012 and 14 November 2012 respectively and the note 27 to the consolidated financial statements.

Service agreement

On 28 September 2012, Lucky Famous Limited ("Lucky Famous"), a direct wholly-owned subsidiary of the Company, and Modern Education Hong Kong Limited ("Modern Education HK"), an indirect wholly-owned subsidiary of Modern Education Group, entered into a service agreement (the "Service Agreement") pursuant to which Lucky Famous agreed to engage and Modern Education HK agreed to provide the services, being the services in respect of (i) advising in building up a website for the Group as the platform for internet education business; (ii) sourcing a suitable information technology company for building up the website and supervising the whole process; and (iii) providing electronic text books and/or teaching materials for the internet education business of the Group at a consideration of HK$600,000 for a term of eight months, subject to and upon the terms and conditions of the Service Agreement. Details of the transactions are set out in the Company's announcement dated 28 September 2012.

Material acquisitions and disposals

Apart from the Very Substantial Acquisition disclosed above, the Group had no other material acquisition or disposal during the Year.

Ageing of trade receivables and payables

The ageing of the Group's trade receivables and payables as at 31 December 2012 are set out in notes 21 and 24 to the consolidated financial statements respectively.

Employee and remuneration policies

As at 31 December 2012, the Group had approximately 43 employees (2011: 31 employees) in Hong Kong and the PRC. The Group's remuneration policy is reviewed periodically and determined by reference to market terms, company performance, individual qualifications and performance, and in accordance with the statutory requirements of the respective jurisdiction where the employees are engaged. On 24 December 2007, the share option scheme ("Share Option Scheme") was approved by shareholders of the Company in an extraordinary general meeting. The Share Option Scheme is to enable the Company to grant option to either Directors or employees of the Group in order to recognise and motivate their contribution, to provide incentives and to help the Group in retaining its existing employees and recruiting additional quality employees so as to provide them with a direct economic interest in attaining the long term business objectives of the Group. No options were granted under the Share Option Scheme during the Year. As at 31 December 2012, there were options to subscribe for 6,200,000 shares of the Company outstanding under the Share Option Scheme.

Contingent liabilities

As at 31 December 2012, the Directors did not consider the Group had any contingent liabilities (2011: HK$nil).

Capital commitments

As at 31 December 2012, capital commitments in respect of the acquisition of Apperience which had been contracted but not provided for by the Group amounted to approximately HK$548,986,000 (2011: HK$nil). The details of capital commitments for the Year are set out in the notes 35(a) and 38 to the consolidated financial statements.

OUTLOOK

Looking forward, upon completion of the acquisition of the Apperience, the Group will focus its business development and sales on four main areas, namely antivirus software, mobile applications, on-line games and web-based electronic learning products, thus to enhance the Group's overall competitiveness.

With the economic fundamentals across the globe turning positive, there is an increasing demand for software products from enterprises. As the application of cloud technology become popular. Apperience will have ample room to maneuver in Europe, the USA and Asia markets. The Group will actively conduct marketing schemes on a timely and efficient fashion in order to promote its products to across every continent.

Meanwhile, in light of the gradual recovery of the financial markets and based on solid financial position, the Board will also take a positive but prudent approach to perform treasury management and this function will be overseen by a professional investment committee. Apart from potential investment projects, the following ways of increasing returns will be also considered, including (a) term deposit in bank; (b) lending money to independent third parties on a short to medium-term basis; and (c) investment in local or global securities.

Corporate Governance Report

The Board would like to present this Corporate Governance Report for the Year.

The Company is committed to maintaining corporate governance of high standards and quality procedures. The Company has put in place governance practices with emphasis on the integrity to shareholders and quality of disclosure, transparency and accountability to shareholders for the sake of maximizing returns to shareholders.

In the opinion of the Directors, the Company has applied and on best effort basis complied with the code provisions set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 (the "CG Code") and the revised Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 as contained in Appendix 15 of the GEM Listing Rules (the "Revised CG Code"), except for Code Provisions A.2.1, A.4.1 and A.6.7. The following sections set out the principles in the CG Code and the Revised CG Code as they have been applied by the Company, including any deviations therefrom, for the Year under review.

BOARD OF DIRECTORS

Composition

The Board currently comprises five members, two Executive Directors, namely Mr. Chi Chi Hung, Kenneth (Chairman of the Board) and Mr. Ng Kay Kwok (Chief Executive Officer) and three Independent Non-executive Directors, namely Mr. Billy B Ray Tam, Ms. Chan Hoi Ling and Mr. Yu Pak Yan, Peter. Independent Non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

The composition of the Board reflects the balance of skills and experience appropriate for the requirements of the Company's business and for the exercise of independent decisions. The Company has three Independent Non-executive Directors which is more than half of the Board. They are professionals in different areas and provide independent opinions based on their expertise.

There is no relationship among members of the Board and the biographies of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

BOARD PRACTICES AND CONDUCT OF MEETINGS

Proposed regular Board meeting dates for a year are informed to each Director at the beginning at the year. Formal notice of at least 14 days will be given in respect of a regular meeting. For special board meeting, reasonable notice will be given. Directors participated, either in person or through other electronic means of communication in the Board meetings.

The Board of Directors meets regularly at least 4 times a year. The Directors participated in person or through other means of communication. All notices of board meetings were given to all Directors, who were given an opportunity to include matters in the agenda for discussion. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors can also seek independent professional advice in performing their duties at the Company's expense, if necessary. Minutes of each board meeting will be kept and are open for inspection at any reasonable time on request by any Director.

Directors' insurance

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

Responsibilities, accountabilities and contributions of the board and management

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All Directors should take decisions objectively in the interests of the Company.

The Board reserves for its decision on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

During the Year, 22 Board meetings had been held for reviewing business performance, considering and approving the overall strategies and policies of the Company and other business matters. The attendance record of each Director at the Board and Board Committee meetings and the general meeting of the Company held during the Year is set out in the table below:

	Board Meetings	Remuneration Committee Meetings	Audit Committee Meetings	Nomination Committee Meetings	General Meeting
Number of meetings held	22	4	5	2	1
Executive Directors					
Mr. Chi Chi Hung, Kenneth	22/22	N/A	N/A	N/A	1/1
Mr. Ng Kay Kwok*	12/12	N/A	N/A	N/A	1/1
Mr. Takashi Togo**	7/7	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Billy B Ray Tam	22/22	4/4	5/5	2/2	1/1
Ms. Chan Hoi Ling	22/22	4/4	5/5	2/2	1/1
Mr. Yu Pak Yan, Peter	22/22	4/4	5/5	2/2	0/1

* Mr. Ng Kay Kwok was appointed as an Executive Director and Chief Executive Officer on 29 May 2012.

** Mr. Takashi Togo retired as an Executive Director and Chief Executive Officer on 17 May 2012.

Under Code Provision A.6.7, independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other unavoidable business engagement, one of Independent Non-executive Directors was unable to attend the Company's annual general meeting held on 17 May 2012. However, at the said meeting, there were Executive Directors and more than half of Independent Non-executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

Chairman and chief executive officer

The positions of Chairman and Chief Executive Officer are held by Mr. Chi Chi Hung, Kenneth and Mr. Ng Kay Kwok respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Since the former Chief Executive Officer of the Company, Mr. Takashi Togo, retired on 17 May 2012, Mr. Chi Chi Hung, Kenneth, the Chairman of the Board, has temporarily taken up the role as Chief Executive Officer of the Company for a transitional period with a view to identifying a suitable candidate. Subsequently on 29 May 2012, the Company appointed Mr. Ng Kay Kwok, as an Executive Director and the Chief Executive Officer of the Company, and the Company has duly complied with the Code Provision A.2.1 on 29 May 2012.

Independent non-executive directors

During the Year, the Board complied at all times met with the requirement of the GEM Listing Rules that at least three Independent Non-executive Directors sit in the Board (more than half of the Board members) and at least one of them has appropriate professional accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in the GEM Listing Rules. As at the date of this annual report, the Company in its best knowledge considers all the three existing Independent Non-executive Directors are independent.

Appointment and re-election of directors

The Company has established formal, considered and transparent procedures for the appointment of new directors.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. According to the Company's Articles of Association, all Non-executive Directors shall retire at each annual general meeting and are subject to re-election by shareholders at the same meeting. Other relevant Articles state that all Directors appointed to fill a casual vacancy should be subject to re-election by shareholders at their first annual general meeting after appointment, and one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation at every annual general meeting. A retired Director shall be eligible for re-election. All Directors should retire by rotation at least once every three years including those appointed for a specific term.

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. The existing Independent Non-executive Directors were not appointed for specific terms but are subject to retirement by rotation and re-election at each annual general meeting of the Company in accordance with the Article of Association of the Company. The Company considers that sufficient measures have been taken to ensure good corporate governance practices of the Company in this aspect.

Continuous professional development of directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

Besides, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listing company in compliance with the Revised CG Code on continuous professional development during the Year.

	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/ Financial/Management or Other Professional Skills	
Directors	**Read Materials**	**Attended Seminars/ Briefings**	**Read Materials**	**Attended Seminars/ Briefings**
Executive Directors				
Mr. Chi Chi Hung, Kenneth	✓	✓	✓	✓
Mr. Ng Kay Kwok	✓	✓	✓	
Independent Non-executive Directors				
Mr. Billy B Ray Tam	✓	✓	✓	✓
Ms. Chan Hoi Ling	✓	✓	✓	✓
Mr. Yu Pak Yan, Peter	✓	✓	✓	✓

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statements, which set out the responsibility of Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's Report on pages 40 to 41 which acknowledges the reporting responsibility of the Group's Auditor.

Annual report and accounts

The Directors acknowledge their responsibility for the preparation of the annual report and financial statements of the Company for the Year to ensure that these financial statements give a true and fair presentation in accordance with Hong Kong Companies Ordinance and the applicable accounting standards.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Accounting policies

The Directors consider that in preparing the financial statements, the Group applies appropriate accounting policies that are consistently adopted and makes judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

Accounting records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose the financial position of the Group upon which financial statements of the Group could be prepared in accordance with the Group's accounting policies.

Safeguarding assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities within the Group.

AUDITOR'S REMUNERATION

The remuneration in respect of the services provided by the Company's auditor, Baker Tilly Hong Kong Limited, is analysed as follows:

	2012	2011
	HK$'000	*HK$'000*
Services rendered:		
Audit services	**400**	380
Non-audit services	**–**	–
	400	380

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard the interests of the Company's shareholders and the Group's assets and, with the support of the Audit Committee, for reviewing the effectiveness of such system on an annual basis.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the Year. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Board and the Audit Committee on any findings and measures to address the variances and identified risks.

BOARD COMMITTEES/FUNCTIONS

The Board has established three committees, namely, the Remuneration Committee, Audit Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate.

Remuneration Committee

The Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Billy B Ray Tam (Chairman), Ms. Chan Hoi Ling and Mr. Yu Pak Yan, Peter.

The main duties of the Remuneration Committee include making recommendations on the remuneration policy and structure of, and determining the specific remuneration packages of, all directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

During the Year, the Remuneration Committee has reviewed and made recommendation to the Board on the remuneration policy and structure of the Company, and determined the remuneration packages of the Directors and senior management. Details of the Directors' remuneration are set out in note 10 to the consolidated financial statements.

In addition, pursuant to the Code Provision B.1.5, the annual remuneration of the member of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration band (HK$)	Number of individual
200,000 to 300,000	1

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors, namely Ms. Chan Hoi Ling, Mr. Billy B Ray Tam and Mr. Yu Pak Yan, Peter. The chairman of the Audit Committee is Ms. Chan Hoi Ling who possesses the appropriate accounting and financial management expertise as required under the GEM Listing Rules.

The main duties of the Audit Committee include the followings:

(a) To monitor the control procedures and the disclosures on the reporting of the Company's financial statements, and to review and discuss with external auditors any significant financial reporting standards and guidelines applied to the financial statements.

(b) To consider any significant or unusual items that are, or may need to be, reflected in financial reports and accounts, and give due consideration to matters raised by the Company's compliance officer or external auditor.

(c) To review the relationship with the external auditor by reference to the work performed by them, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of auditor.

(d) To review the Company's financial controls, internal control and risk management systems.

(e) To review Company's arrangements to enable employees to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company

During the Year, the Audit Committee has reviewed the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of external auditor and arrangements for employees to raise concerns about possible improprieties. The Audit Committee also met the external auditor twice without the presence of the Executive Directors. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditor.

Nomination Committee

To comply with the Revised CG Code, which requires a listed issuer to set up a nomination committee by 1 April 2012, the Board approved the setting up of its Nomination Committee on 27 March 2012, which comprises three Independent Non-executive Directors, namely Mr. Yu Pak Yan, Peter (Chairman), Mr. Billy B Ray Tam and Ms. Chan Hoi Ling.

The main duties of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and recommending any changes to the Board; identifying qualified and suitable individuals to become Board members and selecting and making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular, the Chairman and the Chief Executive Officer of the Company.

Prior to the setting up of the Nomination Committee, the Board as a whole is responsible for the said duties of the Nomination Committee.

Subsequent to the setting up of the Nomination Committee, two meetings were held regarding the appointment of Executive Director and Chief Executive Officer.

Corporate governance functions

The Board is responsible for performing the functions set out in the Code Provision D.3.1.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the GEM Listing Rules, and the Company's compliance with the Revised CG Code and disclosure in this Corporate Governance Report.

Company Secretary

The Company Secretary of the Company is Mr. Lam Wai Hung. The Company Secretary assists the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. He has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge in 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the required standard of dealings in respect to any dealings of the Company's securities by its Directors.

Specific enquiries have been made of all Directors and they all confirmed they have complied with the said GEM Listing Rules throughout the Year.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors. According to the GEM Listing Rules, all resolutions put forward at shareholder meetings will be voted on by poll and poll results will be posted on the websites of the Stock Exchange and the Company after each shareholder meeting.

Procedures for shareholders to convene an extraordinary general meeting

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, pursuant to the Articles of Association of the Company, general meetings shall be convened on the written requisition of any two or more shareholders of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

General meetings may also be convened on the written requisition of any one shareholder of the Company which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for shareholders to propose a person for election as a director of the company

Pursuant to the Articles of Association of the Company, if a shareholder wishes to propose a person (the "Candidate") for election as a director of the Company at a general meeting, he/she shall deposit a written notice (the "Notice") to the Company Secretary at the Company's head office.

The Notice (i) must include the personal information of the Candidate as required by Rule 17.50(2) of the GEM Listing Rules; and (ii) must be signed by the shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information.

The period for lodgment of the Notice shall commence on the day after the dispatch of the notice of general meeting and end no later than 7 days prior to the date of such general meeting.

In order to ensure the Company's shareholders have sufficient time to receive and consider the proposal of election of the Candidate as a director of the Company without adjourning the general meeting, shareholders are urged to submit and lodge the Notice as early as practicable preferably at least 15 business days prior to the date of the general meeting appointed for such election.

Detailed procedures for shareholders to propose a person for election as a Director are available on the Company's website.

Procedures for sending enquiries to the board

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Board of Directors/Company Secretary at the Company's head office. For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the Company's head office and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

On 27 March 2012, the Board adopted a Shareholders' Communication Policy reflecting mostly the current practices of the Company for communication with its shareholders. Such policy aims at providing the shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. Such policy will be reviewed by the Company regularly to ensure its effectiveness and compliance with the prevailing regulatory and other requirements.

The Company has established a number of channels for maintaining on on-going dialogue with its shareholders as follows:

(i) corporate communications such as annual reports, interim reports, quarterly reports, notices of meetings, listing documents and circulars are issued in printed form and are available on the Stock Exchange's website at www.hkex.com.hk and the Company's website at www.mdreaminworld.com.hk in a timely and consistent manner as required by the GEM Listing Rules;

(ii) corporate information and the Memorandum and Articles of Association of the Company are made available on the Company's website;

(iii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iv) annual general meeting and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Company's share registrar serves the shareholders in respect of share registration, dividend payment, change of Shareholders' particulars and related matters.

CONSTITUTIONAL DOCUMENTS

The Board does not aware of any changes in the Company's constitutional documents. An updated version of the Company's Memorandum and Articles of Association is available on both the websites of the Stock Exchange and the Company.

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Chi Chi Hung, Kenneth, aged 44, has been appointed as the Chairman and Executive Director of the Company since July 2010. Mr. Chi has over 20 years of experience in accounting and financial control area. He holds a Bachelor of Accountancy Degree from the Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Chi is currently an executive director of Hua Yi Copper Holdings Limited (stock code: 559), China Sandi Holdings Limited (formerly known as China Grand Forestry Green Resources Group Limited) (stock code: 910) and Morning Star Resources Limited (stock code: 542), all of which are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Perfect Shape (PRC) Holdings Limited (stock code: 1830) and Noble Century Investment Holdings Limited (formerly known as Sam Woo Holdings Limited) (stock code: 2322), all of which are listed on the Main Board of the Stock Exchange. Mr. Chi is also an independent non-executive director of Hong Kong Life Sciences and Technologies Group Limited (formerly known as ZMAY Holdings Limited) (stock code: 8085), China Natural Investment Company Limited (stock code: 8250) and Aurum Pacific (China) Group Limited (stock code: 8148), all of which are listed on the GEM of the Stock Exchange. He was an independent non-executive director of Interchina Holdings Company Limited (stock code: 202) from October 2011 to August 2012. He has also appointed as an independent non-executive director of L'sea Resources International Holdings Limited (stock code: 195) (formerly known as Goodtop Tin International Holdings Limited in October 2012).

Mr. Ng Kay Kwok, aged 50, has been appointed as an Executive Director and Chief Executive Officer of the Company since May 2012. Mr. Ng graduated from the Australian National University with a Bachelor's Degree in Economics and obtained a Graduate Diploma in Accounting from Macquarie University. He is a member of CPA Australia and has extensive experience in accounting and financial management. He was an Executive Director and the Chief Executive Officer from 9 July 2010 to 31 May 2011 and company secretary from 1 January 2007 to 31 May 2011 of the Company. Mr. Ng is currently an independent non-executive director of China Fortune Financial Group Limited (stock code: 290) which is listed on the Main Board of the Stock Exchange.

Independent Non-executive Directors

Mr. Billy B Ray Tam, aged 44, joined the Company since June 2010. He has been a practising solicitor in Hong Kong for over fifteen years. He is currently a partner of Messrs. Ho & Tam, a firm of solicitors in Hong Kong. Mr. Tam holding a Bachelor Degree of Laws from the University of London, a Bachelor Degree in laws of the PRC from Tsinghua University; and a Master Degree of Laws from The University of Hong Kong. He is an independent non-executive director of China Fortune Financial Group Limited (stock code: 290), a company listed on the Main Board of the Stock Exchange and China AU Group Holdings Limited (stock code: 8176) and China Natural Investment Company Limited (stock code: 8250), both of which are listed on the GEM of the Stock Exchange. Mr. Tam is also a non-executive director of Larry Jewelry International Company Limited (stock code: 8351), a company listed on the GEM of the Stock Exchange and a non-executive director of Milan Station Holdings Limited (stock code: 1150), a company listed on the Main Board of the Stock Exchange.

Biographical Details of Directors and Senior Management

Mr. Yu Pak Yan, Peter, aged 62, joined the Company since July 2010. Mr. Yu has over 29 years of experience in real estate and financial services industries. He holds a Bachelor Degree in Management from Youngstown State University in Ohio, USA and a Master of Science Degree in Financial Services from American College in Pennsylvania, USA. Mr. Yu is a member of the Certified Commercial Investment Member Institute and was the first Chinese-American elected to the board of the San Francisco Association of Realtors. Mr. Yu worked in Pacific Union Real Estate Company in the US from 1980–1995 and held senior positions in MetLife and New York Life Insurance Company in managing Asian customers in North America. Mr. Yu is currently serving as an executive director of Kong Sun Holdings Limited (stock code: 295) and an independent non-executive director of Kingston Financial Group Limited (stock code: 1031), Noble Century Investment Holdings Limited (formerly known as Sam Woo Holdings Ltd) (stock code: 2322) and China Sandi Holdings Limited (formerly known as China Grand Forestry Green Resources Group Limited) (stock code: 910), the issued shares of which are listed on the Main Board of the Stock Exchange.

Ms. Chan Hoi Ling, aged 39, joined the Company since July 2010. Ms. Chan has extensive experience in auditing and financial management. She obtained a Bachelor Degree in Accountancy from the University of South Australia, a Master Degree in Business Administration from The Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. She is the independent non-executive director of Morning Star Resources Limited (stock code: 542) which is listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Lam Wai Hung, aged 32, joined the Company as the Company Secretary since May 2011. He holds a bachelor degree of accounting and finance in Leeds Metropolitan University and is a member of Association of Chartered Certified Accountants in the United Kingdom. Mr. Lam has over 7 years experience in accounting and auditing.

Report of the Directors

The Directors of the Company are pleased to present the annual report (the "Report") together with the audited consolidated financial statements of the Group for the year ended 31 December 2012 (the "Year").

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands on 30 July 2001 as an exempted company with limited liability under Companies Law (2001 Revision) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 31 December 2001, and head office and principal place of business in Hong Kong at Unit 901, 9th Floor, Wings Building, 110–116 Queen's Road Central, Central, Hong Kong.

PRINCIPAL ACTIVITIES

The Company is an investment holding company while the Group is principally engaged in provision of website development, electronic learning products and services. The principal activities of the principal subsidiaries are set out in note 19 to the consolidated financial statements.

RESULTS AND DIVIDENDS

Results of the Group for the Year and the state of affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 42 to 115 of the Report.

The Directors do not recommend any payment of a final dividend for the Year (31 December 2011: HK$nil)

SEGMENT INFORMATION

An analysis of the principal activities and geographical locations of operations of the Group for the Year is set out in note 5 to the consolidated financial statements.

CHARITABLE DONATIONS

No charitable donation was made by the Group during the Year (2011: HK$250,000).

SHARE CAPITAL

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Year and the Company has not redeemed any of its shares during the Year.

Details of the movement in the share capital of the Company are set out in note 29(b) to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the Year are set out in the consolidated statement of change in equity on page 47 of the Report and in note 29 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company did not have any reserves available for distribution to equity holders of the Company (2011: HK$4,221,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AMOUNT DUE TO A DIRECTOR AND OTHER BORROWING

Particulars of loans from a Director and other borrowing of the Group as at 31 December 2012 are set out in notes 25 and 26 to the consolidated financial statements respectively.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company during the Year are set out in note 17 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of Group's total turnover for the Year attributable to the Group's major customers are as follows:

Turnover

— the largest customer 7.9%

— five largest customers in aggregate 35.3%

The percentages of Group's purchases for the Year attributable to the Group's major suppliers are as follows:

Purchases

— the largest supplier 26.3%

— five largest suppliers in aggregate 77.7%

Sales to the fifth largest customer for the Year was treated as the Continuing Connected Transactions, disclosed in the section headed "Continuing Connected Transaction" of this report and Related Party Transactions, disclosed in note 37(b) to the consolidated financial statements.

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

EVENTS AFTER THE REPORTING PERIOD

Details of the Group's events after the reporting period are set out in note 38 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 116 of the Report. This summary does not form part of audited financial statements.

CONTINUING CONNECTED TRANSACTIONS

The following transactions of the Group constituted continuing connected transactions ("Continuing Connected Transactions") under the GEM Listing Rules during the financial year ended 31 December 2012:

(1) On 19 November 2010, a supply agreement (the "Supply Agreement") was entered by the Group with KanHan Technologies Limited ("KanHan Technologies"), a Hong Kong company which was previously the shareholder of the entire equity interests of KanHan EDU. Mr. Mo Wai Ming, Lawrence is also a common director for both KanHan Technologies and KanHan EDU. During the Year, the Group has provided website development, electronic learning products and services to KanHan Technologies under this Agreement. The amount was approximately HK$259,000 (2011: HK$626,000) which was classified as Continuing Connected Transactions.

(2) On 19 November 2010, a business centre service agreement (the "Business Centre Service Agreement") was entered by the Group with KanHan Technologies, a Hong Kong company which was previously the shareholder of the entire equity interests of KanHan EDU. Mr. Mo Wai Ming, Lawrence is also a common director for both KanHan Technologies and KanHan EDU. During the Year, the Group has provided business centre services to KanHan Technologies under this Agreement. The monthly service charge was approximately HK$20,000 and the total amount of service charge for the Year was HK$240,000 (2011: HK$240,000) which was classified as Continuing Connected Transactions.

The details of both the Supply Agreement and the Business Centre Service Agreement and the relevant Continuing Connected Transactions are contained in the Company's announcement dated 19 November 2010 and note 37(b) to the consolidated financial statements.

Annual review of continuing connected transactions

The auditor of the Company has reviewed the abovementioned Continuing Connected Transactions on an annual basis and they issued a confirmation letter to the Board on the Continuing Connected Transactions for the Year. Based on this letter from the auditor and after their own review, the Independent Non-executive Directors of the Company confirm the Continuing Connected Transactions for the year have been entered into:

(a) have been approved by the Company's Board of Directors;

(b) in accordance with the pricing policies of the Group or on normal commercial terms;

(c) in accordance with the respective agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(d) have not exceeded the relevant maximum amount capped in accordance to the annual caps as set out in the relevant announcements.

The auditor has issued his unqualified letter containing his findings and conclusions in respect of the Continuing Connected Transactions in accordance with paragraph 20.38 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

CONTINUING CONNECTED TRANSACTIONS — VERY SUBSTANTIAL ACQUISITION

Apperience and 成都奧畢信息技術有限公司 (Chengdu AOBI Information Technology Co., Ltd.) (the "PRC Company"), a limited liability company established in the PRC have entered into certain agreements and the transactions contemplated thereunder are expected to continue after Completion of the Acquisition.

The PRC Company is owned as to 70% by Dong Yuguo and Xue Qiushi, in equal share and 30% by another individual holding for the benefits of IDG-Accel. As Dong Yuguo and Xue Qiushi are the directors of Apperience and certain members of the Apperience Group and will continue to be so after Completion, upon Completion, the transactions contemplated under the IT Consultancy Service Agreement (as supplemented by, all of which are described below, the Supplemental IT Consultancy Service Agreement) and the 2013 IT Consultancy Service Agreement will constitute continuing connected transactions for the Company under the GEM Listing Rules.

In accordance with Rule 20.41 of the GEM Listing Rules, where a listed issuer has entered into an agreement involving continuing transactions and such transactions subsequently become continuing connected transactions for whatever reason, the listed issuer must, immediately upon it becoming aware of this fact, comply with all applicable reporting, annual review and disclosure requirements of the GEM Listing Rules in respect of all such continuing connected transactions.

Following Completion, the Company will comply with all applicable reporting, annual review and disclosure requirements of the GEM Listing Rules as aforesaid.

IT Consultancy Service Agreement

The IT Consultancy Service Agreement was entered into between Apperience and the PRC Company on 15 April 2011 (the "IT Consultancy Service Agreement"), the principal terms of which are set out below:

Date

15 April 2011

Parties

(1) Apperience

(2) the PRC Company

Services provided

In accordance with the IT Consultancy Service Agreement, the PRC Company shall provide to Apperience, among others, the following services on an exclusive basis:

(a) development and research on related technologies according to the business needs of Apperience;

(b) provision of technological applications and implementation according to the business operations of Apperience, including but not limited to, the whole system design, system installation and commissioning and system trial operation;

(c) daily maintenance, monitoring, debugging and troubleshooting of computer network equipment;

(d) consultancy services for the purchase of software, hardware and equipment required for network operators launched by Apperience;

(e) technical training and technical support to the staff of Apperience;

(f) technical advice and solutions for the questions of Apperience about network equipment, technological products and software; and

(g) other technical and consultancy services and advice according to the business of Apperience.

Service fees

Service fees shall be determined with reference to, among others, the complexity of technological development and management, time involved, workload and commercial value of the services provided by the PRC Company and to be agreed by Apperience and the PRC Company in separate agreement(s). The parties agree that the quarterly service fees to be payable by Apperience to the PRC Company shall, in principle, not exceed RMB2,000,000. Any quarterly service fee exceeding RMB2,000,000 shall be subject to the consent of the board of Apperience.

Duration

The IT Consultancy Service Agreement shall commence on the date of its signing and cease to have effect upon the dissolution of Apperience, subject to early termination by Apperience by 30 days' notice in writing to the PRC Company.

Supplemental IT Consultancy Service Agreement

On 10 November 2012, Apperience and the PRC Company entered into a Supplemental IT Consultancy Service Agreement to amend certain term of the IT Consultancy Service Agreement pursuant to which the duration of the IT Consultancy Service Agreement will end on 10 November 2015.

2013 IT consultancy service agreement

Ancillary to the IT Consultancy Service Agreement, the 2013 IT Consultancy Service Agreement was entered into between Apperience and PRC Company on 31 December 2012 (the "2013 IT Consultancy Service Agreement"), the principal terms of which are set out below:

Date

31 December 2012

Parties

(1) Apperience

(2) the PRC Company

Services provided

Ancillary to the IT Consultancy Service Agreement, the scope of services to be provided by the PRC Company to Apperience in 2013 shall include the following:

(a) development and update services for certain software of Apperience;

(b) technical trainings and consultancy services related to the relevant software;

(c) maintenance services and update of related data based on the business information of Apperience; and

(d) consultancy services in relation to the purchase of software, hardware and equipment purchasing and maintenance regarding network development and management.

Service fees

US$2,600,000

Duration

The 2013 IT Consultancy Service Agreement shall commence on the date of its signing and cease to have effect on 31 December 2013.

COMPETING AND CONFLICT OF INTEREST

None of the Directors, management shareholders or substantial shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that completes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group during the Year and as the date of the Report.

MANAGEMENT CONTRACTS

No Director of the Company has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation) during the Year and as at the date of the Report.

DIRECTORS

The changes of Directors during the financial year and up to the date of this report are:

	Appointed on	Resigned on
Executive Directors		
Mr. Chi Chi Hung, Kenneth *(Chairman)*	8 July 2010	
Mr. Ng Kay Kwok *(Chief Executive Officer)*	29 May 2012	
Mr. Takashi Togo	31 May 2011	17 May 2012
Independent Non-executive Directors		
Mr. Billy B Ray Tam	18 June 2010	
Ms. Chan Hoi Ling	30 July 2010	
Mr. Yu Pak Yan, Peter	30 July 2010	

In accordance with Article 116a of the Company, at each annual general meeting, all non-executive Directors (including independent non-executive Directors) shall retire from office. A retiring Director shall retain office until the close of the meeting at which he retires, and shall be eligible for re-election thereat. Mr. Billy B Ray Tam, Ms. Chan Hoi Ling and Mr. Yu Pak Yan, Peter will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 99 of the Company, Mr. Ng Kay Kwok, being newly appointed Director, shall retire from office at the forthcoming annual general meeting and being eligible, offer himself for re-election at the annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 22 to 23 of this Report.

EMOLUMENTS OF DIRECTORS OR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group are set out in notes 10 and 11 to the consolidated financial statements respectively.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that annual confirmations of independence were received from each of the Company's existing Independent Non-executive Directors pursuant to Rule 5.09 of GEM Listing Rules and all existing Independent Non-executive Directors are considered to be independent by the Company.

DIRECTORS' SERVICE CONTRACTS

All of the Directors are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's articles of association and the GEM Listing Rules.

The emoluments of the executive Directors and Independent Non-executive Directors will be determined by the Board (as to be authorized by the shareholders of the Company at the forthcoming annual general meeting) at its discretion with reference to their duties and responsibilities.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, any of its subsidiaries or fellow subsidiaries was a party, 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 under review.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2012, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executives, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 30 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTEREST

As at 31 December 2012, the following persons (other than Directors or chief executive of the Company) had, or were deemed or taken to have interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of SFO were as follows:

Long positions in the underlying shares

Substantial shareholders	Capacity in which the underlying shares are held	Number of shares or underlying shares	Approximate percentage of the Company's issued share capital *Note (17)*	*Notes*
Wise Action Limited ("Wise Action")	Beneficial owner	200,000,000	16.01%	*(1), (2)*
Sino Network Group Limited ("Sino Network")	Interest of a controlled corporation	200,000,000	16.01%	*(1), (2)*
Modern Education Group Limited ("Modern Education Group")	Interest of a controlled corporation	200,000,000	16.01%	*(1), (2)*
Speedy Harvest Investments Limited ("Speedy Harvest")	Interest of a controlled corporation	200,000,000	16.01%	*(1), (2)*
Mr. Ng Kam Lun Eric ("Mr. Ng")	Interest of a controlled corporation	200,000,000	16.01%	*(1), (2)*

Substantial shareholders	Capacity in which the underlying shares are held	Number of shares or underlying shares	Approximate percentage of the Company's issued share capital *Note (17)*	*Notes*
Access Magic Limited ("Access Magic")	Beneficial owner and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(3)*
Dong Yuguo ("Mr. Dong")	Interest of a controlled corporation and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(3), (4)*
Ace Source International Limited ("Ace Source")	Beneficial owner and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(5)*
Xue Qiushi ("Mr. Xue")	Interest of a controlled corporation and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(5), (6)*
Wealthy Hope Limited ("Wealthy Hope")	Beneficial owner and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(7)*
Chen Liang ("Mr. Chen")	Interest of a controlled corporation and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(7), (8)*
Well Peace Global Limited ("Well Peace")	Beneficial owner and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(9)*

Substantial shareholders	Capacity in which the underlying shares are held	Number of shares or underlying shares	Approximate percentage of the Company's issued share capital *Note (17)*	*Notes*
Lian Ming ("Mr. Lian")	Interest of a controlled corporation and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(9), (10)*
IDG-Accel China Growth Fund II L.P. ("IDG-Accel")	Beneficial owner and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(11)*
IDG-Accel China Investors II L.P. ("IDG-Accel Investors")	Beneficial owner and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(12)*
IDG-Accel China Growth Fund II Associates L.P. ("IDG-Accel II Associates")	Interest of a controlled corporation and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(11), (14)*
IDG-Accel China Growth Fund GP II Associates Ltd. ("IDG-Accel GP II")	Interest of a controlled corporation and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(11), (12), (13), (14)*
Zhou Quan ("Mr. Zhou")	Interest of a controlled corporation and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(11), (12), (13), (14)*

Substantial shareholders	Capacity in which the underlying shares are held	Number of shares or underlying shares	Approximate percentage of the Company's issued share capital *Note (17)*	*Notes*
Ho Chi Sing ("Mr. Ho")	Interest of a controlled corporation and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(11), (12), (13), (14)*
THL A1 Limited ("THL")	Beneficial owner and interests deemed under sections 317 and 318 of the SFO	5,083,199,066	407.01%	*(15)*
Tencent Holdings Limited ("Tencent")	Interest of a controlled corporation	5,083,199,066	407.01%	*(15), (16)*
MIH TC Holdings Limited ("MIH TC Holdings")	Interest of a controlled corporation	5,083,199,066	407.01%	*(15), (16)*
MIH (Mauritius) Limited ("MIH Mauritius")	Interest of a controlled corporation	5,083,199,066	407.01%	*(15), (16)*
MIH Holdings Limited ("MIH Holdings")	Interest of a controlled corporation	5,083,199,066	407.01%	*(15), (16)*
Naspers Limited ("Naspers")	Interest of a controlled corporation	5,083,199,066	407.01%	*(15), (16)*

Notes:

(1) Wise Action is wholly and beneficially owned by Sino Network. Sino Network is wholly owned by Modern Education Group. Modern Education Group is approximately 44.96% owned by Speedy Harvest and Speedy Harvest is wholly owned by Mr. Ng. As such, each of Mr. Ng, Speedy Harvest, Modern Education Group and Sino Network was deemed to be interested in all the shares held by Wise Action pursuant to Part XV of the SFO.

(2) Assuming the allotment and issue of the conversion shares pursuant to the exercise of the conversion rights in full attaching to the convertible notes issued by the Company as disclosed in Company's announcements dated 28 September 2012 and 14 November 2012.

(3) Access Magic was interested, in the capacity as the beneficial owner, in 1,003,067,671 shares, being the maximum number of conversion shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible notes at the initial conversion price and performance shares to be allotted and issued to Access Magic.

Access Magic was deemed to be interested in the 4,080,131,395 shares of which other Vendors are interested pursuant to sections 317 and 318 of the SFO.

(4) Access Magic is wholly and beneficially owned by Mr. Dong. As such, Mr. Dong is deemed to be interested in all the shares held by Access Magic pursuant to Part XV of the SFO.

(5) Ace Source was interested, in the capacity as the beneficial owner, in 1,421,059,131 shares, being the maximum number of conversion shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible notes at the initial conversion price and performance shares to be allotted and issued to Ace Source.

Ace Source was deemed to be interested in the 3,662,139,935 shares of which other Vendors are interested pursuant to sections 317 and 318 of the SFO.

(6) Ace Source is wholly and beneficially owned by Mr. Xue. As such, Mr. Xue is deemed to be interested in all the shares held by Ace Source pursuant to Part XV of the SFO.

(7) Wealthy Hope was interested, in the capacity as the beneficial owner, in 250,754,210 shares, being the maximum number of conversion shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible notes at the initial conversion price and performance shares to be allotted and issued to Wealthy Hope.

Wealthy Hope was deemed to be interested in the 4,832,444,856 shares of which other Vendors are interested pursuant to sections 317 and 318 of the SFO.

(8) Wealthy Hope is wholly and beneficially owned by Mr. Chen. As such, Mr. Chen is deemed to be interested in all the shares held by Wealthy Hope pursuant to Part XV of the SFO.

(9) Well Peace was interested, in the capacity as the beneficial owner, in 250,754,210 shares, being the maximum number of conversion shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible notes at the initial conversion price and performance shares to be allotted and issued to Well Peace.

Well Peace was deemed to be interested in the 4,832,444,856 shares of which other Vendors are interested pursuant to sections 317 and 318 of the SFO.

(10) Well Peace is wholly and beneficially owned by Mr. Lian. As such, Mr. Lian is deemed to be interested in all the shares held by Well Peace pursuant to Part XV of the SFO.

(11) IDG-Accel was interested, in the capacity as the beneficial owner, in 1,794,979,256 shares, being the maximum number of conversion shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible notes at the initial conversion price and performance shares to be allotted and issued to IDG-Accel.

IDG-Accel was deemed to be interested in the 3,288,219,810 shares of which other Vendors are interested pursuant to sections 317 and 318 of the SFO.

(12) IDG-Accel Investors was interested, in the capacity as the beneficial owner, in 146,802,789 shares, being the maximum number of conversion shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible notes at the initial conversion price and performance shares to be allotted and issued to IDG-Accel Investors.

IDG-Accel Investors was deemed to be interested in the 4,936,396,277 shares of which other Vendors are interested pursuant to sections 317 and 318 of the SFO.

(13) By virtue of the relationships as described in note 14 below, IDG-Accel GP II was interested, through its controlled corporations, in 1,941,782,045 shares and was deemed to be interested in the 3,141,417,021 shares of which the Vendors (other than IDG-Accel and IDG-Accel Investors) are interested pursuant to sections 317 and 318 of the SFO.

(14) IDG-Accel GP II owns the entire equity interest in each of IDG-Accel II Associates and IDG-Accel Investors. IDG-Accel GP II is 50% owned by Mr. Ho and 50% owned by Mr. Zhou. As such, each of Mr. Ho, Mr. Zhou and IDG-Accel GP II was deemed to be interested in all the shares held by IDG-Accel and IDG-Accel Investors.

IDG-Accel is wholly owned by IDG-Accel II Associates. As such, IDG-Accel II Associates was deemed to be interested in all the shares held by IDG-Accel pursuant to Part XV of the SFO.

(15) THL was interested, in the capacity as the beneficial owner, in 215,781,799 shares, being the maximum number of conversion shares to be allotted and issued to it upon the exercise of the conversion rights attaching to the convertible notes at the initial conversion price and performance shares to be allotted and issued to THL.

THL was deemed to be interested in the 4,867,417,267 shares of which other Vendors are interested pursuant to sections 317 and 318 of the SFO.

(16) To the Directors' knowledge after making reasonable enquiries, THL is wholly owned by Tencent. Tencent is 33.99% owned by MIH TC Holdings. MIH TC Holdings is 90% owned by MIH Mauritius. MIH Mauritius is wholly owned by MIH Ming He Holdings Limited ("MIN Ming He"), a wholly owned subsidiary of MIH Holdings. MIH Holdings is wholly owned by Naspers. As such, each of Naspers, MIH Holdings, MIH Ming He, MIH Mauritius, MIH TC Holdings and Tencent was deemed to be interested in all the shares in which THL was interested pursuant to Part XV of the SFO.

Based on the above, MIH Ming He was deemed to be interested in 5,083,199,066 as the interest of a controlled corporation.

(17) The total number of the issued shares as at the date of this report (that is, 1,248,894,324 shares) has been used for the calculation of the approximate percentage.

Save as disclosed above, so far as is known to the Directors, there is no other person who had, or were deemed to have interests or short positions in the shares or underlying shares which were required to be recorded in the register required to be kept under section 336 of the SFO.

As at the date of this report, none of the Directors is also a director of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules throughout the accounting period covered by the annual report save for the deviation as disclosed in the Corporate Governance Report from pages 11 to 21.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefit scheme in operation for the year ended 31 December 2012 are set out in note 31 to the consolidated financial statements.

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference. The Audit Committee's principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee currently comprises the three Independent Non-executive Directors of the Company, namely, Mr. Billy B Ray Tam, Mr. Yu Pak Yan, Peter and Ms. Chan Hoi Ling. Ms. Chan Hoi Ling is the chairman of the audit committee. The Audit committee met on a quarterly basis during the Year. The Company's financial statements for the year ended 2012 have been reviewed and discussed by the Audit Committee before any disclosure and release of information.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained the prescribed public float under the GEM Listing Rules.

INDEPENDENT AUDITOR

The consolidated financial statements have been audited by Baker Tilly Hong Kong Limited, who will retire and be eligible to offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting to re-appoint auditor and to fix their remuneration.

ON BEHALF OF THE BOARD
Chi Chi Hung, Kenneth
Chairman

15 March 2013

Independent Auditor's Report

BAKER TILLY
HONG KONG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
天職香港會計師事務所有限公司
2nd Floor, 625 King's Road
North Point, Hong Kong
香 港 北 角 英 皇 道 6 2 5 號 2 樓

Independent auditor's report to the shareholders of
M Dream Inworld Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of M Dream Inworld Limited (the "Company") and its subsidiaries (together referred to as the "Group") set out on pages 42 to 115, which comprise the consolidated and Company's statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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. This report is made solely to you, as a body, in accordance with 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.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 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.

Baker Tilly Hong Kong Limited
Certified Public Accountants

Hong Kong, 15 March 2013

Fok Wai Ming
Practising certificate number P03902

Consolidated Income Statement

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000 (Re-presented)
Continuing operations			
Turnover	4	**4,137**	3,636
Cost of sales		**(228)**	(264)
Gross profit		**3,909**	3,372
Other revenue	6	**2,053**	1,660
Other gains and losses	7	**(16,451)**	1,514
Selling and administrative expenses		**(14,442)**	(10,846)
Loss from operations		**(24,931)**	(4,300)
Finance costs	8(a)	**(1,048)**	(120)
Loss before taxation	8	**(25,979)**	(4,420)
Income tax	9	**(359)**	(217)
Loss for the year from continuing operations		**(26,338)**	(4,637)
Discontinued operation	12		
Loss for the year from discontinued operation		**(288)**	(1,509)
Loss for the year attributable to equity shareholders of the Company		**(26,626)**	(6,146)
Loss per share	16		
From continuing and discontinued operations			
Basic and diluted		**(HK2.13 cents)**	(HK0.55 cents)
From continuing operations			
Basic and diluted		**(HK2.11 cents)**	(HK0.42 cents)
From discontinued operation			
Basic and diluted		**(HK0.02 cents)**	(HK0.13 cents)

The notes on pages 50 to 115 form part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	**2012** **$'000**	2011 $'000
Loss for the year		**(26,626)**	(6,146)
Other comprehensive (expense)/income for the year	*15*		
Exchange differences on translation of financial statements of overseas subsidiaries		**18**	171
Reclassification adjustments relating to deregistration of foreign operation during the year		**(307)**	–
		(289)	171
Total comprehensive expense for the year attributable to equity shareholders of the Company		**(26,915)**	(5,975)

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The notes on pages 50 to 115 form part of the consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current assets			
Fixed assets	17	**7,901**	167
Intangible assets	18	**3,637**	1,647
Goodwill	20	**2,408**	23,239
		13,946	25,053
Current assets			
Trade and other receivables	21	**6,291**	13,470
Loan receivables, unsecured	22	**–**	5,019
Cash and cash equivalents	23	**140,737**	118,105
		147,028	136,594
Current liabilities			
Trade and other payables	24	**5,194**	2,917
Amount due to a director	25	**401**	190
Bank loan, secured	26	**3,108**	–
Convertible notes	27	**14,044**	–
Current taxation	28(a)	**147**	150
		22,894	3,257
Net current assets		**124,134**	133,337
NET ASSETS		**138,080**	158,390
CAPITAL AND RESERVES	29		
Share capital		**124,889**	124,889
Reserves		**13,191**	33,501
Total equity attributable to equity shareholders of the Company		**138,080**	158,390

Approved and authorised for issue by the board of directors on 15 March 2013.

Chi Chi Hung, Kenneth *Director*	**Ng Kay Kwok** *Director*

The notes on pages 50 to 115 form part of the consolidated financial statements.

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Statement of Financial Position

At 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current assets			
Fixed assets	17	**723**	25
Investments in subsidiaries	19	**–**	4,200
		723	4,225
Current assets			
Amounts due from subsidiaries	19	**588**	10,846
Prepayments, deposits and other receivables	21	**190**	236
Loan receivables, unsecured	22	**–**	3,000
Cash and cash equivalents	23	**137,005**	111,952
		137,783	126,034
Current liabilities			
Accrued expenses and other payables	24	**2,970**	649
Amount due to a subsidiary	19	**73**	–
Amount due to a director	25	**401**	190
Convertible notes	27	**14,044**	–
		17,488	839
Net current assets		**120,295**	125,195
NET ASSETS		**121,018**	129,420

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The notes on pages 50 to 115 form part of the consolidated financial statements.

Statement of Financial Position

At 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
CAPITAL AND RESERVES	29		
Share capital		**124,889**	124,889
Reserves		**(3,871)**	4,531
TOTAL EQUITY		**121,018**	129,420

Approved and authorised for issue by the board of directors on 15 March 2013.

Chi Chi Hung, Kenneth	**Ng Kay Kwok**
Director	*Director*

The notes on pages 50 to 115 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company							
	Share capital $'000	Share premium $'000	Contributed surplus $'000	Share option reserve $'000	Convertible note equity reserve $'000	Exchange reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2011	13,111	192,064	6,426	–	–	123	(174,044)	37,680
Loss for the year	–	–	–	–	–	–	(6,146)	(6,146)
Other comprehensive income	–	–	–	–	–	171	–	171
Total comprehensive income/ (expense) for the year	–	–	–	–	–	171	(6,146)	(5,975)
Shares issued upon open offer *(note 29(b)(ii))*	52,445	48,733	–	–	–	–	–	101,178
Shares issued on bonus issue *(note 29(b)(ii))*	39,333	(39,333)	–	–	–	–	–	–
Shares issued on placement of shares *(note 29(b)(iii))*	20,000	5,197	–	–	–	–	–	25,197
Equity settled share-based transactions	–	–	–	310	–	–	–	310
Balance at 31 December 2011 and 1 January 2012	124,889	206,661	6,426	310	–	294	(180,190)	158,390
Loss for the year	–	–	–	–	–	–	(26,626)	(26,626)
Other comprehensive expense	–	–	–	–	–	(289)	–	(289)
Total comprehensive expense for the year	–	–	–	–	–	(289)	(26,626)	(26,915)
Issue of convertible notes *(note 27)*	–	–	–	–	6,605	–	–	6,605
Balance at 31 December 2012	**124,889**	**206,661**	**6,426**	**310**	**6,605**	**5**	**(206,816)**	**138,080**

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The notes on pages 50 to 115 form part of the consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Operating activities			
Loss before taxation			
— Continuing operations		**(25,979)**	(4,420)
— Discontinued operation		**(288)**	(1,509)
Adjustments for:			
— Bank interest income	*6*	**(1,748)**	(1,376)
— Depreciation	*8(c)*	**355**	238
— Equity settled share-based payment	*8(c)*	**–**	310
— Finance costs	*8(a)*	**1,048**	120
— Foreign exchange gain		**(21)**	(24)
— Gain on deregistration of a subsidiary	*12*	**(293)**	–
— (Gain)/loss on disposal of fixed assets	*7*	**(26)**	118
— Gain on disposal of subsidiaries	*7*	**–**	(1,278)
— Impairment loss on goodwill	*7*	**20,831**	–
— Loan interest income	*6*	**(65)**	(44)
— Write-down of inventories	*7*	**–**	1,328
Operating loss before changes in working capital		**(6,186)**	(6,537)
(Increase)/decrease in trade and other receivables		**(5,743)**	1,114
Increase in trade and other payables		**2,832**	1,476
Increase in amount due to a director		**211**	190
Cash used in operations		**(8,886)**	(3,757)
Income tax paid		**(362)**	(67)
Net cash used in operating activities		**(9,248)**	(3,824)
Investing activities			
Bank interest received		**1,751**	1,285
Expenditure on development projects		**(1,990)**	(1,647)
Loans received/(advanced)		**5,019**	(5,019)
Loan interest received		**65**	44
Net cash inflow from disposal of subsidiaries	*33*	**–**	546
Deposit refunded/(paid) for purchase of investment	*21(d)*	**10,000**	(10,000)
Payment for purchase of fixed assets (including deposits paid)		**(5,765)**	(2,420)
Proceeds from disposal of fixed assets		**52**	1,416
Net cash generated from/(used in) investing activities		**9,132**	(15,795)

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Consolidated Cash Flow Statement

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Financing activities			
Finance charges on obligations under finance leases		**–**	(107)
Interest paid		**(86)**	(13)
Proceeds from issue of convertible notes	*27*	**19,687**	–
Proceeds from issue of shares upon open offer	*29(b)(ii)*	**–**	101,178
Proceeds from placement of shares	*29(b)(iii)*	**–**	25,197
Proceeds from new bank loan		**3,250**	–
Repayment of bank loan		**(142)**	–
Repayment of obligations under finance leases		**–**	(1,574)
Net cash generated from financing activities		**22,709**	124,681
Net increase in cash and cash equivalents		**22,593**	105,062
Cash and cash equivalents at 1 January		**118,105**	12,878
Effect of foreign exchange rate changes		**39**	165
Cash and cash equivalents at 31 December	*23*	**140,737**	118,105

The notes on pages 50 to 115 form part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY INFORMATION

M Dream Inworld Limited (the "Company") is incorporated in the Cayman Islands under the Companies Law (2001 Revision) of the Cayman Islands as an exempted company with limited liability. The registered office of the Company is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, British West Indies. The principal place of business in Hong Kong is located at Unit 901, 9th Floor, Wings Building, 110-116 Queen's Road Central, Central, Hong Kong.

The Company has its primary listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal activity of the Company is investment holding. The principal activities of its subsidiaries (together with the Company collectively referred to as the "Group") are set out in note 19.

The consolidated financial statements are presented in thousands of units of Hong Kong dollars ($'000) unless otherwise stated. Hong Kong dollars ("HK$") is the Company's functional and the Group's presentation currency.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited ("the GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group and the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

The preparation of the consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 40.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries *(Continued)*

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained profits or accumulated losses at the date when control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, Financial instruments: recognition and measurement, or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)).

(d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (Revised 2008), Business combinations, are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12, Income taxes, and HKAS 19, Employee benefits, respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with HKFRS 2, Share-based payment; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5, Non-current assets held for sale and discontinued operations, are measured in accordance with that standard.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37, Provisions, contingent liabilities and contingent assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(f) Fixed assets

Items of fixed assets are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(i)).

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease
— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

—	Leasehold improvements	5 years or over the lease term, if shorter
—	Office equipment	3–5 years
—	Furniture and fixtures	5 years
—	Computer hardware and software	2–5 years
—	Motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Capitalised development costs	3 years

Both the period and method of amortisation are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, expect for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operation lease. For these purposes the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of receivables (Continued)

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets;

— intangible assets;

— investments in subsidiaries; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Convertible notes

Convertible notes that contain an equity component

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. The value of any embedded derivative features that are closely related to the host contract has been allocated to the liability component. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution/benefit retirement plans are recognised as an expense in the income statement as incurred.

(ii) Termination benefits

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

(q) Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the year end date. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Provisions and contingent liabilities *(Continued)*

(i) Financial guarantees issued (Continued)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the group under the guarantee, and (ii) the amount of that claim on the group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Service income

— Revenue from website development is recognised when the services are rendered.

— Revenue from software application, electronic learning platform and maintenance services is recognised on a straight-line basis over the term of the service contract.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(ii) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

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 each 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 translation 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 equity in the consolidated financial statements. 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 differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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 ("HK$")) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Borrowing costs

All borrowing costs are expensed in the period in which they are incurred.

(w) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(x) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Related parties *(Continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) 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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the respect of the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the consolidated financial statements:

- Amendments to HKFRS 7, Financial instruments: Disclosures — Transfers of financial assets
- Amendments to HKAS 12, Income taxes — Deferred tax: Recovery of underlying assets

The adoption of the new amendments had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 TURNOVER

Turnover represents the sales value of goods and services supplied to customers. An analysis of the Group's revenue for the year is as follows:

	Continuing operations		Discontinued operation		Total	
	2012	2011	**2012**	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Provision of website development, electronic learning products and services	**4,137**	3,636	**–**	–	**4,137**	3,636
Sales of optical display equipment, components and related technology	**–**	–	**–**	–	**–**	–
	4,137	3,636	**–**	–	**4,137**	3,636

5 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments.

— Website development, electronic learning products and services (continuing operations)

— Optical display equipment, components and related technology (discontinued operation)

(a) Segment results, assets and liabilities

For the purpose of monitoring segment performances and allocating resources between segments:

— Segment profit/(loss) represented profit earned by/(loss from) each segment without allocation of central administration costs, finance costs and income tax expense.

— Segment assets include all tangible, intangible assets and current assets with the exception of loan receivables and other corporate assets.

— Segment liabilities include all current and non-current liabilities with the exception of accrued central administration cost and amount due to a director.

Segment revenue reported below represents revenue generated from external customers. There were no inter-segment sales in the current year (2011: HK$nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

5 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments for the years ended 31 December 2012 and 2011 is set out below.

	Continuing operations Website development, electronic learning products and services		Discontinued operation Optical display equipment, components and related technology		Unallocated		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Turnover								
Revenue from external customers	**4,137**	3,636	**–**	–	**–**	–	**4,137**	3,636
Results								
Segment result	**(18,577)**	2,338	**(288)**	(1,509)	**–**	–	**(18,865)**	829
Interest income							**1,813**	1,420
Unallocated income							**148**	1,488
Unallocated expenses							**(8,315)**	(9,546)
Loss from operations							**(25,219)**	(5,809)
Finance costs							**(1,048)**	(120)
Loss before taxation							**(26,267)**	(5,929)
Income tax							**(359)**	(217)
Loss for the year							**(26,626)**	(6,146)
Assets								
Segment assets	**10,029**	28,676	**–**	2,834	**–**	–	**10,029**	31,510
Unallocated assets	**–**	–	**–**	–	**150,945**	130,137	**150,945**	130,137
Total assets							**160,974**	161,647
Liabilities								
Segment liabilities	**1,996**	1,718	**–**	654	**–**	–	**1,996**	2,372
Unallocated liabilities	**–**	–	**–**	–	**20,898**	885	**20,898**	885
Total liabilities							**22,894**	3,257
Other information								
Capital expenditure	**(85)**	(40)	**–**	–	**(8,030)**	(30)	**(8,115)**	(70)
Depreciation	**(15)**	(3)	**(10)**	(14)	**(330)**	(221)	**(355)**	(238)
Development costs capitalised	**(1,990)**	(1,647)	**–**	–	**–**	–	**(1,990)**	(1,647)
Gain on deregistration of a subsidiary	**–**	–	**293**	–	**–**	–	**293**	–
Gain on disposal of subsidiaries	**–**	–	**–**	–	**–**	1,278	**–**	1,278
Gain/(loss) on disposal of fixed assets	**–**	–	**(21)**	–	**47**	(118)	**26**	(118)
Impairment loss on goodwill	**(20,831)**	–	**–**	–	**–**	–	**(20,831)**	–
Recovery from impairment loss on trade receivables	**–**	–	**62**	428	**–**	–	**62**	428
Write-down of inventories	**–**	–	**–**	(1,328)	**–**	–	**–**	(1,328)

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5 SEGMENT REPORTING *(Continued)*

(b) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, intangible assets and goodwill ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of fixed assets, and the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

	Revenues from external customers		Specified non-current assets	
	2012	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong	**4,137**	2,640	**13,874**	24,999
Mainland China	**–**	996	**72**	54
	4,137	3,636	**13,946**	25,053

(c) Information about major customers

For the year ended 31 December 2012, there were nil (2011: two) customers who individually accounted for over 10% of total revenue of the Group and their aggregate revenue was HK$nil (2011: HK$1,623,000) related to the website development, electronic learning products and services segment (2011: website development, electronic learning products and services segment).

6 OTHER REVENUE

	Continuing operations		Discontinued operation		Total	
	2012	2011	**2012**	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Bank interest income	**1,748**	1,376	**–**	–	**1,748**	1,376
Income from provision of business centre services	**240**	240	**–**	–	**240**	240
Loan interest income	**65**	44	**–**	–	**65**	44
	2,053	1,660	**–**	–	**2,053**	1,660

7 OTHER GAINS AND LOSSES

	Continuing operations		Discontinued operation		Total	
	2012	2011	**2012**	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Foreign exchange (loss)/gain	**(5)**	24	**–**	–	**(5)**	24
Gain on disposal of subsidiaries	**–**	1,278	**–**	–	**–**	1,278
Gain/(loss) on disposal of fixed assets	**47**	(118)	**(21)**	–	**26**	(118)
Gain on profit guarantee from acquisition of subsidiaries (note 32)	**4,235**	–	**–**	–	**4,235**	–
Impairment loss on goodwill	**(20,831)**	–	**–**	–	**(20,831)**	–
Net sundry income	**103**	330	**2**	–	**105**	330
Recovery from impairment loss on trade receivables	**–**	–	**62**	428	**62**	428
Write-down of inventories	**–**	–	**–**	(1,328)	**–**	(1,328)
	(16,451)	1,514	**43**	(900)	**(16,408)**	614

8 LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	Continuing operations		Discontinued operation		Total	
	2012	2011	**2012**	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
(a) Finance costs:						
Interest on bank loans:						
— wholly repayable within 5 years	**–**	13	**–**	–	**–**	13
— not wholly repayable within 5 years	**86**	–	**–**	–	**86**	–
Finance charges on obligations under finance leases	**–**	107	**–**	–	**–**	107
Effective interest on convertible notes	**962**	–	**–**	–	**962**	–
	1,048	120	**–**	–	**1,048**	120
(b) Staff costs (including directors' remuneration):						
Salaries, wages and other benefits	**6,225**	3,047	**142**	92	**6,367**	3,139
Retirement scheme contributions	**111**	98	**–**	–	**111**	98
	6,336	3,145	**142**	92	**6,478**	3,237
(c) Other items:						
Depreciation	**345**	224	**10**	14	**355**	238
Auditor's remuneration	**400**	380	**–**	–	**400**	380
Operating lease charges: minimum lease payments						
— hire of office premises	**515**	1,618	**117**	109	**632**	1,727
— hire of other assets	**6**	19	**217**	158	**223**	177
Equity settled share-based payment	**–**	310	**–**	–	**–**	310

9 INCOME TAX

(a) Income tax in the consolidated income statement represents:

	Continuing operations		Discontinued operation		Total	
	2012	2011	**2012**	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Current tax						
— Hong Kong Profits Tax						
Provision for the year	**368**	217	**–**	–	**368**	217
Overprovision in respect of prior year	**(9)**	–	**–**	–	**(9)**	–
	359	217	**–**	–	**359**	217

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. No taxation has been provided in the consolidated financial statements of the subsidiaries operating outside Hong Kong for the year (2011: HK$nil).

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2012	2011
	$'000	*$'000*
Loss before taxation		
— Continuing operations	**(25,979)**	(4,420)
— Discontinued operation	**(288)**	(1,509)
	(26,267)	(5,929)
Notional tax credit on loss before taxation, calculated at the rate of 16.5% (2011: 16.5%)	**(4,334)**	(978)
Tax effect of different taxation rates in other tax jurisdictions	**(20)**	(43)
Tax effect of non-deductible expenses	**5,840**	1,919
Tax effect of non-taxable income	**(1,037)**	(588)
Tax effect of unused tax losses not recognised	**–**	176
Utilisation of tax losses previously not recognised	**–**	(4)
Overprovision in respect of prior year	**(9)**	–
Tax effect of temporary differences not recognised	**(81)**	(265)
Income tax expense	**359**	217

10 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2012 Total $'000
Executive directors					
Mr. Chi Chi Hung, Kenneth	2,700	–	–	–	2,700
Mr. Ng Kay Kwok (note (i))	483	–	–	–	483
Mr. Takashi Togo (note (ii))	–	–	–	–	–
Independent non-executive directors					
Mr. Billy B Ray Tam	90	–	–	–	90
Ms. Chan Ho Ling	90	–	–	–	90
Mr. Yu Pak Yan, Peter	90	–	–	–	90
	3,453	–	–	–	3,453

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2011 Total $'000
Executive directors					
Mr. Chi Chi Hung, Kenneth	100	–	–	–	100
Mr. Ng Kay Kwok (note (i))	150	–	–	–	150
Mr. Takashi Togo (note (ii))	300	–	–	–	300
Independent non-executive directors					
Mr. Billy B Ray Tam	60	–	–	–	60
Ms. Chan Ho Ling	60	–	–	–	60
Mr. Yu Pak Yan, Peter	60	–	–	–	60
	730	–	–	–	730

Notes:

(i) Mr. Ng Kay Kwok resigned as executive director of the Company on 31 May 2011 and was appointed as executive director of the Company on 29 May 2012.

(ii) Mr. Takashi Togo was appointed as executive director of the Company on 31 May 2011 and resigned as executive director of the Company on 17 May 2012.

10 DIRECTORS' REMUNERATION *(Continued)*

No emoluments were paid by the Group to any director as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2012 and 2011.

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2011: one) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three (2011: four) individuals are as follows:

	2012	2011
	$'000	*$'000*
Salaries and other emoluments	**998**	1,150
Retirement scheme contributions	**37**	42
	1,035	1,192

The emoluments of the three (2011: four) individuals with the highest emoluments are within the following bands:

	2012 Number of individuals	2011 Number of Individuals
HK$nil – HK$1,000,000	**3**	4

12 DISCONTINUED OPERATION

On 26 November 2012, 廣泰益昌(北京)科技有限公司 ("廣泰"), a wholly-owned subsidiary of the Group, completed the deregistration from the State Administration for Industry and Commerce in the People's Republic of China ("PRC"). The business relating to optical display equipment, components and related technology carried out by the subsidiary is presented as a discontinued operation.

12 DISCONTINUED OPERATION *(Continued)*

The results of the discontinued operation included in the loss for the year are set out below. The comparative loss and cash flows from discontinued operation have been re-presented to include the operation classified as discontinued in the current year:

	2012	2011
	$'000	*$'000*
Revenue	**–**	–
Other gains and losses	**43**	(900)
Selling and administrative expenses	**(624)**	(609)
Loss before taxation	**(581)**	(1,509)
Income tax	**–**	–
	(581)	(1,509)
Gain on derecognition of discontinued operation (including HK$307,000 reclassification of exchange reserve from equity to profit or loss on deregistration of foreign operation)	**293**	–
Loss for the year from discontinued operation	**(288)**	(1,509)
Net cash flows from discontinued operation		
Net cash flow generated by operating activities	**(723)**	(132)
Net cash flow generated by investing activities	**3**	–
Net cash flow generated by financing activities	**–**	–
	(720)	(132)

13 DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012 (2011: HK$nil).

14 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of HK$15,007,000 (2011: HK$34,052,000) which has been dealt with in the financial statements of the Company.

15 OTHER COMPREHENSIVE (EXPENSE)/INCOME

Tax effects relating to each component of other comprehensive (expense)/income

	2012			2011		
	Before tax amount	**Tax expense**	**Net-of-tax amount**	Before tax amount	Tax expense	Net-of-tax amount
	$'000	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*
Exchange differences on translation of financial statements of overseas subsidiaries	**18**	**–**	**18**	171	–	171
Reclassification adjustments relating to deregistration of foreign operation during the year	**(307)**	**–**	**(307)**	–	–	–
	(289)	**–**	**(289)**	171	–	171

16 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of HK$26,626,000 (2011: HK$6,146,000) and the weighted average of 1,248,893,000 ordinary shares (2011: 1,108,752,000 ordinary shares) in issue during the year.

From continuing operations

The calculation of basic loss per share from continuing operations is based on the loss from continuing operations of HK$26,338,000 (2011: HK$4,637,000) and the weighted average of 1,248,893,000 ordinary shares (2011: 1,108,752,000 ordinary shares) in issue during the year.

From discontinued operation

The calculation of basic loss per share from the discontinued operation is based on the loss from the discontinued operation of HK$288,000 (2011: HK$1,509,000) and the weighted average of 1,248,893,000 ordinary shares (2011: 1,108,752,000 ordinary shares) in issue during the year.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of the convertible notes and share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

17 FIXED ASSETS

The Group

	Land and buildings $'000	Leasehold improvements $'000	Office equipment $'000	Furniture and fixtures $'000	Computer hardware and software $'000	Motor vehicles $'000	Total $'000
Cost:							
At 1 January 2011	–	181	226	82	–	3,161	3,650
Exchange adjustments	–	–	3	–	–	–	3
Additions	–	–	2	–	68	–	70
Disposals	–	–	(12)	(48)	–	(1,793)	(1,853)
Disposal of subsidiaries *(note 33(b))*	–	–	–	–	–	(1,368)	(1,368)
At 31 December 2011 and 1 January 2012	–	181	219	34	68	–	502
Exchange adjustments	–	–	1	–	–	–	1
Additions	6,753	536	13	–	813	–	8,115
Disposals	–	–	(72)	(26)	–	–	(98)
At 31 December 2012	6,753	717	161	8	881	–	8,520
Accumulated depreciation and impairment:							
At 1 January 2011	–	181	83	46	–	1,086	1,396
Exchange adjustments	–	–	1	–	–	–	1
Charge for the year	–	–	44	14	7	173	238
Written back on disposals	–	–	(8)	(33)	–	(278)	(319)
Written back on disposal of subsidiaries *(note 33(b))*	–	–	–	–	–	(981)	(981)
At 31 December 2011 and 1 January 2012	–	181	120	27	7	–	335
Exchange adjustments	–	–	1	–	–	–	1
Charge for the year	168	98	41	3	45	–	355
Written back on disposals	–	–	(50)	(22)	–	–	(72)
At 31 December 2012	168	279	112	8	52	–	619
Net book value:							
At 31 December 2012	**6,585**	**438**	**49**	**–**	**829**	**–**	**7,901**
At 31 December 2011	–	–	99	7	61	–	167

17 FIXED ASSETS *(Continued)*

The Company

	Computer hardware and software *$'000*
Cost:	
At 1 January 2011	–
Additions	30
At 31 December 2011 and 1 January 2012	30
Additions	728
At 31 December 2012	758
Accumulated depreciation:	
At 1 January 2011	–
Charge for the year	5
At 31 December 2011 and 1 January 2012	5
Charge for the year	30
At 31 December 2012	35
Net book value:	
At 31 December 2012	**723**
At 31 December 2011	25

At 31 December 2012, land and buildings of the Group with a carrying amount of HK$6,585,000 (2011: HK$nil) have been pledged to secure a bank loan granted to the Group (note 26).

The analysis of net book value of land and buildings of the Group is as follows:

	2012 **_$'000_**	2011 *$'000*
In Hong Kong — Medium-term lease	**6,585**	–

18 INTANGIBLE ASSETS

The Group

	Development costs *$'000*
Cost:	
At 1 January 2011	–
Additions through internal development	1,647
At 31 December 2011 and 1 January 2012	1,647
Additions through internal development	1,990
At 31 December 2012	3,637
Accumulated amortisation:	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	–
Net book value:	
At 31 December 2012	**3,637**
At 31 December 2011	1,647

The development costs represent the expenditure incurred for developing electronic learning products that has been recognised in accordance with the accounting policy set out in note 2(g).

There is no amortisation charge in the year as the intangible assets are not yet available for use at 31 December 2012 (2011: HK$nil).

19 INVESTMENTS IN AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES

	The Company	
	2012	2011
	$'000	*$'000*
Unlisted shares, at cost	**–**	11,985
Less: Impairment loss	**–**	(7,785)
	–	4,200
Amounts due from subsidiaries	**588**	10,846
Amount due to a subsidiary	**(73)**	–

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

Details of the Group's subsidiaries as at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Particulars of issued and fully paid up share capital/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Elite Ford Limited	Hong Kong	Ordinary HK$1	100%	–	100%	Investment holding
Elipva (Greater China) Holdings Limited	Hong Kong	Ordinary HK$1	100%	–	100%	Investment holding
KanHan Educational Services Limited ("KanHan EDU")	Hong Kong	Ordinary HK$5,010,000	100%	–	100%	Provision of website development, electronic learning products and services
Refine Skill Limited	British Virgin Islands ("BVI")	Ordinary US$1	100%	100%	–	Investment holding
Upway (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100%	–	100%	Inactive

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(Expressed in Hong Kong dollars)

19 INVESTMENTS IN AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Particulars of issued and fully paid up share capital/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Lucky Famous Limited	BVI	Ordinary US$1	100%	100%	–	Investment holding
廣州看普軟件科技有限公司 ("看普") *(note 1)*	PRC	Registered capital Renminbi ("RMB")1,000,000	100%	–	100%	To support the immediate holding company's business plan in launching the development products
Jade Fore Group Limited	BVI	Ordinary US$1	100%	100%	–	Investment holding

Notes:

1 看普 is a wholly foreign owned enterprise with an operating period of 30 years expiring on 3 November 2040.

2 Elipva International Limited and 廣泰, wholly-owned subsidiaries of the Group incorporated in BVI and PRC respectively, were struck off or deregistered during the year. These subsidiaries were inactive during the year.

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20 GOODWILL

	The Group *$'000*
Cost:	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	23,239
Accumulated impairment losses:	
At 1 January 2011, 31 December 2011, 1 January 2012	–
Impairment loss	20,831
At 31 December 2012	20,831
Carrying value:	
At 31 December 2012	**2,408**
At 31 December 2011	23,239

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash generating unit ("CGU") identified according to the business segment as follows:

	2012 ***$'000***	2011 *$'000*
Website development, electronic learning products and services	**2,408**	23,239

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period were then extrapolated using the estimated rates stated below.

20 GOODWILL *(Continued)*

Impairment test for cash-generating unit containing goodwill *(Continued)*

Key assumptions used for value in use calculations:

	2012	2011
Gross margin	**81%–90%**	82%–91%
Growth rate	**2.3%–26%**	-6%–145%
Discount rate	**13.4%**	4.5%

Management determined the budgeted gross margin and growth rate based on past performance, its expectation for market development and the geometric average growth rate of Hong Kong Government expenditure on education from 2002 to 2012. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used is pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

During the years ended 31 December 2012 and 2011, management of the Group determined that there are impairment losses of HK$20,831,000 (2011: HK$nil) on its CGU containing goodwill. As the CGU has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*
Trade receivables	**1,632**	1,234	**–**	–
Less: Impairment loss *(note 21(b))*	**–**	(971)	**–**	–
	1,632	263	**–**	–
Deposits paid for purchase of fixed assets	**–**	2,350	**–**	–
Deposit paid for investment *(note 21(d))*	**–**	10,000	**–**	–
Prepayments and deposits	**323**	321	**102**	150
Receivable from profit guarantee on acquisition of subsidiaries *(note 32)*	**4,235**	–	**–**	–
Other receivables	**101**	536	**88**	86
	6,291	13,470	**190**	236

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21 TRADE AND OTHER RECEIVABLES *(Continued)*

All of the trade and other receivables, apart from deposits paid for purchase of fixed assets of HK$nil (2011: HK$2,350,000) and rental deposits of HK$23,000 (2011: HK$117,000), are expected to be recovered or recognised as expenses within one year.

Included in trade receivables is an amount of HK$nil (2011: HK$59,000) due from a related company, KanHan Technologies Limited ("KanHan Technologies") (note 37(b)).

The directors considered that the fair value of trade and other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

(a) Ageing analysis

According to the credit rating of different customers, the Group allows credit periods of 30 days (2011: 30 days) to its trade customers. Further details on the Group's credit policy are set out in note 34(a).

The ageing analysis of trade receivables (net of allowance for doubtful debts), based on due date, is as follows:

	The Group	
	2012	2011
	$'000	*$'000*
Current	**1,031**	140
Less than 1 month past due	**458**	62
1 to 3 months past due	**22**	41
More than 3 months but less than 12 months past due	**121**	20
Amounts past due	**601**	123
	1,632	263

21 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are 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 (see note 2(i)).

The movement in the allowance for impairment loss on trade receivables is as follows:

	The Group	
	2012	2011
	$'000	*$'000*
At 1 January	**971**	1,316
Amounts received	**–**	(428)
Uncollectible amounts written off	**(971)**	–
Exchange adjustments	**–**	83
At 31 December	**–**	971

At the end of each reporting period, the Group reviews trade receivables for evidence of impairment on both individual and collective basis. The impaired trade receivables are due from customers that were in default of payments.

The Group does not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on individual or collective basis.

(c) Trade receivables that are not impaired

As of 31 December 2012, the ageing analysis of the Group's trade receivables that are past due but not impaired is as follows:

	The Group	
	2012	2011
	$'000	*$'000*
Less than 1 month past due	**458**	62
1 to 3 months past due	**22**	41
More than 3 months but less than 12 months past due	**121**	20
	601	123

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21 TRADE AND OTHER RECEIVABLES *(Continued)*

(d) Deposit paid for investment

The Group made a deposit of HK$10,000,000 on 3 June 2011 pursuant to the sale and purchase agreement in relation to the acquisition of 10% of the issued share capital of Green Global Bioenergy Limited. On 21 March 2012, the Group and the vendor mutually agreed to terminate the agreement and the deposit paid to the vendor was refunded to the Group. Neither the Group nor the vendor shall have any claims against the other party. Details of the transactions are set out in the Company's announcements dated 3 June 2011 and 21 March 2012.

22 LOAN RECEIVABLES, UNSECURED

The unsecured loans bore interest at fixed rates ranging from 2% to 5% per annum and were repayable within one year. They were fully repaid during the year.

23 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*
Cash and bank balances	**14,163**	8,328	**10,431**	2,791
Short-term bank deposits	**126,574**	109,777	**126,574**	109,161
	140,737	118,105	**137,005**	111,952

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for terms of one month (2011: one to three months) depending on the immediate cash requirements of the Group.

At 31 December 2012, the cash and bank balances of the Group denominated in RMB amounted to HK$1,745,000 (2011: HK$3,516,000). Conversion of RMB into foreign currencies is subject to the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*
Trade payables	**–**	251	**–**	–
Deferred income	**1,652**	1,487	**–**	–
Receipts in advance	**–**	395	**–**	–
Accrued expenses and other payables	**3,542**	784	**2,970**	649
	5,194	2,917	**2,970**	649

All of the trade and other payables, apart from certain deferred income of HK$962,000 (2011: HK$661,000), are expected to be settled or recognised as income within one year or are repayable on demand.

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	The Group	
	2012	2011
	$'000	*$'000*
Less than 3 months	**–**	251

25 AMOUNT DUE TO A DIRECTOR

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

26 BANK LOAN, SECURED

Bank loan with repayment on demand clause has been classified as current liabilities.

The maturity profile of bank loan, based on the scheduled repayment dates set out in relevant loan agreement, is as follows:

	The Group	
	2012	2011
	$'000	*$'000*
Within 1 year	**176**	–
After 1 year but within 2 years	**181**	–
After 2 years but within 5 years	**581**	–
After 5 years	**2,170**	–
	3,108	–
Less: Amount due within one year or repayable on demand classified as current liabilities	**(3,108)**	–
	–	–

At 31 December 2012, bank loan of HK$3,108,000 (2011: HK$nil) was secured by a corporate guarantee from the Company, and a mortgage on the land and buildings of the Group with a carrying amount of HK$6,585,000 (2011: HK$nil) (note 17).

All of the Group's banking facilities are subject to the fulfilment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 34(b). At 31 December 2012, none of the covenants relating to drawn down facilities had been breached (2011: HK$nil).

27 CONVERTIBLE NOTES

On 14 November 2012, the Company issued convertible notes with principal amount of HK$20 million. The notes bear interest at 2% per annum, are unsecured and have a maturity date on 13 November 2013. The noteholder has the right to convert the notes into ordinary shares of the Company at a conversion price of HK$0.1 per ordinary share up to 9 November 2013. The Company has the right to redeem any portion of the convertible notes at any time before the maturity date at the principal amount.

The convertible notes contain two components, liability and equity components. The fair value of the liability component at issue date was valued by an independent valuer using a market interest rate for an equivalent non-convertible note. The value of redemption option has been allocated to the liability component. The residual amount, representing the value of the equity conversion option, is included in convertible note equity reserve within equity. The effective interest rate of the liability component on initial recognition is 56% per annum.

	Liability component	**Equity component**	**Total**
	$'000	***$'000***	***$'000***
Issue of convertible notes	13,082	6,605	19,687
Effective interest expenses	962	–	962
At 31 December 2012	**14,044**	**6,605**	**20,649**

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2012	2011
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**368**	217
Provisional Hong Kong Profits Tax paid	**(221)**	(67)
	147	150

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax liabilities

No provision for deferred tax liabilities has been made as the Group and the Company do not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (2011: HK$nil).

(c) Deferred tax assets

The Group has not recognised any deferred tax assets in respect of tax losses carried forward of HK$20,575,000 (2011: HK$26,737,000) due to the unpredictability of the future profit streams.

The unused tax losses will be expired in the following years ending 31 December:

	The Group	
	2012	2011
	$'000	*$'000*
2013	**–**	565
2014	**–**	1,147
2015	**111**	1,874
2016	**108**	720
No expiry date	**20,356**	22,431
	20,575	26,737

29 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital $'000	Share premium $'000	Contributed surplus $'000	Share option reserve $'000	Convertible note equity reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 January 2011	13,111	192,064	2,985	–	–	(171,373)	36,787
Shares issued upon open offer *(note 29(b)(ii))*	52,445	48,733	–	–	–	–	101,178
Share issued on bonus issue *(note 29(b)(ii))*	39,333	(39,333)	–	–	–	–	–
Shares issued on placement of shares *(note 29(b)(iii))*	20,000	5,197	–	–	–	–	25,197
Equity settled share-based transactions	–	–	–	310	–	–	310
Loss and total comprehensive expenses for the year	–	–	–	–	–	(34,052)	(34,052)
Balance at 31 December 2011 and at 1 January 2012	124,889	206,661	2,985	310	–	(205,425)	129,420
Issue of convertible notes *(note 27)*	–	–	–	–	6,605	–	6,605
Loss and total comprehensive expenses for the year	–	–	–	–	–	(15,007)	(15,007)
Balance at 31 December 2012	**124,889**	**206,661**	**2,985**	**310**	**6,605**	**(220,432)**	**121,018**

29 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	Note	Nominal value per share HK$	Number of shares '000	Amount $'000
Authorised:				
At 1 January 2011		0.05	8,000,000	400,000
Share consolidation	*(i)*		(4,000,000)	–
At 31 December 2011, 1 January 2012 and 31 December 2012		**0.10**	**4,000,000**	**400,000**
Issued and fully paid:				
At 1 January 2011		0.05	262,220	13,111
Shares issued upon open offer	*(ii)*	0.05	1,048,894	52,445
Shares issued on bonus issue	*(ii)*	0.05	786,671	39,333
Shares issued on placement of shares	*(iii)*	0.05	400,000	20,000
		0.05	2,497,785	124,889
Share consolidation	*(i)*		(1,248,892)	–
At 31 December 2011, 1 January 2012 and 31 December 2012		**0.10**	**1,248,893**	**124,889**

29 CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

Notes:

(i) On 15 June 2011, the Company proposed a share consolidation on the basis that every two existing issued and unissued ordinary shares of HK$0.05 each in the share capital of the Company be consolidated into one share of HK$0.10 each. The share consolidation was approved in the extraordinary general meeting on 15 July 2011 and became effective on 18 July 2011.

(ii) Pursuant to the ordinary resolutions passed on 15 October 2010, the Company made an open offer of 1,048,894,324 ordinary shares of HK$0.05 each at a subscription price of HK$0.1 per offer share on the basis of four offer shares for every one share, together with the bonus issue of 786,670,743 bonus shares on the basis of three bonus shares for every four offer shares taken up. The open offer was completed on 17 January 2011 and the excess of the subscription consideration received over the nominal issued value, amounting to approximately HK$9,400,000, net of share issuance expenses, was credited to the Company's share premium account.

(iii) On 10 June 2011, the Company entered into a conditional placing agreement with the placing agent in respect of the placement of 400,000,000 ordinary shares of HK$0.05 each to independent third parties at a subscription price of HK$0.065 per share. The placement of shares was completed on 21 June 2011 and the excess of the subscription consideration received over the nominal issued value, amounting to approximately HK$5,197,000, net of share issuance expenses, was credited to the Company's share premium account.

(iv) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	**2012** Number of instruments	2011 Number of instruments
	HK$	***'000***	*'000*
20 May 2011 to 19 May 2014	0.116*	**6,200**	6,200*

* Adjusted for share consolidation (note 29(b)(i))

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 30 to the consolidated financial statements.

(v) On 12 March 2013, an ordinary resolution relating to the authorised share capital of the Company be increased from HK$400,000,000 divided into 4,000,000,000 shares of HK$0.10 each to HK$800,000,000 divided into 8,000,000,000 shares of HK$0.10 each by the creation of an additional 4,000,000,000 shares of the Company and such shares shall rank pari passu with all existing shares of the Company was approved by the shareholders of the Company in an extraordinary general meeting.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

29 CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium reserve

Under the Companies Law (Revised) of the Cayman Islands, the fund in the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Contributed surplus

The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiaries acquired pursuant to the reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange set out in the Company's prospectus dated 18 December 2001, over the nominal value of the shares of the Company issued in exchange thereof.

The contributed surplus of the Company represents the excess of the fair value of the subsidiaries companies acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange thereof.

Under the Companies Law (Revised) of the Cayman Islands, the contributed surplus account of the Company is distributable to the equity shareholders of the Company provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

(iii) Share option reserve

The share option reserve comprises the portion of the grant date fair value of unexercised share options granted to a consultant of the Group that has been recognised in accordance with the accounting policy adopted for share options granted to consultants in note 2(q).

(iv) Convertible note equity reserve

The convertible note equity reserve represents the equity component (conversion right) of the notes issued (note 27).

29 CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(v) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(u).

(vi) Distributability of reserves

At 31 December 2012, there are no reserves available for distribution to equity shareholders of the Company (2011: HK$4,221,000).

(d) Capital management

The Group's primarily objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for the shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes judgements as to the capital structure in light of changes in economic conditions.

The Group and the Company monitor its capital structure on the basis of a debt-to-equity ratio. For this purpose, adjusted net debt is defined as total debt (which includes trade and other payables, amount due to a subsidiary, amount due to a director, bank loan, convertible notes and current taxation, which is applicable). Equity comprises share capital and reserves.

29 CAPITAL AND RESERVES *(Continued)*

(d) Capital management *(Continued)*

During 2012, the Group's strategy was to maintain a debt-to-equity ratio at not more than 45% (2011: 45%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	*$'000*	***$'000***	*$'000*
Debts *(Note 1)*	**22,894**	3,257	**17,488**	839
Equity *(Note 2)*	**138,080**	158,390	**121,018**	129,420
Debt-to-equity ratio	**17%**	2%	**14%**	1%

Notes:

(1) Debts comprise trade and other payables, amount due to a subsidiary, amount due to a director, bank loan, convertible notes and current taxation as detailed in notes 19, 24, 25, 26, 27 and 28.

(2) Equity includes all capital and reserves attributable to owners of the Company.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30 EQUITY SETTLED SHARE-BASED TRANSACTIONS

2007 New Share Option Scheme

The purpose of the 2007 New Share Option Scheme is to enable the Company to grant options to either directors or employees of the Group in order to recognise and motivate their contribution, to provide incentives and to help the Group in retaining its existing employees and recruiting additional employees by providing them with a direct economic interest in attaining the long term business objectives of the Group.

(a) *The terms and conditions of the grants are as follows:*

	Number of instruments *'000*	**Vesting conditions**	**Contractual life of options**
Options granted to a consultant — on 19 May 2011	12,400#	0 year	3 years

\# After share consolidation (note 29(b)(i)), the number of share options was reduced to 6,200,000.

(b) *The number and weighted average exercise prices of share options are as follows:*

	2012		2011	
	Weighted average exercise price *HK$*	**Number of options** *'000*	Weighted average exercise price *HK$*	Number of options *'000*
Outstanding at the beginning of the year	**0.116**	**6,200**	–	–
Granted during the year	**–**	**–**	0.058	12,400
Share consolidation *(note 29(b)(i))*		**–**		(6,200)
Outstanding at the end of the year	**0.116**	**6,200**	0.116	6,200
Exercisable at the end of the year	**0.116**	**6,200**	0.116	6,200

The options outstanding at 31 December 2012 had an exercise price of HK$0.116 (2011: HK$0.116) and a weighted average remaining contractual life of 1.6 years (2011: 2.6 years).

(Expressed in Hong Kong dollars)

30 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

2007 New Share Option Scheme *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black Scholes model.

Fair value of share options and assumptions

	Date of grant 19 May 2011	
	Before share consolidation	**After share consolidation** *(note 29(b)(i))*
Fair value at measurement date	HK$0.025	HK$0.05
Share price	HK$0.057	HK$0.114
Exercise price	HK$0.058	HK$0.116
Expected volatility (expressed as weighted average volatility used in the modelling under Black Scholes model)	94.62%	94.62%
Option life (expressed as weighted average life used in the modelling under Black Scholes model)	1.5 years	1.5 years
Expected dividends	Nil	Nil
Risk-free interest rate	0.37%	0.37%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

31 DEFINED/RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 before 1 June 2012 and HK$25,000 commencing from 1 June 2012. Contributions to the scheme vest immediately.

The employees of the Group's subsidiaries in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represents for the entire pension obligations payable to retired employees.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong and the PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2012 in respect of the retirement of its employees.

32 BUSINESS COMBINATIONS

On 19 July 2010, the Group acquired the entire issued share capital of KanHan EDU at a contractual consideration of HK$25,000,000. KanHan EDU is engaged in the provision of website development, electronic learning products and services.

Pursuant to the acquisition agreement, the vendor of KanHan EDU (the "Vendor") irrevocably warrants and guarantees to the Group that the audited net profits before tax and any extraordinary or exceptional items ("Actual Profits") of KanHan EDU will not be less than HK$450,000, HK$2,200,000 and HK$6,500,000 for the years ended 31 December 2010, 2011 and 2012 ("Guaranteed Profits") respectively. The Vendor is required to pay to the Group in cash an amount by which the Actual Profits of KanHan EDU are less than the Guaranteed Profits.

For the year ended 31 December 2012, the Group has recognised an income of HK$4,235,000 (2011: HK$nil) from the profit guarantee as the unaudited profit before tax of KanHan EDU for 2012 was HK$2,265,000.

33 DISPOSALS OF SUBSIDIARIES

(a) On 25 July 2011, the Group disposed of its entire equity interest in Billion Harvest Development Limited for a cash consideration of HK$229,000.

Details of assets and liabilities over which control was lost:

	2011
	$'000
Prepayments	1
Other payables	(324)
Net liabilities disposed of	(323)
Gain on disposal of a subsidiary	
Consideration	229
Net liabilities disposed of	323
Gain on disposal	552
Net cash inflow on disposal of a subsidiary:	
Cash consideration received	229

33 DISPOSALS OF SUBSIDIARIES *(Continued)*

(b) On 31 August 2011, the Group disposed of its entire equity interest in Hong Kong Plastic Trading and Manufacturing Company Limited for a cash consideration of HK$378,000.

Details of assets and liabilities over which control was lost:

	2011 *$'000*
Fixed assets *(note 17)*	387
Cash and cash equivalents	61
Other payables	(458)
Obligations under finance leases	(338)
Net liabilities disposed of	(348)
Gain on disposal of a subsidiary	
Consideration	378
Net liabilities disposed of	348
Gain on disposal	726
Net cash inflow on disposal of a subsidiary:	
Cash consideration received	378
Cash and cash equivalents disposed of	(61)
	317

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The directors are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements and the Group has no significant concentration of credit risk. Normally, the Group does not obtain collateral from customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

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

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

(i) The Group

Specifically, for term loan which contains a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lender was to invoke its unconditional rights to call the loan with immediate effect.

	2012 Contractual undiscounted cash outflow						2011 Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**After 5 years**	**Total**	**Balance sheet carrying amount**	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	After 5 years	Total	Balance sheet carrying amount
	$'000	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Trade and other payables	**3,542**	**–**	**–**	**–**	**3,542**	**3,542**	1,035	–	–	–	1,035	1,035
Amount due to a director	**401**	**–**	**–**	**–**	**401**	**401**	190	–	–	–	190	190
Bank loan, secured	**3,206**	**93**	**241**	**342**	**3,882**	**3,108**	–	–	–	–	–	–
Convertible notes	**20,400**	**–**	**–**	**–**	**20,400**	**14,044**	–	–	–	–	–	–
	27,549	**93**	**241**	**342**	**28,225**	**21,095**	1,225	–	–	–	1,225	1,225

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34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

(i) The Group (Continued)

The table that follow summarises the maturity analysis of bank loan with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreement. Taking into account the financial position of the Group, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loan will be repaid in accordance with the scheduled repayment date set out in the loan agreement.

	2012 Contractual undiscounted cash outflow						2011 Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**After 5 years**	**Total**	**Balance sheet carrying amount**	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	After 5 years	Total	Balance sheet carrying amount
	$'000	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Trade and other payables	**3,542**	**–**	**–**	**–**	**3,542**	**3,542**	1,035	–	–	–	1,035	1,035
Amount due to a director	**401**	**–**	**–**	**–**	**401**	**401**	190	–	–	–	190	190
Bank loan, secured	**274**	**274**	**822**	**2,512**	**3,882**	**3,108**	–	–	–	–	–	–
Convertible notes	**20,400**	**–**	**–**	**–**	**20,400**	**14,044**	–	–	–	–	–	–
	24,617	**274**	**822**	**2,512**	**28,225**	**21,095**	1,225	–	–	–	1,225	1,225

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

(ii) The Company

	2012 Contractual undiscounted cash outflow			2011 Contractual undiscounted cash outflow		
	Within 1 year or on demand	**Total**	**Balance sheet carrying amount**	Within 1 year or on demand	Total	Balance sheet carrying amount
	$'000	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*
Accrued expenses and other payables	**2,970**	**2,970**	**2,970**	649	649	649
Amount due to a subsidiary	**73**	**73**	**73**	–	–	–
Amount due to a director	**401**	**401**	**401**	190	190	190
Convertible notes	**20,400**	**20,400**	**14,044**	–	–	–
	23,844	**23,844**	**17,488**	839	839	839

(c) Interest rate risk

The Group's significant interest-bearing assets are bank deposits. The Group's interest income is dependent on changes in market interest rates and will not have significant adverse impact on the Group's financial position.

The Group's interest rate risk arises from bank loan at variable rate exposed the Group to cash flow interest rate risk.

The Group's interest rate profile of its borrowings as monitored by management is set out below:

	2012 Effective interest rate		2011 Effective interest rate	
	%	***$'000***	*%*	*$'000*
Variable rate borrowing				
Bank loan, secured	**3.25**	**3,108**	–	–

A reasonably possible change of 100 basis points in interest rates would have no significant impact on the Group's loss and equity for the year.

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34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Foreign currency risk

Certain bank deposits of the Group are denominated in foreign currencies. The Group currently does not have a currency hedging policy. The Group will monitor its currency exposure closely and will consider hedging significant currency exposure should the need arise.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets denominated in a currency other than the functional currency of the group entities to which they relate. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the year end date.

(i) *The Group*

	Exposure to foreign currencies (expressed in HK$)	
	2012	2011
	RMB	*RMB*
	$'000	*$'000*
Total assets, net exposure arising from recognised assets and liabilities	**1,613**	15

A reasonably possible change of 1% in exchange rates between RMB to HK$ would have no significant impact on the Group's loss and equity for the year.

(ii) The Company has no significant exposure to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the Company as at 31 December 2012 and 2011.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Categories of financial instruments

	2012	2011
	$'000	*$'000*
(i) The Group		
Financial assets		
Loan and receivables (including cash and cash equivalents)	**146,705**	123,923
Financial liabilities		
Financial liabilities at amortised cost	**21,095**	1,225
(ii) The Company		
Financial assets		
Loan and receivables (including cash and cash equivalents)	**137,681**	125,884
Financial liabilities		
Financial liabilities at amortised cost	**17,488**	839

(f) Equity price risk

The Group is not exposed to any equity securities risk or commodity price risk.

(g) Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012 and 2011.

35 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2012 not provided for in the consolidated financial statements were as follows:

	The Group	
	2012	2011
	$'000	*$'000*
Contracted for:		
— land and buildings	**–**	4,550
— leasehold improvements	**–**	77
— acquisition of subsidiaries (note 38)	**548,986**	–
	548,986	4,627
Authorised for:		
— development costs for intangible assets	**1,655**	3,700
	550,641	8,327

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	2012		2011	
	Properties	**Others**	Properties	Others
	$'000	***$'000***	*$'000*	*$'000*
Within 1 year	**340**	**–**	449	178
After 1 year but within 5 years	**31**	**–**	241	1
	371	**–**	690	179

The Group is the lessee in respect of a number of properties, items of office equipment and motor vehicles held under operating leases. The leases typically run for an initial period of 3 months to 60 months, at the end of which period all terms are renegotiated. None of the leases includes contingent rentals.

36 CONTINGENT LIABILITIES

	The Company	
	2012	2011
	$'000	*$'000*
Corporate guarantee given and utilised	**3,108**	–

At 31 December 2012, the Company provided a corporate guarantee to Elipva (Greater China) Holdings Limited, a wholly-owned subsidiary of the Group, in relation to banking facilities to the extent of HK$3,250,000 (2011: HK$nil) of which HK$3,108,000 (2011: HK$nil) was utilised.

In the opinion of the directors of the Company, no material liabilities will arise from the above guarantee in the ordinary course of business and the fair value of the corporate guarantee granted by the Company is immaterial.

37 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

All key management personnel are directors of the Company and their remuneration is disclosed in note 10.

(b) Transactions with other related parties

During the year, the Group entered into the following material related party transactions:

	2012	2011
	$'000	*$'000*
Sales of website development, electronic learning products and services	**259**	626
Income from provision of business centre services	**240**	240
Income from profit guarantee from acquisition of subsidiaries (note 32)	**4,235**	–

37 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other related parties *(Continued)*

The above transactions were entered into with KanHan Technologies, a HK company which was previously the shareholder of the entire equity interest of KanHan EDU. Mr. Mo Wai Ming, Lawrence, is a common director of KanHan Technologies and KanHan EDU.

The Group's wholly owned subsidiary, KanHan EDU, entered into a supply agreement and a business centre service agreement with KanHan Technologies on 19 November 2010 for the provision of website development, electronic learning product and service, and to provide business centre services for a term of 3 years. The annual sales cap and service charge during the term of the supply agreement and business centre service agreement shall not exceed HK$1,000,000 and HK$300,000 respectively. Details of the transaction are set out in the Company's announcements dated 19 November 2010.

(c) Balances with related parties are disclosed in the consolidated statement of financial position, statement of financial position and in notes 19 and 25.

38 EVENTS AFTER THE REPORTING PERIOD

Other than those disclosed elsewhere in the consolidated financial statements, the following significant event took place subsequent to the end of the reporting period:

On 15 November 2012, the Company entered into a conditional sale and purchase agreement to purchase 50.5% of the issued share capital of Apperience Corporation. On 11 December 2012, the Company has entered into a supplemental agreement in relation thereto. The maximum aggregate amount of the consideration payable by the Company will be approximately HK$548,986,000 which would be satisfied partly by the creation and issue of convertible notes and (where applicable) partly by the allotment and issue of shares by the Company. The transaction was approved by the shareholders of the Company on 12 March 2013. Details of the transaction are set out in the Company's announcements dated 27 November 2012, 5 December 2012, 23 February 2013, 12 March 2013 and the Company's circular dated 23 February 2013.

39 COMPARATIVE FIGURES

As a result of the separate presentation of the discontinued operation, certain comparative figures, including figures in the consolidated income statement, the consolidated cash flow statement and their related notes, have been restated or re-classified to conform with changes in current year disclosures.

40 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of the impairment loss calculation are set out in note 20.

(b) Recoverability of internally generated intangible assets

At the end of each reporting period, the directors reconsidered the recoverability of the Group's internally generated intangible asset arising from its electronic learning products development. The recoverable amount is the greater of its fair value less costs to sell and value in use. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

(c) Trade and other receivables

The aged debt profile of trade and other receivables is reviewed on a regular basis to ensure that the debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of debtor balances is called into doubt, specific provisions for impairment losses are made based on credit status of the customers, the aged analysis of the trade and other receivable balances and their write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectability of trade and other receivables for which provision are not made could affect the results of operations.

40 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Useful lives of fixed assets

In accordance with HKAS 16, the Group estimates the useful lives of fixed assets in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in market demand or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(e) Measurement of convertible notes

On issue of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and include in the convertible note equity reserve. The splitting of the liability and equity components requires an estimation of the market interest rate.

(f) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognised liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(Expressed in Hong Kong dollars)

41 POSSIBLE IMPACT OF NEW AND REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of the consolidated financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these consolidated financial statements. These included the following which may be relevant to the Group.

		Effective for accounting periods beginning on or after
Amendments to HKFRS 7 and HKFRS 9	Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
	Mandatory effective date of HKFRS 9 and transaction disclosures	1 January 2015
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, Joint arrangements and disclosures of interests in other entities: transition guidance	1 January 2013
HKFRS 9	Financial instruments	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 12	Disclosure of interest in other entities	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013
Amendments to HKAS 1	Presentation of items of other comprehensive income	1 July 2012
HKAS 19 (as revised in 2011)	Employee benefits	1 January 2013
HKAS 27 (as revised in 2011)	Separate financial statements	1 January 2013
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investments entities	1 January 2014
Amendments to HKAS 32	Offsetting financial assets and financial liabilities	1 January 2014

The Group is assessing the impact of these amendments on standards and interpretations and new standards and has so far concluded that they are not in a position to state whether their adoption will have a significant impact on the Group's results of operations and financial position.

Five Years Financial Information

The following is a summary of the published results and of the assets and liabilities of the Group for the five years ended 31 December 2008, 2009, 2010, 2011 and 2012.

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations					
Turnover	**4,137**	3,636	3,800	5,555	15,233
Loss from operations	**(24,931)**	(4,300)	(13,269)	(13,272)	(8,047)
Finance costs	**(1,048)**	(120)	(31)	(15)	(40)
Loss before taxation	**(25,979)**	(4,420)	(13,300)	(13,287)	(8,087)
Income tax	**(359)**	(217)	151	–	7
Loss for the year from continuing operations	**(26,338)**	(4,637)	(13,149)	(13,287)	(8,080)
Loss for the year from discontinued operation	**(288)**	(1,509)	–	(1,486)	–
Loss for the year	**(26,626)**	(6,146)	(13,149)	(14,773)	(8,080)
Loss attributable to					
— Equity shareholders of the Company	**(26,626)**	(6,146)	(13,149)	(14,166)	(8,358)
— Non-controlling interest	**–**	–	–	(607)	278
	(26,626)	(6,146)	(13,149)	(14,773)	(8,080)

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total asset	**160,974**	161,647	41,815	31,027	37,175
Total liabilities	**(22,894)**	(3,257)	(4,135)	(1,592)	(4,064)
Non-controlling interest	**–**	–	–	–	(450)
Total equity attributable to equity shareholders of the Company	**138,080**	158,390	37,680	29,435	32,661

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