



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

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of China Trends Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to China Trends Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.





CONTENTS

CORPORATE INFORMATION	3
CHAIRMAN'S STATEMENT	4-5
MANAGEMENT DISCUSSION AND ANALYSIS	6-10
MANAGEMENT PROFILE	11-12
REPORT OF THE DIRECTORS	13-21
CORPORATE GOVERNANCE REPORT	22-25
INDEPENDENT AUDITORS' REPORT	26-31
CONSOLIDATED INCOME STATEMENT	32
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	33
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	34-35
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	36
CONSOLIDATED STATEMENT OF CASH FLOWS	37-38
STATEMENT OF FINANCIAL POSITION	39
NOTES TO FINANCIAL STATEMENTS	40-123
FIVE YEAR FINANCIAL SUMMARY	124





CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Xiang Xin, *Chairman*
Mr. Yang Gaocai, *Co-president*
Mr. Wong Chak Keung, *Co-president*
Mr. Law Gerald Edwin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhan Liang
Ms. Lu Yuhe
Mr. Kwok Chi Hung

COMPLIANCE OFFICER

Mr. Xiang Xin

COMPANY SECRETARY

Mr. Wong Chak Keung

AUTHORISED REPRESENTATIVES

Mr. Xiang Xin
Mr. Wong Chak Keung

AUDIT COMMITTEE

Mr. Zhang Zhan Liang, *Chairman*
Ms. Lu Yuhe
Mr. Kwok Chi Hung

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL BANKERS

Bank of China
DBS Bank
Agricultural Bank of China

PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTER AND TRANSFER OFFICE

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

AUDITORS

Ascenda Cachet CPA Limited
(Formerly known as Cachet Certified Public Accountants Limited)

LEGAL ADVISERS

As to Cayman Islands Law
Conyers Dill & Pearman

As to Hong Kong Law
Michael Li & Co

STOCK CODE

8171

WEBSITE OF THE COMPANY

www.8171.com.hk





CHAIRMAN'S STATEMENT

On behalf of the Board (the "Board") of directors (the "Directors") of China Trends Holdings Limited (the "Company"), I am pleased to present to you the audited results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

FINANCIAL REVIEW

During the year ended 31 December 2009, the Group recorded a turnover of approximately HK\$51,183,000 (2008: HK\$81,127,000), representing a decrease of 36.91%. The decrease in turnover was due to the deterioration of the general business as a whole and the fierce competition in the current business operations of the Group.

During the year ended 31 December 2009, the Group incurred a loss of approximately HK\$49,774,000 (2008: HK\$32,847,000). The loss for the year was mainly due to the drop in the profit margin of the business operations including the impairment loss made on the trade receivables, prepayments, deposits and other receivables and property, plant and equipment in the amount of approximately HK\$2,415,000 (2008: HK\$2,677,000) and the impairment of assets of a disposal group of approximately HK\$39,655,000 (2008: Nil).

The revenue distribution by marketing of mobile appliance and trading of LED/LCD and related products was 21.44% and 78.56% respectively in 2009 compared to 100% and nil respectively in 2008.

OPERATIONAL REVIEW

The Group is principally engaged in sales and marketing of mobile phone appliance and the relevant application solution. As there is fierce competition in the current business operations of the Group, the Board has been seeking opportunities to expand the business scope and the foundation of the Group.

In view of the intense competition and falling profit margin, the Company is actively seeking opportunities and other business with higher return than the existing business.

On 18 February 2009, the Company entered into a sale and purchase agreement with Ocean Space Development Limited ("Ocean Space"), an independent third party, in respect of (i) acquisition of the entire issued share capital of Legend Century Investments Limited; and (ii) the shareholder's loan due from Legend Century Investments Limited to Ocean Space (the "Legend Acquisition") at a consideration of HK\$600,000,000 which shall be settled by (i) the set-off of the deposit of HK\$5,000,000 already paid to Ocean Space and (ii) the issue of three-year convertible bonds of HK\$595,000,000 by the Company to Ocean Space which would be convertible into the shares of the Company of HK\$0.01 each at a conversion price of HK\$0.125 (subject to adjustment) each. The Legend Acquisition was completed on 30 December 2009.





CHAIRMAN'S STATEMENT

The Group is of the view that the potential business development in optoelectronic industry is one of the key commercial applications in PRC, the Group therefore considers that optoelectronic industry, in particular the market for LED/LCD and related products may provide great potential to generate significant returns and strengthen the income stream for the Group. The Directors consider that the Legend Acquisition represents a good opportunity for the Group to expand into the optoelectronic, media and advertisement publication business in the PRC.

Since suspension of the trading in the shares (the "Shares") of the Company on 1 April 2009, the Company has been liaising closely with the Stock Exchange with an aim to resume trading of the Shares. During the process, the Stock Exchange has raised concerns on the qualifications made by the auditors of the Company on the financial statements of the Company for the year ended 31 December 2008, the Group's internal control system and the operating and financial positions of the Group. For further details, please refer to the announcement of the Company dated 23 December 2009. Trading in the Shares of the Company was resumed on 28 January 2010.

Given the difficulty in retrieving the missing documents and the unhelpfulness of the former directors of Ace Solution Technology Limited and its subsidiaries (collectively the "Disposal Group") in providing the missing documents and information relating to the Disposal Group especially for the year ended 31 December 2008, the Group has not conducted any business through the Disposal Group in the year under review. On 15 June 2009, the Company entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Mr. Yu Shu Kuen (the "Purchaser") pursuant to which the Purchaser had agreed to acquire and the Company had agreed to sell: (i) the entire issued share capital of Ace Solution Technology Limited (the "Target"), and (ii) all obligations, liabilities and debts owing or incurred by the Target to the Company on or at any time prior to completion of the Sale and Purchase Agreement. As a result of completion of the disposal on 5 February 2010, the companies in the Disposal Group will cease to be subsidiaries of the Company and the results of the Disposal Group will cease to be consolidated into the consolidated accounts of the Group.

The Group will strive to maintain the market share in the current business operations and at the same time to explore new businesses, such as the media and advertisement publication, civil and military dual-use optoelectronic and consumer electronic products as mentioned above, so as to bring a reasonable return to our shareholders.

pROSpECT

The Board anticipates that the worsening global financial and economic crisis will further curtail consumer and corporate demand for goods and services thereby pulling down the Group sales volume and results for year 2010. However, the Company's directors and management will dedicate their best effort to lead the Group to strive for the best interests for its shareholders.

Xiang Xin

Chairman

Hong Kong

23 March 2010





MANAGEMENT DISCUSSION AND ANALYSIS

BOOKS AND RECORDS MAINTAINED BY THE DISPOSAL GROUP

The directors of the Company are responsible to prepare the Group's consolidated financial statements based on the books and records maintained by the Company and its subsidiaries (the "Group"). However, after the change of the board of directors of the Company and certain subsidiaries during the year ended 31 December 2008, other than Friendly Group Limited and Pacific Vision Technologies Limited which were newly incorporated in 2008, the Company no longer has access to certain books and records of certain subsidiaries of the Group, namely Ace Solution Technology Limited, Gold Glory Development Limited, Hanbit I & T (HK) Co., Limited, Qualfield Limited, Quasar Communication Technology Limited, Synerex Inc., Zetta Global Limited, and Zetta Media Holdings Limited (collectively, the "Disposal Group"). The present directors of the Company have tried to get assistance from the former directors of the Company to locate the relevant information and documents of the Disposal Group. However, the present directors of the Company lost contact with certain former directors and were therefore unable to obtain access to the relevant information and documents of the Disposal Group in the preparation of these consolidated financial statements. Hence, only limited books and records of the Disposal Group are accessible by the present directors of the Company. In view of the foregoing, no representations as to the completeness of the books and records the Disposal Group could be given by the present directors of the Company although due care has been taken in the preparation of the consolidated financial statements to mitigate the effect of the incomplete books and records of the Disposal Group. The present directors of the Company have, in the assessment of the Group's assets and liabilities, taken such steps as they considered practicable to establish these assets and liabilities based on the information of which they were aware and have made provisions and adjustments as they considered appropriate in the preparation of these consolidated financial statements.

On 15 June 2009, the Company entered into a sale and purchase agreement with an independent third party (the "Purchaser"), pursuant to which, the Company has agreed to dispose (the "Disposal") the Disposal Group to the Purchaser.

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

As the Disposal Group ceased their business operations during the year under review and the Disposal Group will no longer be the subsidiaries of the Company upon completion of the Disposal on 5 February 2010, the management is of the opinion that the audit scope limitation arising from loss of access to certain books and records maintained by the Disposal Group led to the auditors' disclaimer of opinion in the consolidated financial statements of the Company for the year ended 31 December 2008 and 2009 will be cleared in coming financial years.



LIqUIDITY, FINANCIAL RESOURCES AND GEARING

The Group continued to finance its operation and capital expenditure through internally generated fund, and support certain product solutions development and business expansion. The Group maintained a healthy liquidity position with a current ratio of approximately 1.5 (2008: 9.5) and total cash and bank balances amounted to approximately HK\$6,764,000 (2008: HK\$7,590,000) with no pledged deposits placed in banks for securing any borrowings or banking facilities. As at 31 December 2009, the gearing ratio based on total liabilities over total assets was approximately 5.53% (2008: 10.35%).

CAPITAL STRUCTURE AND FLUCTUATION IN EXCHANGE

Details in the changes of the capital structure of the Company during the year ended 31 December 2009 are set out in note 28 to the financial statements. The capital of the Company comprised only ordinary shares as at 31 December 2009.

During the year under review, sales and purchases of the Group were mainly transacted in United States dollars and Hong Kong dollars. As at 31 December 2009, a substantial portion of the assets and liabilities of the Group were current in nature, and the amounts were principally denominated in United States dollars and Hong Kong dollars, foreign exchange risk was considered to be minimal.

COMPLETION OF PLACING OF NEW SHARES

In accordance with a placing agreement entered into between the Company and a placing agent on 31 December 2008 (the "Placing"), a total of 117,288,000 of new ordinary share(s) of HK\$0.01 in the share capital of the Company had been successfully placed and issued to not less than six placees, independent third parties, at the placing price of HK\$0.07 per placing share on 21 January 2009. The net proceeds from the Placing amounted to HK\$8,123,000 and were used for general working capital.

EMPLOYEES

As at 31 December 2009, there were a total of 9 (2008: 9) full-time staff employed by the Group. The staff costs including directors' remuneration for the year were approximately HK\$2,275,000 (2008: HK\$2,750,000). There was no equity-settled share option expenses (2008: HK\$7,442,000) for the year.

The total amount comprised salaries, wages and allowance, medical and insurance coverage, pension scheme contributions and discretionary bonus.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 18 February 2009, the Company entered into a sale and purchase agreement with Ocean Space Development Limited (“Ocean Space”), an independent third party, in respect of acquisition of the entire issued share capital of Legend Century Investments Limited (“Legend”) and the shareholder’s loan due from Legend to Ocean Space (the “Legend Acquisition”) at a consideration of HK\$600,000,000 which shall be settled by (i) the set off of the deposit of HK\$5,000,000 already paid to Ocean Space and (ii) the issue of three-year convertible bonds of HK\$595,000,000 by the Company to Ocean Space which would be convertible into the shares of the Company of HK\$0.01 each at a conversion price of HK\$0.125 (subject to adjustment) each. The Legend Acquisition was completed on 30 December 2009.

On 15 June 2009, the Company entered into a sale and purchase agreement (as supplemented by two deeds of assignment and novation dated 30 September 2009 and 1 December 2009 respectively) with Mr. Yu Shu Kuen (the “Purchaser”) to (i) dispose the entire issued share capital of Ace Solution Technology Limited (“Ace Solution”), and (ii) the shareholder’s loan due from Ace Solution to the Company at the consideration of HK\$1. The transaction, which constitutes a very substantial disposal for the Company under the GEM Listing Rules, was approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 18 January 2010 and the disposal was subsequently completed on 5 February 2010.

Other than the above, there were no other significant investments nor material acquisition and disposal of subsidiaries and affiliated companies of the Company for the year ended 31 December 2009.

PROPOSED ACQUISITION

On 30 September 2009, the Company entered into a sale and purchase agreement with an independent third party, in respect of the acquisition of copyrights of a film library (“Copyrights Acquisition”) at a consideration of HK\$25,000,000. The consideration will be set off by the refundable deposit (“Deposit”) already paid by the Company in October 2008 upon completion of the acquisition. The Deposit would not bear any interest and security. The trademarks attached to the Copyrights Acquisition would be transferred from the vendor to the Company at nil consideration upon completion. The acquisition is subject to approval from the shareholders and a circular containing the details of the acquisition will be despatched to the shareholders of the Company in due course.

On 10 December 2009, the Company entered into a sale and purchase agreement with an independent third party (“Vendor”) pursuant to which the Company agreed to acquire the entire issued share capital of Nopo International Limited (the “Nopo Acquisition”), which was principally engaged as an agent of the products of a mobile location-based service provider in the PRC and the sole franchised dealer in overseas markets under a distribution agreement, at a consideration of HK\$19,493,000. A refundable deposit of HK\$1,993,000 (note 23 to the financial statements), without interest, had been paid by the Company to the Vendor upon signing of the agreement. The Nopo Acquisition has been completed subsequent to the reporting period on 22 January 2010 with the balance of the consideration of HK\$17,500,000 being settled by the issue of 140,000,000 consideration shares of the Company at an issue price of HK\$0.125 per share.

CHARGE, CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2009, the Group had commitments under operating lease amounting to approximately HK\$5,277,000 (2008: HK\$3,049,000) and there were no charges on any assets of the Group.

The Group did not have any contingent liabilities at the end of the reporting period.

In addition, the Group and the Company had the following commitments at the end of the reporting period:

- (a) On 28 January 2008, the Company entered into a non-legally binding memorandum of understanding (the "MOU 1") with China Innovation Investment Limited ("China Innovation") a then independent third party and a company listed on the Main Board of the Stock Exchange of Hong Kong Limited, in respect of the strategic co-operation in the civil and military dual-use optoelectronic industry. Pursuant to the MOU 1, China Innovation will base on its first right of refusal to invest in two LED optoelectronic projects, namely 上海大晨光電科技有限公司 (Shanghai Morning Optoelectronic Technology Limited, "SMOTL"), primarily engaged in the New LED lighting Project, and 雲南天達光伏科技股份有限公司 (Yunnan Tianda Photovoltaic Co., Ltd., "Yunnan Tianda"), primarily engaged in the New Solar Energy Project, of 中國兵器工業集團公司 (China North Industries Group Corporation "CNGC") to provide support to The Company on the manufacturing, assembling and development of LED optoelectronic products and related civil and military dual-use products. The Company will provide strategic solutions and distribution channels to the CNGC's optoelectronic enterprises, which are principally engaged in manufacturing of LED optoelectronic products and are also subject to potential investment by China Innovation.

On 18 March 2008, the Company entered into a cooperation letter of intent (the "LOI") with China Innovation and 南京北方信息產業集團有限公司 (Nanjing North Information Industry Group Co., Ltd. "NNII"), a wholly-owned subsidiary of CNGC. Pursuant to the LOI, the Company, China Innovation and NNII will jointly participate in the share restructuring of 南京北方慧華光電有限公司 (Nanjing North Weihaw Optics Electronics Co., Ltd. "NNWO") which is currently controlled by NNII and engaged in the New Media LCD Project. Upon completion of the restructuring, NNWO will continue to regard civil and military dual-use optoelectronic products as its principal scope of business.

On 18 June 2008, the Company, China innovation and 北京北方光電有限公司 (China Opto-Electro Industries Co., Ltd. ("COEI"), a wholly-owned subsidiary of CNGC, entered into a cooperation framework agreement, pursuant to which the Company and China Innovation have been granted a first right of refusal to acquire not more than 30% equity interests or not more than 30 million shares of COEI under the capital restructuring of COEI. The Company and China Innovation have also agreed to contribute to COEI the first right of refusal to invest in SMOTL (New LED Lighting Project), Yunnan Tianda (New Solar Energy Project) and NNWO (New Media LCD Project) to avoid potential competition.

There was no further development of the cooperation during the year.



MANAGEMENT DISCUSSION AND ANALYSIS

- (b) On 10 December 2009, the Company entered into a sale and purchase agreement with an independent third party ("Vendor") pursuant to which the Company agreed to acquire the entire issued share capital of Nopo International Limited (the "Nopo Acquisition"), which was principally engaged as an agent of the products of a mobile location-based service provider in the PRC and the sole franchised dealer in overseas markets under a distribution agreement, at a consideration of HK\$19,493,000. A refundable deposit of HK\$1,993,000 (note 23 to the financial statements), without interest, had been paid by the Company to the Vendor upon signing of the agreement. The Nopo Acquisition has been completed subsequent to the reporting period on 22 January 2010 with the balance of the consideration of HK\$17,500,000 being settled by the issue of 140,000,000 consideration shares of the Company at an issue price of HK\$0.125 per share.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

BOARD PRACTICES AND PROCEDURES

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



MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Xiang Xin (“Mr. Xiang”), aged 46, was the Chairman of the Board. Mr. Xiang has worked in a number of large organizations in the PRC and has been engaged in technology project management and corporate strategy research for a long time. Mr. Xiang also possesses many years of experience in project investment and telecommunications network businesses. Mr. Xiang holds a bachelor’s degree in science and a master’s degree in engineering from Nanjing University of Science & Technology. Mr. Xiang is a council member of China Technology Education Trust Association. Mr. Xiang is currently an executive director and the chief executive officer of China Innovation Investment Limited (“China Innovation”). Mr. Xiang joined the Group on 25 February 2008.

Mr. Yang Gaocai (“Mr. Yang”), aged 42, the Co-President of the Company, is actively involved in the political and business sectors in the People’s Republic of China (the “PRC”). Mr. Yang has taken key offices in various PRC political and business associations. He holds a master’s degree in Engineering of Nanjing University of Science and Technology and a higher diploma in Economics and Management of The Pantheon-Assas Paris II University. Mr. Yang is currently a member of The China Economic and Social Council, a member of Nanjing Municipal People’s Political Consultative Conference in Hong Kong and Macau, the vice chairman of Association of Hong Kong Nanjing Fellows Limited and vice president of Jiangsu Youth Chamber of Commerce. Mr. Yang joined the Group on 24 August 2009.

Mr. Wong Chak Keung (“Mr. Wong”), aged 43, the Co-President of the Company, holds a bachelor degree in business from The University of Southern Queensland in Australia. He is also a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia respectively. Mr. Wong has been in the accounting profession for over 15 years. Mr. Wong worked in various positions in an international accounting firm, corporate finance, educational business and manufacturing sector in Hong Kong. Mr. Wong is currently an executive director and a company secretary of China Innovation. Mr. Wong joined the Group on 25 February 2008.

Mr. Law Gerald Edwin (“Mr. Law”), aged 33, has over 9 years of experience in accounting, taxation, financing and auditing in Hong Kong. Mr. Law holds an Honor Diploma in Accounting and Master’s degree in Financial Management. He is a fellow member of Association of International Accountants, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of The Taxation Institute of Hong Kong. Mr. Law joined the Group in May 2009 and was appointed as the director of the Company on 1 October 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhan Liang (“Mr. Zhang”), aged 39, is a qualified lawyer in the People’s Republic of China and is currently the chief officer and partner of 北京市仁豐律師事務所 (JenRich Law Office in Beijing*). Mr. Zhang has 10 years of experience in litigations and advising on legal matters relating to corporate finance and real estates. Mr. Zhang holds a bachelor’s degree in law and a master degree from China University of Political Science and Law. Mr. Zhang joined the Group on 23 January 2008.

* For identification purpose only





MANAGEMENT PROFILE

Ms. Lu Yuhe (“Ms. Lu”), aged 32, is a member of Chinese Institute of Certified Public Accountants and holder of a master degree in Economics from the Capital University of Economics and Business and a bachelor degree in Economics from the Central University for Nationalities. Ms. Lu has worked for an international accounting firm in China and has substantial experience in auditing and accounting practice. Ms. Lu joined the Group on 10 July 2009.

Mr. Kwok Chi Hung (“Mr. Kwok”), aged 48, possesses over 20 years of experience in financial and corporate management. Mr. Kwok is one of the founders of China-Key HR Outsourcing Co., Limited engaging in the provision of human resources under business processing outsourcing services in the PRC and it was recognized by InterChina Consulting as one of the fast developing human resources outsourcing companies in the PRC. Mr. Kwok was an executive director of China Innovation Investment Limited, a company listed on the Main Board of the Stock Exchange, during the period from 30 December 2004 to 1 November 2007. Mr. Kwok joined the Group on 24 August 2009.



REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in sales and marketing of mobile phone appliance and the relevant application selection. During the year, the Group also commenced its operation in trading of LED/LCD and related products. The Group also intends to engage in the media business which involves the provision of multi-media and advertising business.

RESuLTS AND DivIDENDS

The Group's loss for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 123.

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

SuMMARy FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 124. This summary does not form part of the audited financial statements.

PROPERTy, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND wARRANTS

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

Details of movements in the Company's share options and warrants during the year are set out in notes 29 and 30 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

RELATED PARTy TRANSACTIONS

Details of the significant related party transactions during the year ended 31 December 2009 are disclosed in note 35 to the financial statements.





REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law Cap 22 (Law 3 of 1961, as 2007 Revision) of the Cayman Islands, amounted to HK\$25,637,000. This includes the Company's share premium account, in the amount of HK\$75,330,000 which may be distributed provided that immediately following the date, on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 96% of the total sales for the year and sales to the largest customer included therein accounted for 30%. Purchases from the Group's five largest suppliers accounted for 96% of the total purchases for the year and purchases from the largest supplier included therein accounted for 30%.

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

DIRECTORS

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

Executive directors:

Mr. Xiang Xin	
Mr. Wong Chak Keung	
Mr. Yang Gaocai	(appointed on 24 August 2009)
Mr. Law Gerald Edwin	(appointed on 1 October 2009)
Mr. Yang Xiao Ming	(resigned on 2 January 2009)
Mr. Siu Pang	(appointed on 6 February 2009 and resigned on 9 May 2009)
Mr. Cho Hui Jae	(retired on 30 June 2009)
Mr. Im Kai Chuen Stephen	(resigned on 1 September 2009)

Independent non-executive directors:

Mr. Zhang Zhan Liang	
Ms. Lu Yuhe	(appointed on 10 July 2009)
Mr. Kwok Chi Hung	(appointed on 24 August 2009)
Mr. Sze Lin Tang	(resigned on 11 February 2009)
Mr. Zhang Jun	(appointed on 6 February 2009 and resigned on 3 July 2009)
Mr. Leung Wing Kin	(resigned on 24 August 2009)

The Company has complied with rule 5.05 and 5.28 of the GEM Listing Rules throughout the year ended 31 December 2009 except for the period from 3 July 2009 to 10 July 2009. Following the resignation of Mr. Zhang Jun as an independent non-executive director and a member of the audit committee (the "Committee") on 3 July 2009, the Company has only two independent non-executive directors, the number of which falls below the minimum number required under rule 5.05(1) of the GEM Listing Rules; and fails to have one independent non-executive director obtained appropriate qualification, or accounting or related financial management expertise as required by rules 5.05(2) and 5.28 of the GEM Listing Rules. The Company strived to find the suitable person to fill the casual vacancy for the post of independent non-executive director and the member of the Committee. Finally, Ms. Lu Yuhe has been appointed as the independent non-executive director and a member of the Committee with effect from 10 July 2009 to fill the casual vacancy of the said positions and to comply with the rules 5.05 and 5.28 of the GEM Listing Rules.

Pursuant to the Rule 5.09 of the GEM Listing Rules, the Company received a written confirmation from each of the independent non-executive directors of their independence to the Company. The Company considers that all of the independent non-executive directors are independent.

Mr. Yang Gaocai, Mr. Law Gerald Edwin, Ms. Lu Yuhe, and Mr. Kwok Chi Hung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 and 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the executive directors of the Company has each entered into a service contract with the Company. All the above-mentioned service contracts are continuous until terminated by either party giving to the other not less than six months' notice in writing, or otherwise in accordance with its terms.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those details in note 35 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

Apart from those details in note 35 to the financial statements, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

At 31 December 2009, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules, were as follows:

(i) Long position in the underlying shares of the Company – share option

Name of Director	Date of grant	Exercise period	Capacity	Exercise price per share <i>HK\$</i>	No. of underlying shares of the Company comprised the share options outstanding as at 31 December 2009	Percentage of issued share capital
Xiang Xin	9 Apr 2008	9 Apr 2008 to 8 Apr 2013	Beneficiary	0.28	5,000,000	0.71%
Wong Chak Keung	9 Apr 2008	9 Apr 2008 to 8 Apr 2013	Beneficiary	0.28	5,000,000	0.71%
Zhang Zhan Liang	9 Apr 2008	9 Apr 2008 to 8 Apr 2013	Beneficiary	0.28	2,500,000	0.36%

(ii) Long position in the underlying shares of the Company – the zero-coupon convertible bonds (the “2012 Convertible bonds”)

Name	Capacity	Number of underlying shares for the 2012 Convertible bonds	Percentage of issued share capital
Xiang Xin (“Mr. Xiang”) (<i>note 2</i>)	Interest of controlled corporation	1,621,520,000	230.41%
Wong Chak Keung	Beneficial owner	32,967,600	4.68%

Notes:

1. Holders of the 2012 Convertible Bonds are entitled to elect to convert the 2012 Convertible Bonds into Shares at the conversion price of HK\$0.125 per Share (subject to adjustment) until 30 December 2012.
2. The underlying shares of the Company are held by Honour Sky International Limited, a company incorporated in the British Virgin Islands with limited liability and Mr. Xiang is the sole director of the company and Mr. Xiang's family member(s) (excluding Mr. Xiang) is/are the ultimate beneficiaries of such company.

Save as disclosed above, as at 31 December 2009, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules.

SubSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND uNDERLyING SHARES

At 31 December 2009, the following interests and short positions of 5% or more of the issued share capital and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(i) Long position in the shares of the Company

Name of shareholder	Capacity	Number of share held	
		Long position	Percentage of issued share capital
Morgan Strategic Limited	Beneficial owner	160,720,000	22.83%
Top Ten International s.a r.l. (<i>note 1</i>)	Interest of controlled corporation	160,720,000	22.83%
Chen Darren (<i>note 1</i>)	Interest of controlled corporation	160,720,000	22.83%
Nopo Group Limited	Beneficial owner	140,000,000	19.89%
Lo Wai Chi	Beneficial owner	100,240,000	14.24%
Jo Won Seob	Beneficial owner	72,700,000	10.33%
Shenyin Wanguo (H.K.) Limited (<i>note 2</i>)	Interest of controlled corporation	40,900,000	5.81%
Shenyin Wanguo Trading (H.K.) Ltd. (<i>note 2</i>)	Beneficial owner	20,900,000	2.97%
Shenyin Wanguo Strategic Investments (H.K.) Limited (<i>note 2</i>)	Beneficial owner	20,000,000	2.84%
Korea Technology Investment Corporation	Beneficial owner	37,000,000	5.25%

Notes:

1. Morgan Strategic Limited was a private company wholly and beneficially owned by Top Ten International s.a r.l. ("Top Ten") and Top Ten was a private company wholly and beneficially owned by Chen Darren. Accordingly, Top Ten and Chen Darren were interested in the shares of the Company held by Morgan Strategic Limited.
2. The entire issued share capital of Shenyin Wanguo Strategic Investments (H.K.) Limited and Shenyin Wanguo Trading (H.K.) Ltd. were legally and beneficially owned by Shenyin Wanguo (H.K.) Limited. Accordingly, Shenyin Wanguo (H.K.) Limited was to be interested in all the shares registered in the name of Shenyin Wanguo Strategic Investments (H.K.) Limited and Shenyin Wanguo Trading (H.K.) Ltd.

(ii) Long position in the underlying shares of the Company – the 2012 Convertible bonds

Name of holder	Capacity	Number of underlying shares for the Cb	Percentage of issued share capital
China Technology Education Trust Association (<i>note 2</i>)	Beneficial owner	2,460,176,000	349.58%
Honour Sky International Limited (<i>note 3</i>)	Beneficial owner	1,621,520,000	230.41%
Chinese Star (PTC) Ltd. (<i>note 4</i>)	Interest of controlled corporation	1,621,520,000	230.41%
Kung Ching (<i>note 4</i>)	Interest of controlled corporation	1,621,520,000	230.41%
HSBC International Trustee Limited (<i>note 5</i>)	Interest of controlled corporation	1,621,520,000	230.41%
Ocean Space Development Limited	Beneficial owner	330,520,000	46.96%
Zhang Shao Cai (<i>note 6</i>)	Interest of controlled corporation	330,520,000	46.96%
Metropower Holdings Limited	Beneficial owner	153,848,800	21.86%
Timepeak Holdings Limited (<i>note 7</i>)	Interest of controlled corporation	153,848,800	21.86%
Morgan Strategic Limited	Beneficial owner	128,000,000	18.19%
Top Ten International s. a r. l. (<i>note 8</i>)	Interest of controlled corporation	128,000,000	18.19%
Chen Darren (<i>note 8</i>)	Interest of controlled corporation	128,000,000	18.19%

Notes:

1. Holders of the 2012 Convertible Bonds are entitled to elect to convert the 2012 Convertible Bonds into Shares at the conversion price of HK\$0.125 per Share (subject to adjustment) until 30 December 2012.
2. China Technology Education Trust Association (the "Association"), a society registered under the provisions of section 5A(1) of the Societies Ordinance in 2005, is a charitable society providing charity and financial aid to education and employment in Hong Kong and Mainland China. Mr. Xiang is a council member of the Association.
3. Honour Sky International Limited, a company incorporated in the British Virgin Islands with limited liability and Mr. Xiang is the sole director of the company and Mr. Xiang's family member(s) (excluding Mr. Xiang) is/are the ultimate beneficiaries of such company.
4. Honour Sky International Limited was a private company wholly and beneficially owned by Chinese Star (PTC) Ltd. Accordingly, Chinese Star (PTC) Ltd. was interested in the underlying shares of the Company held by Honour Sky International Limited. Ms. Kung Ching, the spouse of Mr. Xiang, is also the director of Chinese Star (PTC) Ltd. and was deemed to have interest in the underlying shares held by the Honour Sky International Limited.



REPORT OF THE DIRECTORS

5. These underlying shares are held by Chinese Star (PTC) Ltd., a company incorporated in the British Virgin Islands (indirectly through various wholly owned subsidiaries) in its capacity as trustee of The New Era Unit Trust, almost the entire issued units of which (i.e. 8,751,602 units out of 8,751, 603 units) are held by HSBC International Trustee Limited, in its capacity as trustee of The New Era Development No. 1 Trust. Mr. Xiang's family members (but not including Mr. Xiang) are the discretionary beneficiaries of The New Era Development No. 1 Trust.
6. Ocean Space Development Limited, a company incorporated in the British Virgin Islands, was a private company wholly and beneficially owned by Mr. Zhang Shao Cai. Accordingly, Mr. Zhang Shao Cai was deemed to be interested in the underlying shares of the Company held by Ocean Space Development Limited.
7. Metropower Holdings Limited was a private company wholly and beneficially owned by Timepeak Holdings Limited. Accordingly, Timepeak Holdings Limited was interested in the underlying shares of the Company held by Metropower Holdings Limited.
8. Morgan Strategic Limited was a private company wholly and beneficially owned by Top Ten International s.a r.l. ("Top Ten") and Top Ten was a private company wholly and beneficially owned by Chen Darren. Accordingly, Top Ten and Chen Darren were interested in the underlying shares of the Company held by Morgan Strategic Limited.

Save as disclosed above, as at 31 December 2009, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SuFFICIENCY OF PubLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING buSINESS

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

AuDIT COMMITTEE

The Group's audited results for the year ended 31 December 2009 have been reviewed by the audit committee, which was of the opinion that subject to qualifications as mentioned by the auditors of the Company in the auditors' report on pages 26 to 31 of this annual report, the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.



AUDITORS

The financial statement for the year ended 31 December 2006 had been jointly audited by Cachet Certified Public Accountants Limited (now known as “Ascenda Cachet CPA Limited”) and CCIF CPA Limited.

The financial statements for the years ended 31 December 2007, 2008 and 2009 have been audited by Ascenda Cachet CPA Limited (formerly known as “Cachet Certified Public Accountants Limited”), who retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

xiang xin

Chairman and Executive director

Hong Kong

23 March 2010





CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year under review, the Company had complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 15 of the GEM Listing Rules, except that the Company has no fixed terms of appointment for non-executive directors. Independent non-executive directors are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the relevant provision under the Articles of Association of the Company. Such practice deviates from the provision A.4.1 of the CG Code which requires that non-executive directors be appointed for a specific term. The Board has discussed and concluded the current practice of appointing independent non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders was fair and reasonable, and does not intend to change the current practice at the moment.

DIRECTORS’ SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

Executive directors :	Mr. Xiang Xin	
	Mr. Yang Gaocai	(appointed on 24 August 2009)
	Mr. Wong Chak Keung	
	Mr. Law Gerald Edwin	(appointed on 1 October 2009)
Independent non-executive directors :	Mr. Zhang Zhan Liang	
	Ms. Lu Yuhe	(appointed on 10 July 2009)
	Mr. Kwok Chi Hung	(appointed on 24 August 2009)

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

The Board has at least four scheduled regular meetings a year at quarterly interval and meets as and when required. During the year ended 31 December 2009, the Board held 30 meetings. The attendance of each director at the board meetings during the year are as follows:

Directors	Number of attendance
Mr. Xiang Xin	29/30
Mr. Wong Chak Keung	30/30
Mr. Yang Gaocai (appointed on 24 August 2009)	0/9
Mr. Law Gerald Edwin (appointed on 1 October 2009)	4/4
Mr. Yang Xiao Ming (resigned on 2 January 2009)	N/A
Mr. Siu Pang (appointed on 6 February 2009 and resigned on 9 May 2009)	1/8
Mr. Cho Hui Jae (retired on 30 June 2009)	0/16
Mr. Im Kai Chuen Stephen (resigned on 1 September 2009)	18/22
Mr. Zhang Zhan Liang	1/30
Ms. Lu Yuhe (appointed on 10 July 2009)	2/12
Mr. Kwok Chi Hung (appointed on 24 August 2009)	0/9
Mr. Sze Lin Tang (resigned on 11 February 2009)	0/6
Mr. Zhang Jun (appointed on 6 February 2009 and resigned on 3 July 2009)	1/13
Mr. Leung Wing Kin (resigned on 24 August 2009)	1/21

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

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

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

CHAIRMAN, CHIEF EXECUTIVE OFFICER AND CO-PRESIDENTS

Mr. Xiang Xin was appointed as the Chairman of the Board during the period from 21 March 2008 to 5 February 2009. Mr. Siu Pang was appointed as the Chairman of the Board during the period from 6 February 2009 to 8 May 2009, while Mr. Xiang Xin was re-appointed as the Chairman of the Board with effect from 9 May 2009. Mr. Im Kai Chuen Stephen was appointed as the chief executive officer of the Company during the period from 10 November 2008 to 31 August 2009. Mr. Yang Gaocai and Mr. Wong Chak Keung were appointed as Co-Presidents of the Company with effect from 24 August 2009 and 1 September 2009 respectively.

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



INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Details of the directors' emoluments of the Company is set out in the note 8 to the financial statements.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has no fixed terms of appointment for independent non-executive directors. However, they are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Articles of Association. Such practice deviates from provision A.4.1 of the CG Code which requires that non-executive directors be appointed for a specific term. The Board has discussed and concluded that the current practice of appointing independent non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders was fair and reasonable, and does not intend to change the current practice at the moment.

EXTERNAL AUDITORS

For the year ended 31 December 2009, Ascenda Cachet CPA Limited (formerly known as Cachet Certified Public Accountants Limited), the existing external auditors, provided the following services to the Group:

	2009
	<i>HK\$'000</i>
Annual audit services	238
Other assurance services	914
Non-assurance services	<u>276</u>
	<u><u>1,428</u></u>

AUDIT COMMITTEE

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

		Number of attendance
Mr. Zhang Zhan Liang		4/4
Ms. Lu Yuhe	(appointed on 10 July 2009)	1/1
Mr. Kwok Chi Hung	(appointed on 24 August 2009)	1/1
Mr. Sze Lin Tang	(resigned on 11 February 2009)	N/A
Mr. Zhang Jun	(appointed on 6 February 2009 and resigned on 3 July 2009)	2/2
Mr. Leung Wing Kin	(resigned on 24 August 2009)	3/3

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

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



INDEPENDENT AUDITORS' REPORT



Ascenda Cachet CPA Limited

天健德揚會計師事務所有限公司

13F Neich Tower, 128 Gloucester Road
Wanchai, Hong Kong

To the shareholders of China Trends Holdings Limited

(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements of China Trends Holdings Limited (the "Company" and together with its subsidiaries, the "Group") set out on pages 32 to 123, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Scope limitation – Prior year's audit scope limitation affecting opening balance and comparative figures arising from loss of access to certain books and records maintained by the Disposal Group

As more fully explained in notes 2.1(a) and 12 to the financial statements, the underlying books and records of certain subsidiaries of the Company, Ace Solution Technology Limited ("Ace Solution") and its subsidiaries, namely Gold Glory Development Limited, Hanbit I & T (HK) Co., Limited, Qualfield Limited, Quasar Communication Technology Limited, Synerex Inc., Zetta Global Limited, and Zetta Media Holdings Limited (collectively referred as the "Disposal Group"), were not accessible due to the changes to the board of directors of the Company and the Disposal Group during the year ended 31 December 2008. Although the present board of directors of the Company had represented they had taken due care in the preparation of the financial statements of the Group, they were unable to represent as to the completeness of the books and records of the Disposal Group for the year ended 31 December 2008 and accordingly, for the year ended 31 December 2009. The present board of directors was unable to represent that all transactions entered by the Disposal Group during the year ended 31 December 2008 had been properly included in the financial statements. Accordingly, we were unable to carry out adequate audit procedures we considered necessary to satisfy ourselves as to the timing, accuracy and completeness of the Group and the Disposal Group's assets and liabilities as at 31 December 2008. We had disclaimed our opinion in our previous auditors' report dated 30 April 2009 on the Group's consolidated and on the Company's financial position as at 31 December 2008 and consequentially, as at 31 December 2009 and of its loss and cash flows for the years then ended and the related disclosures thereof in the financial statements and the comparative figures.

2. Scope limitation – Prior year's audit scope limitation affecting opening balance of inventories

Included in the consolidated statement of financial position of the Group were inventories stated at net realisable value of approximately HK\$1,700,000 (with a total cost of HK\$2,443,783) as at 31 December 2008. We had not been invited to attend the physical inventory count on or about 31 December 2008 and we had not been provided with sufficient and appropriate evidences for verification of the existence, completeness and valuation of the inventories. We had not been able to carry out alternative audit procedures we considered necessary to satisfy ourselves as to the existence, completeness and valuation of the inventories as stated in the consolidated statement of financial position of the Group and the Disposal Group as at 31 December 2008 and that the inventories were free from material misstatement and were fairly stated and we had disclaimed our opinion in our previous auditors' report for the year ended 31 December 2008 accordingly. Despite the fact that these inventories had been disposed during the year ended 31 December 2009, we have not been able to carry out alternative audit procedures we considered necessary to satisfy ourselves as to the opening balance of the inventories as at 1 January 2009. Any adjustments found to be necessary would have a consequential effect on its loss for the year then ended and the related disclosure thereof in the financial statements.



bASIS fOR DISCLAIMER OF OPINION *(Continued)*

3. Scope limitation – Prior year's audit scope limitation affecting opening balance and closing balance of contract works in progress of the Disposal Group included in "Assets of a disposal group classified as held for sale"

As detailed in notes 12 and 21 to the financial statements, included in the consolidated statement of financial position of the Group and the Disposal Group were contract works in progress of approximately HK\$34,340,000 as at 31 December 2008 and 2009. We had not been invited to attend physical inventory count on or about 31 December 2008 and 2009 and we had not been provided with a detailed information and explanation of the nature and the future utilisation of the contract works in progress. Due to the lack of sufficient and appropriate evidences available to us, we have not been able to carry out audit procedures we considered necessary to satisfy ourselves as to the existence, completeness and valuation of the contract works in progress as stated in the Group and the Disposal Group as at 31 December 2008 and 2009 and that the contract works in progress was properly classified, free from material misstatement and was fairly stated as at 31 December 2008 and 2009. Any adjustments to the balance of the contract works in progress as at 31 December 2008 and 2009 found to be necessary would affect the net assets of the Group and the Disposal Group as at 31 December 2008 and 2009 and have a consequential effect on its loss for the years then ended and the related disclosure thereof in the financial statements.

4. Scope limitation – Prior year's audit scope limitation affecting opening balance and closing balance of trade receivables of the Disposal Group included in "Assets of a disposal group classified as held for sale"

As detailed in notes 12 and 22 to the financial statements, included in the consolidated statement of financial position of the Group and the Disposal Group were trade receivables of approximately HK\$610,000 and HK\$0 after impairment provision of approximately HK\$3,888,000 and HK\$5,588,000 as at 31 December 2008 and 2009 respectively. As also detailed in note 2.1(a) to the financial statements, we had not been provided with certain books and records of the Disposal Group and we had not been provided with sufficient and appropriate evidences for verification of the settlement of the trade receivables throughout the year ended 31 December 2008. We had not been provided with sufficient and appropriate evidences for our verification of the existence and the subsequent recovery of the trade receivables of the Group and the Disposal Group as at 31 December 2008. We have not been able to carry out alternative audit procedures we considered necessary to satisfy ourselves that the trade receivables and the impairment as stated in the Group and the Disposal Group as at 31 December 2008 were free from material misstatement and were fairly stated. Despite the fact that the trade receivables had been fully impaired during the year ended 31 December 2008, we have not been able to carry out alternative audit procedures we considered necessary to satisfy ourselves as to the opening balance of the trade receivables and the impairment as at 1 January 2009. Any adjustments found to be necessary would affect the Group and the Disposal Group's net assets as at 31 December 2009 and have a consequential effect on its loss and cash flows for the year then ended and the related disclosures thereof in the financial statements.

bASIS FOR DISCLAIMER OF OPINION *(Continued)***5. Scope limitation – Prior year's audit scope limitation affecting opening balance and closing balance of trade deposits paid of the Disposal Group included in the "Assets of a disposal group classified as held for sales"**

As detailed in notes 12 and 23 to the financial statements, included in the consolidated statement of financial position of the Group and the Disposal Group were deposits of approximately HK\$8,200,000 as at 31 December 2008 and 2009. The deposits were paid by a subsidiary of Ace Solution to a supplier during the year ended 31 December 2008 as deposits for the supply of mobile phones and related appliance and accessories. We had not been provided with sufficient and appropriate explanation and evidences as to the nature of the deposits, including but not limited to the arrangement for the subsequent recovery of the deposits or the ability of the supplier in fulfillment of the obligation in supplying the mobile phones and related appliance and accessories to the Group and the Disposal Group. No subsequent settlement or goods have been received by the Group and/or by the Disposal Group up to the date of this report and we have not been able to obtain sufficient information we considered necessary for the assessment of the recoverability of the deposits. We were unable to carry out alternative audit procedures we considered necessary to satisfy ourselves as to the existence and valuation of the trade deposits and that the trade deposits were free from material misstatement and were fairly stated as at 31 December 2008 and 2009. Any adjustments to the balance of the trade deposits as at 31 December 2008 and 2009 found to be necessary would affect the net assets of the Group and the Disposal Group as at 31 December 2008 and 2009 and have a consequential effect on its loss for the years then ended and the related disclosure thereof in the financial statements.

6. Scope limitation – Revenue and cost of sales

As detailed in notes 2.1(a) and 12 to the financial statements, included in revenue and cost of sales of HK\$51,183,000 and HK\$50,589,000 shown in the Group and the Disposal Group's consolidated income statements for the year ended 31 December 2009 were certain sales transactions and the related cost of sales amounting to approximately HK\$1,700,000 respectively for which we had not been provided with sufficient and appropriate information and explanation for our verification of their occurrence, completeness and valuation. We have not been able to carry out alternative audit procedures we considered necessary to satisfy ourselves that the revenue and cost of sales as stated in the consolidated income statement for the year ended 31 December 2009 were free from material misstatement and were fairly stated. Any adjustments to the amount of the revenue and cost of sales for the year ended 31 December 2009 found to be necessary would affect the loss of the Group and the Disposal Group for the year ended 31 December 2009 and have a consequential effect on its cash flows for the year ended 31 December 2009, its net assets as at 31 December 2009 and the related disclosures thereof in the financial statements.



bASIS fOR DISCLAIMER OF OPINION *(Continued)*

7. Scope limitation – Impairment of assets of a disposal group

Included in the Group's consolidated income statement were impairment of assets of a disposal group (the "Impairment Loss") of approximately HK\$39,655,000 for the year ended 31 December 2009. Due to the scope limitations in respect of items (1), (2), (3), (4), (5) and (6) above and the lack of sufficient and appropriate evidences available to us, we have not been able to carry out audit procedures we considered necessary to satisfy ourselves as to the accuracy and valuation of the Impairment Loss. We have not been able to perform alternative audit procedures we considered necessary to satisfy ourselves as to whether the Impairment Loss were free from material misstatement and were fairly stated. Any adjustments to the Impairment Loss for the year ended 31 December 2009 found to be necessary would affect the net assets of the Group and the Disposal Group as at 31 December 2009 and have a consequential effect on its loss for the year then ended and the related disclosure thereof in the financial statements.

8. Scope limitation – Carrying amounts of investments in subsidiaries and amounts due from subsidiaries

As detailed in note 19 to the financial statements, included in the Company's statement of financial position were investments in subsidiaries and amount due from subsidiaries of approximately HK\$480,650,000 and HK\$32,606,000, respectively, as at 31 December 2009, of which, approximately HK\$14,882,000 and HK\$32,602,000, represented the Company's investments in the Disposal Group and amount due from the Disposal Group. Despite the fact that the investments in the Disposal Group and amount due from the Disposal Group had been fully impaired during the year ended 31 December 2009, due to the scope limitations in respect of items (1), (2), (3), (4), (5) and (6) above and the lack of sufficient and appropriate evidences available to us, we have not been able to carry out audit procedures we considered necessary to satisfy ourselves as to the accuracy and valuation of the balances of investments in and amounts due from the Disposal Group and the impairment loss thereon. We have not been able to perform alternative audit procedures we considered necessary to satisfy ourselves as to whether the carrying amounts of the investments in the Disposal Group, the amounts due from the Disposal Group and the impairment were free from material misstatement and were fairly stated. Any adjustments to the carrying amounts of investments in and amounts due from the Disposal Group and the impairment as at 31 December 2009 found to be necessary would affect the Company's net assets as at 31 December 2009 and have a consequential effect on its loss for the year then ended and the related disclosure thereof in the financial statements.

bASIS fOR DISCLAIMER Of OPINION *(Continued)***DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS**

Because of the significance of the matters described in the basis for disclaimer of opinion section, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

REPORT ON MATTERS UNDER SECTIONS 141(4) AND 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the limitation on our work relating to points (1), (2), (3), (4), (5), (6), (7) and (8) above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

Ascenda Cachet CPA Limited

(Formerly Cachet Certified Public Accountants Limited)

Certified Public Accountants

Chan Chi yuen

Practising Certificate Number P02671

Hong Kong

23 March 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
REVENUE	5	51,183	81,127
Cost of sales		<u>(50,589)</u>	<u>(84,409)</u>
Gross profit/(loss)		594	(3,282)
Other income and gains	5	608	194
Administrative and other operating expenses		(8,906)	(25,835)
Finance costs	7	-	(758)
Other impairment losses	6	(2,415)	(2,677)
Impairment of assets of a disposal group	12	<u>(39,655)</u>	<u>-</u>
LOSS BEFORE TAX	6	(49,774)	(32,358)
Income tax expense	10	<u>-</u>	<u>(489)</u>
LOSS FOR THE YEAR		<u><u>(49,774)</u></u>	<u><u>(32,847)</u></u>
Attributable to:			
Owners of the Company	11	(49,774)	(32,847)
Minority interests		<u>-</u>	<u>-</u>
		<u><u>(49,774)</u></u>	<u><u>(32,847)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		<u><u>(7.14) cents</u></u>	<u><u>(5.60) cents</u></u>
Diluted		<u><u>(7.14) cents</u></u>	<u><u>(5.60) cents</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
LOSS FOR THE YEAR		<u>(49,774)</u>	<u>(32,847)</u>
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		<u>—</u>	<u>—</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<u>—</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(49,774)</u>	<u>(32,847)</u>
Attributable to:			
Owners of the Company	11	<u>(49,774)</u>	<u>(32,847)</u>
Minority interests		<u>—</u>	<u>—</u>
		<u>(49,774)</u>	<u>(32,847)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,588	1,251
Available-for-sale investments	15	–	–
Intangible assets	16	482,794	–
Deferred tax assets	17	–	280
Prepaid licenses fee	18	–	–
Total non-current assets		484,382	1,531
CURRENT ASSETS			
Inventories	20	1,178	1,700
Contract works in progress	21	–	34,340
Trade receivables	22	–	610
Prepayments, deposits and other receivables	23	27,894	43,250
Cash and bank balances	24	6,764	7,590
		35,836	87,490
Assets of a disposal group classified as held for sale	12	7,889	–
Total current assets		43,725	87,490
CURRENT LIABILITIES			
Trade payables	25	–	219
Other payables and accruals		2,727	3,827
Tax payable		46	4,946
Due to a director	26	18,520	–
Due to a related company	26	–	221
		21,293	9,213
Liabilities directly associated with the assets classified as held for sale	12	7,889	–
Total current liabilities		29,182	9,213

■ ■ ■ ■

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<hr/>			
NET CURRENT ASSETS		<u>14,543</u>	<u>78,277</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>498,925</u>	<u>79,808</u>
Net assets		<u><u>498,925</u></u>	<u><u>79,808</u></u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	<i>28</i>	7,037	5,865
Equity component of convertible bonds	<i>27</i>	460,768	–
Reserves	<i>31(a)</i>	<u>31,120</u>	<u>73,943</u>
		498,925	79,808
Minority interests		<u>–</u>	<u>–</u>
Total equity		<u><u>498,925</u></u>	<u><u>79,808</u></u>

Xiang Xin
Director

Wong Chak Keung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Attributable to owners of the Company									
	Issued capital	Share premium account	Warrant reserve	Share option reserve	Equity component of convertible bonds	Capital reserve	(Accumulated losses)/ Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	5,865	68,379	2,060	-	-	11,157	17,752	105,213	-	105,213
Equity-settled share option arrangements	-	-	-	7,442	-	-	-	7,442	-	7,442
Share options lapsed during the year	-	-	-	(465)	-	-	465	-	-	-
Warrants lapsed during the year	-	-	(1,160)	-	-	-	1,160	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	(32,847)	(32,847)	-	(32,847)
At 31 December 2008 and at 1 January 2009	5,865	68,379	900	6,977	-	11,157	(13,470)	79,808	-	79,808
Issue of shares (note 28(a)(ii))	1,172	7,037	-	-	-	-	-	8,209	-	8,209
Share issue expenses	-	(86)	-	-	-	-	-	(86)	-	(86)
Share options lapsed during the year (note 29)	-	-	-	(1,860)	-	-	1,860	-	-	-
Warrants lapsed during the year (note 30)	-	-	(900)	-	-	-	900	-	-	-
Issue of convertible bonds (note 27)	-	-	-	-	460,768	-	-	460,768	-	460,768
Total comprehensive income for the year	-	-	-	-	-	-	(49,774)	(49,774)	-	(49,774)
At 31 December 2009	7,037	75,330	-	5,117	460,768	11,157	(60,484)	498,925	-	498,925

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(49,774)	(32,358)
Adjustments for:			
Impairment of trade receivables	6	1,700	2,677
Impairment of prepayments, deposits and other receivables	6	455	–
Written-off of property, plant and equipment	6, 14	260	–
Equity-settled share option expenses		–	7,442
Finance costs		–	758
Interest income	6	(1)	(148)
Depreciation of property, plant and equipment	14	253	170
Impairment of assets of a disposal group	12	39,655	–
		(7,452)	(21,459)
Increase in inventories		(1,178)	(1,700)
Increase in contract works in progress		–	(30,958)
Decrease in trade receivables		610	60,000
Increase in prepayments, deposits and other receivables		(2,669)	(8,155)
Increase in trade payables		–	219
Increase/(decrease) in other payables and accruals		1,466	(925)
(Decrease)/increase in amount due to a related company		(221)	54
		(9,444)	(2,924)
Interest received		1	148
Interest paid		–	(758)
Hong Kong profits tax paid		(112)	(563)
Net cash flows used in operating activities		(9,555)	(4,097)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(183)	(1,015)
Net cash inflow from acquisition of subsidiaries	32	798	
Net cash outflow for disposal of subsidiaries	12	(77)	-
Net cash flows from/(used in) investing activities		<u>538</u>	<u>(1,015)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of trust receipt loans, net		-	(12,040)
Proceed from issue of shares, net	28	8,123	-
Advance from a director		68	-
Net cash flows from/(used in) financing activities		<u>8,191</u>	<u>(12,040)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		<u>7,590</u>	<u>24,742</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>6,764</u></u>	<u><u>7,590</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	<u><u>6,764</u></u>	<u><u>7,590</u></u>



STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	921	946
Intangible assets	16	–	–
Interests in subsidiaries	19	465,508	47,259
Total non-current assets		466,429	48,205
CURRENT ASSETS			
Inventories	20	1,178	–
Prepayments, deposits and other receivables	23	27,617	30,459
Cash and bank balances	24	5,615	7,172
Total current assets		34,410	37,631
CURRENT LIABILITIES			
Other payables and accruals		2,212	1,238
Due to a director	26	68	–
Total current liabilities		2,280	1,238
NET CURRENT ASSETS		32,130	36,393
Net assets		498,559	84,598
EQUITY			
Issued capital	28	7,037	5,865
Reserves	31(b)	491,522	78,733
Total equity		498,559	84,598

Xiang Xin
Director

Wong Chak Keung
Director





NOTES TO FINANCIAL STATEMENTS

31 December 2009

1. CORPORATE INFORMATION

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

The Company is an investment holding company. The Group is principally engaged in sales and marketing of mobile phone appliance and the relevant application solution. During the year, the Group also commenced its operation in the trading of LED/LCD and related products. The Group also intends to engage in the media business which involves the provision of multi-media and advertising business.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

21(a) STATE OF BOOKS AND RECORDS MAINTAINED BY DISPOSAL GROUP

The directors of the Company are responsible to prepare the Group's consolidated financial statements based on the books and records maintained by the Company and its subsidiaries (the "Group"). However, after the change of the board of directors of the Company and certain subsidiaries during the year ended 31 December 2008, other than Friendly Group Limited and Pacific Vision Technologies Limited which were newly incorporated in 2008, the Company no longer has access to certain books and records of certain subsidiaries of the Group, namely Ace Solution Technology Limited, Gold Glory Development Limited, Hanbit I & T (HK) Co., Limited, Qualfield Limited, Quasar Communication Technology Limited, Synerex Inc., Zetta Global Limited, and Zetta Media Holdings Limited (collectively, the "Disposal Group"). The present directors of the Company have tried to get assistance from the former directors of the Company to locate the relevant information and documents of the Disposal Group. However, the present directors of the Company lost contact with certain former directors and were therefore unable to obtain access to the relevant information and documents of the Disposal Group in the preparation of these consolidated financial statements. Hence, only limited books and records of the Disposal Group are accessible by the present directors of the Company. In view of the foregoing, no representations as to the completeness of the books and records the Disposal Group could be given by the present directors of the Company although due care has been taken in the preparation of the consolidated financial statements to mitigate the effect of the incomplete books and records of the Disposal Group. The present directors of the Company have, in the assessment of the Group's assets and liabilities, taken such steps as they considered practicable to establish these assets and liabilities based on the information of which they were aware and have made provisions and adjustments as they considered appropriate in the preparation of these consolidated financial statements.

On 15 June 2009, the Company entered into a sale and purchase agreement with an independent third party (the "Purchaser"), pursuant to which, the Company has agreed to dispose (the "Disposal") the Disposal Group to the Purchaser.

As at 31 December 2009, the Disposal has not yet been completed and the assets and liabilities of the Disposal Group were classified as a disposal group held for sale and were stated at the lower of their carrying amounts and the fair value less costs to sell. Details of the Disposal has been set out in note 12 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKFRS 8 Amendment*	Amendment to HKFRS 8 <i>Operating Segments – Disclosure of information about segment assets</i> (early adopted)
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

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

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

(a) **Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. HKAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) **Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations***

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

(c) **Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments***

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

(d) **HKFRS 8 *Operating Segments***

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.



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

(e) **HKAS 1 (Revised) *Presentation of Financial Statements***

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) **Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent***

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) **HKAS 23 (Revised) *Borrowing Costs***

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) **Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation***

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

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

(i) **Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives***

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) **HK(IFRIC)-Int 13 *Customer Loyalty Programmes***

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) **HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate***

HK(IFRIC)-Int 15 replaces HK Interpretation 3 Revenue – Pre-completion Contracts for the Sale of Development Properties. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. The interpretation has had no impact on the accounting for the Group's construction activities. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) **HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation***

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.



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

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments: Disclosures*: Removes the reference to “total interest income” as a component of finance costs.
- HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.
- HKAS 16 *Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is the higher of an asset’s fair value less costs to sell and its value in use.

In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.
- HKAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

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

(n)

- HKAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.
- HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate “fair value less costs to sell”, additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate “value in use”.
- HKAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.
- The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.
- HKAS 39 *Financial Instruments: Recognition and Measurement* (i) sets out a number of changes in circumstances relating to derivatives that are not considered to result in reclassification into or out of the fair value through profit or loss category; (ii) removes the reference to the designation of hedging instrument at the segment level; and (iii) requires that the revised effective interest rate (rather than the original effective interest rate) calculated on cessation of fair value hedge accounting should be used for the remeasurement of the hedged item when paragraph AG8 of HKAS 39 is applicable.
- HKAS 40 *Investment Property*: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group has applied the amendment prospectively from 1 January 2009.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> ²
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> ²
HKFRS 3 (Revised)	<i>Business Combinations</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ³
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ⁵
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i> ¹
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i> ¹
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ²

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

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

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2010
- ³ Effective for annual periods beginning on or after 1 February 2010
- ⁴ Effective for annual periods beginning on or after 1 July 2010
- ⁵ Effective for annual periods beginning on or after 1 January 2011
- ⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that while the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the Statement of Comprehensive Income in the period in which it arises in those expense categories consistent with the function of impaired asset.



NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, an individual referred to in (d) or (e).
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

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

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Non-current assets and disposal groups held for sale

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

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

Intangible assets

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

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

Leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.



NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss (Continued)

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments (Continued)

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

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

Derecognition of financial assets

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost (Continued)

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments (Continued)

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, an amount due to a director and a related company.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Financial liabilities *(Continued)*

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

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

Financial guarantee contracts

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



NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Financial liabilities *(Continued)*

Convertible bonds

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

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

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Financial liabilities *(Continued)*

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.



2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes Option Pricing Model, further details of which are given in note 29 to the financial statements.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

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

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

Foreign currencies

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Estimation uncertainty

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Future details are contained in note 17 to the financial statement.

Assessment of impairment of non-current assets

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

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

Estimation uncertainty *(Continued)*

Fair value of unlisted equity investments

The unlisted equity investments have been assessed for impairment based on the financial statement available for those investments. This assessment requires the Group to make estimates about expected future performance of the investments and hence they are subject to uncertainty. The unlisted equity investments have been fully impaired in the previous year. Future details are included in note 15 to the financial statement.

Useful lives of property, plant and equipment

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

Provision for impairment of receivables

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

Amortisation of intangible assets

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

Fair value of convertible bonds

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



NOTES TO FINANCIAL STATEMENTS

31 December 2009

4. SEGMENT INFORMATION

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

- (a) the marketing of mobile appliance segment is involved in sales and marketing of mobile phone appliance and the relevant application solution;
- (b) the trading of LED/LCD and related products segment is involved in the trading of LED/LCD and related products; and
- (c) the media business segment is involved in the provision of multi-media and advertising business.

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

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

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

4. SEGMENT INFORMATION (Continued)

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

Year ended 31 December 2009

	Marketing of mobile appliance HK\$'000	Trading of LED/LCD and related products HK\$'000	Media business HK\$'000	Total HK\$'000
Segment revenue:				
Sales to external customers	10,975	40,208	-	51,183
Intersegment sales	-	-	-	-
	<u>10,975</u>	<u>40,208</u>	<u>-</u>	<u>51,183</u>
Reconciliation:				
Elimination of intersegment sales				-
Revenue				<u>51,183</u>
Segment results	160	434	-	594
Reconciliation:				
Other income and gains				608
Unallocated expenses				(8,906)
Finance costs				-
Other impairment losses				(2,415)
Impairment of assets of a disposal group				<u>(39,655)</u>
Loss before tax				(49,774)
Income tax expense				-
Loss for the year				<u>(49,774)</u>
Segment assets	7,889	-	484,536	492,425
Unallocated assets				<u>35,682</u>
Total assets				<u>528,107</u>
Segment liabilities	7,889	-	18,768	26,657
Unallocated liabilities				<u>2,525</u>
Total liabilities				<u>29,182</u>
Other segment information:				
Capital expenditure*	183	-	667	850
Depreciation and amortisation	<u>253</u>	<u>-</u>	<u>-</u>	<u>253</u>

* Capital expenditure consists of additions to property, plant and equipment including assets from acquisition of subsidiaries (notes 14 and 32).

NOTES TO FINANCIAL STATEMENTS

31 December 2009

4. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2008

	Marketing of mobile appliance <i>HK \$'000</i>	Trading of LED/LCD and related products <i>HK \$'000</i>	Media business <i>HK \$'000</i>	Total <i>HK \$'000</i>
Segment revenue:				
Sales to external customers	81,127	–	–	81,127
Intersegment sales	–	–	–	–
	<u>81,127</u>	<u>–</u>	<u>–</u>	<u>81,127</u>
Reconciliation:				
Elimination of intersegment sales				–
Revenue				<u>81,127</u>
Segment results				
	(3,282)	–	–	(3,282)
Reconciliation:				
Other income and gains				194
Unallocated expenses				(25,835)
Finance costs				(758)
Other impairment losses				<u>(2,677)</u>
Loss before tax				(32,358)
Income tax expense				<u>(489)</u>
Loss for the year				<u>(32,847)</u>
Segment assets				
Unallocated assets	51,390	–	–	51,390
Total assets				<u>37,631</u>
Segment liabilities				
Unallocated liabilities	7,976	–	–	7,976
Total liabilities				<u>1,237</u>
Other segment information:				
Capital expenditure	1,015	–	–	1,015
Depreciation and amortisation	170	–	–	170

4. SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2009 HK\$'000	2008 HK\$'000
Hong Kong	24,456	–
Mainland China	17,456	78,500
Thailand	9,271	2,627
	<u>51,183</u>	<u>81,127</u>

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

(b) Total assets

	2009 HK\$'000	2008 HK\$'000
Hong Kong	43,506	60,040
Mainland China	484,601	11,821
Korea	–	17,160
	<u>528,107</u>	<u>89,021</u>

Total assets information is based on the location of assets and excludes unallocated head office and corporate assets.

Information about a major customer

Revenue of approximately HK\$15,756,000 was derived from sales to a single customer during the year ended 31 December 2009.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2009 HK\$'000	2008 HK\$'000
Revenue		
Sales of goods	<u>51,183</u>	<u>81,127</u>
Other income and gains		
Bank interest income	1	148
Others	<u>607</u>	<u>46</u>
	<u>608</u>	<u>194</u>
Total revenue, other income and gains	<u>51,791</u>	<u>81,321</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2009

6. LOSS BEFORE TAX

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

	2009 HK\$'000	2008 HK\$'000
Cost of sales*	50,589	84,409
Auditors' remuneration:		
Annual audit	238	238
Interim audit	–	250
Other assurance services	914	430
Non-assurance services	276	–
	<u>1,428</u>	<u>918</u>
Depreciation	253	170
Exchange losses, net	–	50
Employee benefit expenses (including directors' remuneration (note (8))):		
Wages and salaries	2,058	2,702
Others	159	35
Pension scheme contributions	58	13
Equity-settled share option expenses	–	7,442
	<u>2,275</u>	<u>10,192</u>
Minimum lease payments under operating leases on land and buildings	1,177	730
Impairment of trade receivables	1,700	2,677
Impairment of prepayments, deposits and other receivables	455	–
Written-off of property, plant and equipment	260	–
	<u>2,415</u>	<u>2,677</u>
Impairment of assets of a disposal group	39,655	–
Bank interest income	(1)	(148)
	<u><u>39,655</u></u>	<u><u>(148)</u></u>

Include an amount of HK\$253,410 (2008: HK\$743,760) in respect of write-down of inventories to net realisable value.

7. FINANCE COSTS

	2009 HK\$'000	2008 HK\$'000
Interest:		
Bank borrowings wholly repayable within five years	–	252
Factoring of trade receivables	–	506
	<u>–</u>	<u>758</u>

8. DIRECTORS' REMUNERATION

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

	2009 HK\$'000	2008 HK\$'000
Fees	–	3
Other emoluments:		
Salaries, allowances and benefits in kind	666	336
Pension scheme contributions	11	7
Equity-settled share option expenses	–	5,117
	<u>677</u>	<u>5,460</u>
	<u>677</u>	<u>5,463</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2009

8. DIRECTORS' REMUNERATION (Continued)

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

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

8. DIRECTORS' REMUNERATION (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Equity- settled share option benefits HK\$'000	Total remuneration HK\$'000
2008					
Executive directors					
Mr. Cho Hui Jae (a)	-	-	-	930	930
Mr. Li Tan Yeung, Richard (m)	-	-	-	930	930
Mr. Xiang Xin (b)	-	-	-	930	930
Mr. Wong Chak Keung (b)	-	128	3	930	1,061
Mr. Im Kai Chuen Stephen (c)	-	100	2	-	102
Mr. Yang Xiao Ming (d)	-	58	1	-	59
Mr. Chan Ka Wo (n)	-	50	1	-	51
Mr. Yu Xiao Min (o)	-	-	-	-	-
	<u>-</u>	<u>336</u>	<u>7</u>	<u>3,720</u>	<u>4,063</u>
Independent non-executive directors					
Mr. Sze Lin Tang (h)	-	-	-	465	465
Mr. Leung Wing Kin (i)	-	-	-	466	466
Mr. Zhang Zhan Liang (j)	-	-	-	466	466
Mr. Li Meng Long (p)	3	-	-	-	3
	<u>3</u>	<u>-</u>	<u>-</u>	<u>1,397</u>	<u>1,400</u>
Total	<u><u>3</u></u>	<u><u>336</u></u>	<u><u>7</u></u>	<u><u>5,117</u></u>	<u><u>5,463</u></u>

NOTES TO FINANCIAL STATEMENTS

31 December 2009

8. DIRECTORS' REMUNERATION *(Continued)*

Notes:

- (a) Retired on 30 June 2009
- (b) Appointed on 25 February 2008
- (c) Appointed on 10 November 2008 and resigned on 1 September 2009
- (d) Appointed on 9 September 2008 and resigned on 2 January 2009
- (e) Appointed on 6 February 2009 and resigned on 9 May 2009
- (f) Appointed on 24 August 2009
- (g) Appointed on 1 October 2009
- (h) Resigned on 11 February 2009
- (i) Resigned on 24 August 2009
- (j) Appointed on 23 January 2008
- (k) Appointed on 6 February 2009 and resigned on 3 July 2009
- (l) Appointed on 10 July 2009
- (m) Resigned on 9 September 2008
- (n) Resigned on 31 January 2008
- (o) Resigned on 21 March 2008
- (p) Resigned on 23 January 2008

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

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (2008: Nil).

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

	Number of directors	
	2009	2008
Nil to HK\$1,000,000	14	11
HK\$1,000,001 to HK\$2,000,000	—	1
	<u>14</u>	<u>12</u>

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2008: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2008: one) non-directors, highest paid employees for the year are as follows:

	2009 HK\$'000	2008 HK\$'000
Salaries, allowances and benefits in kind	588	570
Equity-settled share option expenses	–	465
Pension scheme contributions	–	–
	<u>588</u>	<u>1,035</u>

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

	Number of employees	
	2009	2008
Nil to HK\$1,000,000	3	–
HK\$1,000,001 to HK\$2,000,000	–	1
	<u>3</u>	<u>1</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2009

10. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided for the year ended 31 December 2009 as the Company did not generate any assessable profits arising in Hong Kong during the year. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2008.

	2009 HK\$'000	2008 HK\$'000
Current tax – Hong Kong		
Charge for the year	–	47
Underprovision in previous years	–	416
	–	463
Deferred tax		
Charge for the year (note 17)	–	26
Total tax charge for the year	<u>–</u>	<u>489</u>

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

	2009		2008	
	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(49,774)</u>		<u>(32,358)</u>	
Tax at the statutory tax rate	(8,212)	16.5	(5,339)	16.5
Income not subject to tax	(25)	0.1	(1)	–
Expenses not deductible for tax	6,953	(14.0)	1,001	(3.1)
Tax benefit not recognised	1,284	(2.6)	4,343	(13.4)
Underprovision in previous years	–	–	416	(1.3)
Effect of changes in tax rate	–	–	69	(0.2)
Tax charge at the Group's effective tax rate	<u>–</u>	<u>N/A</u>	<u>489</u>	<u>(1.5)</u>

11. LOSS ATTRIBUTABLE TO OWNER OF THE PARENT

The consolidated loss attributable to owners of the Company for the year ended 31 December 2009 includes a loss of HK\$54,930,000 (2008: HK\$10,442,000) which has been dealt with in the financial statements of the Company (note 31(b)).

12. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

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

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

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

The results of the Disposal Group for the year are as follows:

	2009 HK\$'000	2008 HK\$'000
Revenue	1,700	78,500
Cost of sales	(1,700)	(82,324)
Gross loss	-	(3,824)
Other income and gains	-	63
Administrative and other operating expenses	(307)	(14,985)
Finance costs	-	(758)
Other impairment losses	(2,079)	(2,677)
Loss before tax	(2,386)	(22,181)
Income tax expense	(434)	(444)
Loss for the year	(2,820)	(22,625)

NOTES TO FINANCIAL STATEMENTS

31 December 2009

12. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (Continued)

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

	HK\$'000
Assets	
Deferred tax assets (note 17)	280
Available-for-sales investments (note 15)	-
Prepaid licence fee (note 18)	-
Inventories	-
Contract works in progress (note 21)	34,340
Trade receivables (note 22)	-
Prepayments, deposits and other receivables (note 23)	12,847
Cash and bank balances (note 24)	77
	<hr/>
Assets classified as held for sale	47,544
Liabilities	
Trade payables (note 25)	(219)
Other payables and accruals	(2,448)
Tax payable#	(5,222)
	<hr/>
Liabilities directly associated with the assets classified as held for sale	(7,889)
Intercompany balances with other members of the Group	
Due to ultimate holding company	(32,602)
	<hr/>
Net assets directly associated with the Disposal Group	7,053
Less: Consideration for the Disposal*	-
	<hr/>
Impairment of assets of the Disposal Group	7,053
Impairment of amount due to ultimate holding company by the Disposal Group	32,602
	<hr/>
Total impairment of assets of the Disposal Group*	39,655
	<hr/> <hr/>
Assets of the Disposal Group classified as held for sale	47,544
Less: Impairment	(39,655)
	<hr/>
Net assets directly associated with the Disposal Group	7,889
Liabilities directly associated with the assets classified as held for sale	(7,889)
	<hr/>
	<hr/> <hr/>

Subsequent to the reporting period in January 2010, the Disposal Group was sued by the Commissioner of Inland Revenue regarding the outstanding tax payable of approximately HK\$1,165,000 for the year of assessment 2002/03. The outstanding tax payable together with the penalty has been fully provided for at the end of the reporting period.

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

12. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

The net cash flows incurred by the Disposal Group are as follows:

	2009 HK\$'000	2008 HK\$'000
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before tax	(2,386)	(22,181)
Adjustments for:		
Written-off of property, plant and equipment	260	–
Impairment of trade receivables	1,700	2,677
Impairment of prepayments, deposits and other receivable	119	–
Finance costs	–	758
Interest income	–	(27)
Depreciation of property, plant and equipment	45	108
	(262)	(18,665)
Decrease/(increase) in inventories	1,700	(1,700)
Increase in contract works in progress	–	(30,958)
(Increase)/decrease in trade receivables	(1,700)	60,610
Increase in prepayments, deposits and other receivables	(175)	(7,846)
Increase in trade payables	–	219
Increase/(decrease) in other payables and accruals	200	(2,330)
(Decrease)/increase in amount due to a related company	(221)	54
	(458)	(616)
Interest received	–	27
Interest paid	–	(758)
Hong Kong profits tax paid	(113)	(563)
Net cash flows used in operating activities	(571)	(1,910)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	–	(7)
Net cash flows used in investing activities	–	(7)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in amount due to ultimate holding company	230	4,669
Repayment of trust receipts loans, net	–	(12,040)
Net cash flows from/(used in) financing activities	230	(7,371)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(341)	(9,288)
Cash and cash equivalents at beginning of year	418	9,706
CASH AND CASH EQUIVALENTS AT END OF YEAR	77	418

NOTES TO FINANCIAL STATEMENTS

31 December 2009

12. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

The net cash flows incurred by the Disposal Group are as follows:

	2009 HK\$'000	2008 HK\$'000
<hr/>		
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>77</u>	<u>418</u>
An analysis of the net outflow of cash and cash equivalents in respect of the disposal of Disposal Group is as follows:		
	HK\$'000	
Sales proceeds	-	
Cash and bank balances sold	<u>77</u>	
Net outflow of cash and cash equivalents in respect of the Disposal	<u>(77)</u>	
Loss per share:		
Basic, from the Disposal Group	<u>(0.40) cents</u>	<u>(3.86) cents</u>
Diluted, from the Disposal Group	<u>(0.40) cents</u>	<u>(3.86) cents</u>

12. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

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

	2009 HK\$'000	2008 HK\$'000
Earnings		
Loss for the year attributable to ordinary equity holders of the Company from the Disposal Group	(2,820)	(22,625)
Number of shares		
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	<u>697,312,760</u>	<u>586,451,500</u>

No adjustment has been made to the basic loss per share amounts from the Disposal Group presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the share options, warrants and convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share.



NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

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

The calculations of basic loss per share are based on:

	2009 HK\$'000	2008 HK\$'000
Earnings		
Loss for the year attributable to ordinary equity holders of the Company, used in the basic loss per share calculation	<u>(49,774)</u>	<u>(32,847)</u>
	Number of shares	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	<u>697,312,760</u>	<u>586,451,500</u>

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the share options, warrants and convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

Group

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office and computer equipments <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2008					
At 1 January 2008:					
Cost	–	370	360	414	1,144
Accumulated depreciation	–	(70)	(254)	(414)	(738)
Net carrying amount	–	300	106	–	406
At 1 January 2008, net of accumulated depreciation					
	–	300	106	–	406
Additions	838	136	41	–	1,015
Depreciation provided during the year	(51)	(79)	(40)	–	(170)
At 31 December 2008, net of accumulated depreciation	787	357	107	–	1,251
At 31 December 2008:					
Cost	838	506	401	414	2,159
Accumulated depreciation	(51)	(149)	(294)	(414)	(908)
Net carrying amount	787	357	107	–	1,251

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

Company

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office and computer equipments <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2008				
At 1 January 2008:				
Cost	–	–	–	–
Accumulated depreciation	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net carrying amount	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 1 January 2008, net of accumulated depreciation				
	–	–	–	–
Additions	838	136	34	1,008
Depreciation provided during the year	<u>(51)</u>	<u>(9)</u>	<u>(2)</u>	<u>(62)</u>
At 31 December 2008, net of accumulated depreciation	<u>787</u>	<u>127</u>	<u>32</u>	<u>946</u>
At 31 December 2008:				
Cost	838	136	34	1,008
Accumulated depreciation	<u>(51)</u>	<u>(9)</u>	<u>(2)</u>	<u>(62)</u>
Net carrying amount	<u>787</u>	<u>127</u>	<u>32</u>	<u>946</u>

15. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2009 HK\$'000	2008 HK\$'000
Unlisted shares, at cost	9,142	9,142
Impairment	(9,142)	(9,142)
	—	—
Less: Transfer to assets of a disposal group classified as held for sale (<i>note 12</i>):		
Unlisted shares, at cost	9,142	—
Impairment	(9,142)	—
	—	—
	—	—
	—	—

At the end of the reporting period, all the unlisted equity investments were stated at cost less impairment. As the range of reasonable fair value estimates is so significant, the directors of the Company are of the opinion that the fair value of the unlisted equity investments cannot be measured reliably.

As detailed in note 12 to the financial statements, the Company has entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, the above unlisted shares were transferred to “Assets of a disposal group classified as held for sales” at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

16. INTANGIBLE ASSETS

	Trade mark <i>HK\$'000</i> <i>(note (a))</i>	Group Rights in sharing of profit streams from computer games competition operation in Internet cafes <i>HK\$'000</i> <i>(note (b))</i>	Total <i>HK\$'000</i>
31 December 2009			
At 1 January 2009			
Cost	17	-	17
Accumulated amortisation and impairment	<u>(17)</u>	<u>-</u>	<u>(17)</u>
Net carrying amount	<u>-</u>	<u>-</u>	<u>-</u>
At 1 January 2009, net of accumulated amortisation and impairment			
	-	-	-
Acquisition of subsidiaries (note 32)	<u>-</u>	<u>482,794</u>	<u>482,794</u>
At 31 December 2009, net of accumulated amortisation and impairment			
	<u>-</u>	<u>482,794</u>	<u>482,794</u>
At 31 December 2009			
Cost	17	482,794	482,811
Accumulated amortisation and impairment	<u>(17)</u>	<u>-</u>	<u>(17)</u>
Net carrying amount	<u>-</u>	<u>482,794</u>	<u>482,794</u>
31 December 2008			
At 1 January 2008 and 31 December 2008			
Cost	17	-	17
Accumulated amortisation and impairment	<u>(17)</u>	<u>-</u>	<u>(17)</u>
Net carrying amount	<u>-</u>	<u>-</u>	<u>-</u>

16. INTANGIBLE ASSETS (Continued)

	Company Trade mark HK\$'000 (note (a))	Total HK\$'000
31 December 2009		
At 1 January 2009 and 31 December 2009		
Cost	17	17
Accumulated amortisation and impairment	<u>(17)</u>	<u>(17)</u>
Net carrying amount	<u>—</u>	<u>—</u>
31 December 2008		
At 1 January 2008 and 31 December 2008		
Cost	17	17
Accumulated amortisation and impairment	<u>(17)</u>	<u>(17)</u>
Net carrying amount	<u>—</u>	<u>—</u>

Note (a) The trade mark represented the trade mark of QUASAR with an indefinite useful lives.

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



NOTES TO FINANCIAL STATEMENTS

31 December 2009

17. DEFERRED TAX ASSETS

	Accelerated depreciation <i>HK\$'000</i>	Group Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2008	16	290	306
Deferred tax credited/(charged) to consolidated income statement during the year (<i>note 10</i>)	<u>10</u>	<u>(36)</u>	<u>(26)</u>
At 31 December 2008 and at 1 January 2009	26	254	280
Deferred tax charged to consolidated income statement during the year (<i>note 10</i>)	–	–	–
Transfer to assets of the Disposal Group classified as held for sale (<i>note 12</i>)	<u>(26)</u>	<u>(254)</u>	<u>(280)</u>
At 31 December 2009	<u>–</u>	<u>–</u>	<u>–</u>

At 31 December 2009, the Group has unused tax losses of approximately HK\$41,205,000 (2008: HK\$33,426,000) available indefinitely for offset against future profits. A deferred tax has been recognised in respect of tax losses of HK\$1,538,000 (2008: HK\$1,538,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$39,667,000 (2008: HK\$31,888,000), of which approximately HK\$16,183,000 (2008: HK\$16,150,000) related to the Disposal Group, due to the unpredictability of future profit streams.

18. PREPAID LICENSES FEE

	Group	
	2009 HK\$'000	2008 HK\$'000
Cost	5,460	5,460
Accumulated amortisation and impairment	(5,460)	(5,460)
Net carrying value	-	-
Less: Transfer to assets of a disposal group classified as held for sale (<i>note 12</i>):		
Cost	5,460	-
Accumulated amortisation and impairment	(5,460)	-
	-	-
	-	-
	-	-
	-	-

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

In view of the non-performance of the FTA licence as well as a lack of expected performance in the foreseeable future, a full impairment loss was made on the FTA licence during the year ended 31 December 2007.

As detailed in note 12 to the financial statements, the Company has entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, the above prepaid licenses fee was transferred to “Assets of a disposal group classified as held for sale” at the end of the reporting period.



NOTES TO FINANCIAL STATEMENTS

31 December 2009

19. INTERESTS IN SUBSIDIARIES

	Company	
	2009 HK\$'000	2008 HK\$'000
Unlisted shares, at cost	480,650	14,882
Due from subsidiaries	32,606	47,437
Less: Impairment	(47,484)	–
	465,772	62,319
Due to subsidiaries	(264)	(15,060)
	<u>465,508</u>	<u>47,259</u>

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

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

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal of subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Friendly Group Limited	British Virgin Islands ("BVI")	100 ordinary shares of US\$1 each	100	–	Investment holding
Pacific Vision Technologies Limited	Hong Kong	1 ordinary share of HK\$1 each	–	100	Trading of mobile phone and mobile accessories and LED/LCD and related products
Legend Century Investments Limited <i>(note (a))</i>	BVI	1 ordinary share of US\$1 each	100	–	Investment holding
China Net-PC Limited ("CNP") <i>(note (a))</i>	BVI	50,000,000 ordinary shares of US\$0.01 each	–	100	Investment holding
Boss Systems Limited <i>(note (a))</i>	BVI	100 ordinary shares of US\$1 each	–	95	Investment holding
博思(中國)信息系統有限公司 <i>(note (a) and note (c))</i>	The People's Republic of China	RMB60,000,000	–	95	Software development and provision of multi-media and advertising business
Boss Power Limited <i>(note (a))</i>	Hong Kong	1,000,000 ordinary shares of HK\$1 each	–	100	Trading of electronic equipments and components and computer products
Boss Education Limited <i>(note (a))</i>	Hong Kong	1,000 ordinary shares of HK\$1 each	–	51	Provision of educational and training programs

NOTES TO FINANCIAL STATEMENTS

31 December 2009

19. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal of subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ace Solution Technology Limited (note (b))	BVI	10,200 ordinary shares of US\$1 each	100	–	Investment holding
Gold Glory Development Limited (note (b))	BVI	2,000 ordinary shares of US\$1 each	–	100	Sales and marketing of mobile phone appliance solution and investment holding
Hanbit I & T (HK) Co., Limited (note (b))	Hong Kong	800,000 ordinary shares of HK\$1 each	–	100	Sales and marketing of mobile phone appliance solution and the relevant components
Qualfield Limited (note (b))	BVI	100 ordinary shares of US\$1 each	–	100	Provision of agency services and investment holding
Quasar Communication Technology Limited (note (b))	Hong Kong	10,000 ordinary shares of HK\$1 each	–	100	Sales and marketing of mobile phone appliance solution
Synerex Inc. (note (b))	BVI	10,200 ordinary shares of US\$1 each	–	100	Investment holding
Zetta Global Limited (note (b))	Hong Kong	100 ordinary shares of HK\$1 each	–	100	Provision of management services to group companies
Zetta Media Holdings Limited (note (b))	BVI	100 ordinary shares of US\$1 each	–	100	Investment holding

Note a: These subsidiaries were acquired by the Company during the year, details of which are set out in note 32 to the financial statements.

Note b: These subsidiaries had been disposed by the Company pursuant to a sale and purchase agreement dated 15 June 2009 which were completed subsequent to the reporting period on 5 February 2010, details of which are set out in note 12 to the financial statements.

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

19. INTERESTS IN SUBSIDIARIES (Continued)

After the change of the board of directors of the Company and certain subsidiaries during the year ended 31 December 2008, other than Friendly Group Limited and Pacific Vision Technologies Limited which were newly incorporated companies in 2008, the Company no longer has access to certain books and records of certain subsidiaries of the Group, namely Ace Solution Technology Limited, Gold Glory Development Limited, Hanbit I & T (HK) Co., Limited, Qualfield Limited, Quasar Communication Technology Limited, Synerex Inc., Zetta Global Limited, and Zetta Media Holdings Limited. Further details of which has been stated in note 2.1 (a) to the financial statements.

20. INVENTORIES

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Finished goods	1,178	1,700	1,178	-

At 31 December 2009, the carrying amount of inventories that were carried at net realisable value amounted to HK\$0 (2008: HK\$1,700,000) after the write-down of an amount of HK\$253,410 (2008: HK\$743,760).

21. CONTRACT WORKS IN PROGRESS

	Group	
	2009 HK\$'000	2008 HK\$'000
Contract costs for development of mobile phone appliance solution	34,340	34,340
Impairment	-	-
Net carrying amount	34,340	34,340
Less: Transfer to assets of a disposal group classified as held for sale (note 12):		
Contract costs for development of mobile phone appliance solution	34,340	-
Impairment	-	-
	34,340	-
	-	34,340

NOTES TO FINANCIAL STATEMENTS

31 December 2009

21. CONTRACT WORKS IN PROGRESS *(Continued)*

During the year ended 31 December 2008, the Group incurred contract costs of HK\$34,340,000 for development of mobile phone application solution. In the opinion of the directors of the Company, as the directors were unable to obtain access to certain relevant information and documents of certain subsidiaries, they were not able to obtain adequate information in assessing the nature and future utilisation of these contract works in progress. Accordingly, the directors of the Company were not able to assess if the amount of the contract works in progress and the impairment amount, if any, were fairly stated as at 31 December 2008 and consequentially, as at 31 December 2009.

As detailed in note 12 to the financial statements, the Company has entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, the above contract works in progress was transferred to "Assets of a disposal group classified as held for sale" at the end of the reporting period.

22. TRADE RECEIVABLES

	Group	
	2009 HK\$'000	2008 HK\$'000
Trade receivables	5,588	4,498
Impairment	(5,588)	(3,888)
	<u> </u>	<u> </u>
	-	610
Less: Transfer to assets of a disposal group classified as held for sale <i>(note 12)</i> :		
Trade receivables	5,588	-
Impairment	(5,588)	-
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>
	-	610

22. TRADE RECEIVABLES (Continued)

In the opinion of the directors of the Company, as the directors were unable to obtain access to certain relevant information and documents of certain subsidiaries, they were not able to obtain adequate information in verifying of the settlement of the trade receivables throughout the year ended 31 December 2008. Accordingly, the present directors of the Company were not able to assess if the trade receivables and the impairment were fairly stated as at 31 December 2008 and consequentially, as at 31 December 2009.

As detailed in note 12 to the financial statements, the Company has entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, the above trade receivables were transferred to "Assets of a disposal group classified as held for sale" at the end of the reporting period.

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control team to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest bearing.

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

	Group	
	2009 HK\$'000	2008 HK\$'000
Within 1 month	-	610
1 to 2 months	-	-
2 to 3 months	-	-
Over 3 months	-	-
	<u>-</u>	<u>610</u>



NOTES TO FINANCIAL STATEMENTS

31 December 2009

22. TRADE RECEIVABLES (Continued)

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

	Group	
	2009 HK\$'000	2008 HK\$'000
At 1 January	3,888	1,211
Impairment loss recognised during the year	1,700	2,677
	5,588	3,888
Less: Transfer to assets of a disposal group classified as held for sale (note 12)	(5,588)	–
At 31 December	–	3,888

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
Neither past due nor impaired	–	610
Less than 1 month past due	–	–
1 to 3 months past due	–	–
Over 3 months	–	–
	–	610

Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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 or other credit enhancements over these balances.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Prepayments	363	340	296	299
Deposits for proposed acquisitions <i>(note (a))</i>	25,000	30,000	25,000	30,000
Deposits for a proposed acquisition for "Nopo" <i>(note (b))</i>	1,993	–	1,993	–
Trade deposits paid <i>(note (c))</i>	8,200	8,200	–	–
Rental deposit	398	281	228	160
Other receivables	698	340	100	–
Tax reserve certificate	4,089	4,089	–	–
	<u>40,741</u>	<u>43,250</u>	<u>27,617</u>	<u>30,459</u>
Less: Transfer to assets of a disposal group classified as held for sale <i>(note (d) and note 12):</i>				
Prepayments	(43)	–	–	–
Trade deposits paid <i>(note (c))</i>	(8,200)	–	–	–
Other receivables	(515)	–	–	–
Tax reserve certificate	(4,089)	–	–	–
	<u>(12,847)</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>27,894</u>	<u>43,250</u>	<u>27,617</u>	<u>30,459</u>



NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

Notes:

- (a) During the year ended 31 December 2008, deposits paid for proposed acquisitions consisted of (i) HK\$5,000,000 paid to Ocean Space Development Limited ("Ocean Space") (the "Legend Deposit") in respect of the proposed acquisition of a 100% equity interest in Legend Century Investments Limited and the shareholder's loan due from Legend Century Investments Limited to Ocean Space (the "Legend Acquisition") and (ii) HK\$25,000,000 paid to an independent third party ("Vendor A") (the "Allwin Deposit") in respect of the proposed acquisition of a 24% equity interest in Guangdong Allwin Culture Development Co., Limited (廣東愛威文化發展有限公司) ("Guangdong Allwin").

- (i) The Legend Deposit

Pursuant to a non-legally binding memorandum of understanding dated 18 December 2007 (the "MOU") entered into between the Company and Ocean Space, an independent third party, the Company was in negotiation with Ocean Space for the Legend Acquisition which would have controlling stakes in a PRC company which is engaging in lift door advertisement publications and convenience store door advertisement publications in certain major cities of the PRC. Pursuant to the MOU, the Company was required to place a refundable deposit in the sum of HK\$40 million to Ocean Space in return for the granting of the exclusive right to negotiate the terms of the Legend Acquisition by the Vendor of which HK\$30 million had been paid during the year ended 31 December 2007.

Subsequently, there were certain changes in the terms of the Legend Acquisition and on 7 July 2008, the Company entered into a supplemental agreement with Ocean Space pursuant to which, Legend and its subsidiaries (the "Legend Group") will execute a reorganisation and upon completion of the reorganisation, the principal assets held by the Legend Group will consist of the LED/LCD business and media business but will not hold the life door advertisement publications and convenience store door advertisement publications business.

On 20 September 2008, the Company and Ocean Space entered into another supplemental agreement, pursuant to which, the deposit for the negotiation of the Legend Acquisition was reduced from HK\$40,000,000 to HK\$5,000,000 and Ocean Space had refunded HK\$25,000,000 (the "Allwin Deposit") to a nominee of the Company on 15 October 2008.

On 18 February 2009, the Company entered into a sale and purchase agreement with Ocean Space in respect of the Legend Acquisition at a consideration of HK\$600,000,000 which shall be settled by (i) the set-off of the Legend Deposit of HK\$5,000,000 paid upon the signing of the MOU and (ii) the issue of three-year convertible bonds of HK\$595,000,000 by the Company to Ocean Space which would be convertible into the shares of the Company of HK\$0.01 each at a conversion price of HK\$0.125 (subject to adjustment) each.

The Legend Acquisition has been completed on 30 December 2009, and the Legend Deposit has been fully applied as part of the settlement of the consideration for the Legend Acquisition (note 32).

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

Notes: *(Continued)*

(ii) The Allwin Deposit

On 20 September 2008, the Company entered into a sale and purchase agreement (the “S&P” Agreement) with Vendor A pursuant to which, the Company agreed to acquire an enlarged 24% equity interest in Guangdong Allwin (the “Allwin Acquisition”) which is principally engaged in media production and integration, advertisement and animation production and broadcasting at a consideration of HK\$25,000,000. The Company was required to pay a deposit in the amount of HK\$25,000,000 for the Allwin Acquisition which was paid by the direct transfer of the deposit refunded by Ocean Space in respect of the Legend Acquisition to Vendor A on 15 October 2008.

Pursuant to the S&P Agreement, Vendor A shall refund in full the Allwin Deposit of HK\$25,000,000 to the Company on or before 31 January 2010 if no binding agreement(s) regarding the possible cooperation an/or transaction would be entered into between the Company and Vendor A on or before 30 September 2009.

On 30 September 2009, the Company entered into another sale and purchase agreement with Vendor A pursuant to which, the Company will acquire from Vendor A the copyrights of a film library (the “Copyrights Acquisition”) owned by Guangdong Allwin at a consideration of HK\$25,000,000 which will be set-off against the Allwin Deposit. The copyrights of the film library consist of five series (a total of 320 episodes) and 16 education series of an animation 神探威威貓 (“Wiwione – Detective Winkey Cat”) and the related music songs.

As the Copyrights Acquisition has not been completed at the end of the reporting period, the Allwin Deposit was included in the prepayments, deposits and other receivables.

The above deposits for the Copyrights Acquisition are unsecured, interest-free and are refundable if the proposed acquisitions are not executed and completed.

- (b) The deposits paid of HK\$1,993,000 as at 31 December 2009 represented the deposit for the proposed acquisition of Nopo Investment Limited. Details of the proposed acquisition are disclosed in note 34 (b) to the financial statements.
- (c) Trade deposits paid represented amounts paid to a supplier as deposits for supply of mobile phones and related appliance and accessories during the year ended 31 December 2008. In the opinion of the directors of the Company, as detailed in note 2.1 (a) to the financial statements, as the directors were unable to obtain access to certain relevant information and documents of certain subsidiaries, they were not able to obtain adequate information in assessing the nature of the deposits, including but not limited to the arrangement for the subsequent recovering of the deposits or the ability of the supplier in fulfilment of the obligations in supplying the mobile phones and related appliance and accessories to the Group in the foreseeable future. Accordingly, the present directors of the Company were not able to assess the valuation of the trade deposits and if there was any impairment and that the amount of the trade deposits was fairly stated as at 31 December 2008 and consequentially, as at 31 December 2009.
- (d) As detailed in note 12 to the financial statements, the Company has entered into a sale and purchase agreement on 15 June 2009 with an independent third party for the disposal of the Disposal Group. Accordingly, prepayments, trade deposits paid, other receivables and tax reserve certificate amounting to approximately HK\$43,000, HK\$8,200,000, HK\$515,000 and HK\$4,089,000, respectively were transferred to “Assets of a disposal group classified as held for sale” at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Cash and bank balances	6,841	7,590	5,615	7,172
Less: Transfer to assets of a disposal group classified as held for sale (note 12)	(77)	—	—	—
	<u>6,764</u>	<u>7,590</u>	<u>5,615</u>	<u>7,172</u>

25. TRADE PAYABLES

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

	Group	
	2009 HK\$'000	2008 HK\$'000
Over 90 days	219	219
Less: Transfer to liabilities directly associated with the assets classified as held for sale (note 12)	(219)	—
	<u>—</u>	<u>219</u>

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

26. DUE TO A DIRECTOR AND A RELATED COMPANY

The amount due to a director is unsecured and interest-free. The director has agreed not to demand repayment of the amount due to him until the Group and the Company is in a position to do so.

The amount due by the Disposal Group to a related company, of which a director of the Disposal Group was a director, was unsecured, interest-free and has no fixed term of repayment. As detailed in note 12 to the financial statements, this amount has been transferred to "Liabilities directly associated with the assets classified as held for sale" under "Other payables and accrual" at the end of the reporting period.

27. CONVERTIBLE BONDS

On 30 December 2009, the Company issued zero-coupon convertible bonds (the “Convertible Bonds”) with a nominal value of HK\$595,000,000 as part of the consideration for the Legend Acquisition. The Convertible Bonds are interest-free and convertible at the option of the bondholders into ordinary shares of the Company on or before 30 December 2012 at a conversion price of HK\$0.125 each. The Company has the right to mandatorily convert the outstanding of the Convertible Bonds at the maturity date on 30 December 2012.

The Convertible Bonds issued during the year and equity components were as follows:

	2009 HK\$'000	2008 HK\$'000
Nominal value of convertible bonds issued during the year	595,000	–
Fair value adjustment	(134,232)	–
Equity component	460,768	–
	(460,768)	–
Liability component at the issuance date	–	–

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

28. SHARE CAPITAL

(a) Shares

	2009 HK\$'000	2008 HK\$'000
Authorised:		
30,000,000,000 ordinary shares of HK\$0.01 each (note (i))	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:		
703,739,500 ordinary shares (2008: 586,451,500) of HK\$0.01 each	<u>7,037</u>	<u>5,865</u>

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

	Number of authorised ordinary shares	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2008	1,000,000,000	586,451,500	5,865	68,379	74,244
Increase of authorised share capital (note (i))	<u>29,000,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2008 and 1 January 2009	30,000,000,000	586,451,500	5,865	68,379	74,244
Issue of shares:					
On 21 January 2009 (note (ii))	-	117,288,000	1,172	7,037	8,209
Share issue expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(86)</u>	<u>(86)</u>
	<u>-</u>	<u>117,288,000</u>	<u>1,172</u>	<u>6,951</u>	<u>8,123</u>
At 31 December 2009	<u>30,000,000,000</u>	<u>703,739,500</u>	<u>7,037</u>	<u>75,330</u>	<u>82,367</u>

28. SHARE CAPITAL *(Continued)*

(a) Shares *(Continued)*

Notes:

- (i) Pursuant to an ordinary resolution passed by the shareholders of the Company on 24 September 2008, the authorised share capital of the Company was increased from HK\$10,000,000 to HK\$300,000,000 by the creation of 290,000,000 additional shares of HK\$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.
- (ii) On 31 December 2008, the Company entered into a placing agreement with a placing agent to place a total of 117,288,000 shares of the Company of HK\$0.01 each at a placing price of HK\$0.07 per share (the "Placing"). The Placing was completed on 21 January 2009 with a net proceed of approximately HK\$8,123,000 received by the Company. The purpose of the Placing was to enlarge the shareholders base and to provide additional working capital for the Group's operation.

(b) Share options

Details of the Company's share option scheme are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

29. SHARE OPTION SCHEME (Continued)

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

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

Details of the movement of options granted under the Scheme and outstanding at 31 December 2009 are as follows:

Grantee	Date of grant	Exercise period	Outstanding as at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2009	Exercise price per share option HK\$
Directors								
Xiang Xin	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	5,000,000	-	-	-	5,000,000	0.28
Wong Chak Keung	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	5,000,000	-	-	-	5,000,000	0.28
Zhang Zhan Liang	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	2,500,000	-	-	-	2,500,000	0.28
Cho Hui Jae ^(#1)	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	5,000,000	-	-	(5,000,000)	-	0.28
Sze Lin Tang ^(#2)	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	2,500,000	-	-	(2,500,000)	-	0.28
Leung Wing Kin ^(#3)	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	2,500,000	-	-	(2,500,000)	-	0.28
			<u>22,500,000</u>	<u>-</u>	<u>-</u>	<u>(10,000,000)</u>	<u>12,500,000</u>	
Consultant								
Li Tan Yeung, Richard	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	5,000,000	-	-	-	5,000,000	0.28
			<u>27,500,000</u>	<u>-</u>	<u>-</u>	<u>(10,000,000)</u>	<u>17,500,000</u>	
Employees								
	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	10,000,000	-	-	-	10,000,000	0.28
			<u>37,500,000</u>	<u>-</u>	<u>-</u>	<u>(10,000,000)</u>	<u>27,500,000</u>	

^{#1} Mr. Cho Hui Jae was retired as an executive director of the Company at the annual general meeting of the Company held on 30 June 2009 and the share option was lapsed on 28 September 2009.

^{#2} Mr. Sze Lin Tang resigned as an independent non-executive director of the Company on 11 February 2009 and the share options was lapsed on 12 May 2009.

^{#3} Mr. Leung Wing Kin resigned as an independent non-executive director of the Company on 24 August 2009 and the share option was lapsed on 22 November 2009.

29. SHARE OPTION SCHEME (Continued)

Notes:

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

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

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

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

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

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

30. WARRANTS

The Company did not have any warrants outstanding as at 31 December 2009 and its movements during the year are as follows:

Date of issue	Outstanding at 1/1/2009	Issued during the year	Lapsed during the year	Outstanding at 31/12/2009	Exercise period	Exercise price per share
12 December 2007	45,000,000	-	(45,000,000)	-	2 years commencing from 12 December 2007	HK\$0.28

NOTES TO FINANCIAL STATEMENTS

31 December 2009

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 36 of the financial statements.

(b) Company

	Share premium account HK\$'000	Share option reserve HK\$'000	Warrant reserve HK\$'000	Special reserve HK\$'000	Equity component of convertible bonds HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2008	68,379	-	2,060	14,879	-	(3,585)	81,733
Equity-settled share option arrangement (note 29)	-	7,442	-	-	-	-	7,442
Share options lapsed during the year	-	(465)	-	-	-	465	-
Warrants lapsed during the year	-	-	(1,160)	-	-	1,160	-
Total comprehensive income for the year	-	-	-	-	-	(10,442)	(10,442)
At 31 December 2008 and at 1 January 2009	68,379	6,977	900	14,879	-	(12,402)	78,733
Issue of shares (note 28)	7,037	-	-	-	-	-	7,037
Share issue expenses (note 28)	(86)	-	-	-	-	-	(86)
Share options lapsed during the year (note 29)	-	(1,860)	-	-	-	1,860	-
Warrants lapsed during the year (note 30)	-	-	(900)	-	-	900	-
Issue of convertible bonds (note 27)	-	-	-	-	460,768	-	460,768
Total comprehensive income for the year	-	-	-	-	-	(54,930)	(54,930)
At 31 December 2009	75,330	5,117	-	14,879	460,768	(64,572)	491,522

31. RESERVES (Continued)**(b) Company** (Continued)

Notes:

- i. On 16 July 2002, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company acquired the entire issued share capital of Ace Solution Technology Limited, the holding company of the group prior to the Reorganisation, through a share swap and became the holding company of Ace Solution Technology Limited and its subsidiaries.

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

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

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

	2009 HK\$'000	2008 HK\$'000
Special reserve	14,879	14,879
Share premium account	75,330	68,379
Accumulated losses	<u>(64,572)</u>	<u>(12,402)</u>
	<u>25,637</u>	<u>70,856</u>



NOTES TO FINANCIAL STATEMENTS

31 December 2009

32. ACQUISITION OF SUBSIDIARIES

On 30 December 2009, the Group acquired a 100% interest in Legend Century Investments Limited (“Legend”) and its subsidiaries, namely China Net-PC Limited, Boss Systems Limited, 博思(中國)信息系統有限公司, Boss Power Limited, Boss Media Limited and Boss Education Limited (collectively referred as the “Legend Group”) at a consideration of HK\$600,000,000, which were satisfied as to (i) the net-off of the deposit of HK\$5,000,000; and (ii) the issue of three-year convertible bonds of HK\$595,000,000 (note 27).

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

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

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

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

	<i>Notes</i>	Fair value recognised on acquisition <i>HK\$'000</i>	Previous carrying amount <i>HK\$'000</i>
Property, plant and equipment	14	667	667
Intangible assets*	16	482,794	–
Prepayments, deposits and other receivables		277	277
Cash and bank balances		798	798
Other payables and accruals		(316)	(316)
Due to a director		(18,452)	(18,452)
Minority interests		–	–
		<u>465,768</u>	<u>(17,026)</u>
Satisfied by convertible bonds	27	<u>460,768</u>	
Satisfied by the net-off of deposit paid <i>(note 23(a)(i))</i>		<u>5,000</u>	

* Other intangible assets of HK\$482,794,000 represented the rights in sharing of profit steams for computer games competition operation in Internet cafes arising from the Co-operation Agreement entered into between a subsidiary of the Company and CY Foundation.

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

	<i>HK\$'000</i>
Cash consideration net-off with the deposit <i>(note 36)</i>	–
Cash and bank balances acquired	<u>798</u>
Net inflow of cash and cash equivalents in respect of the acquisition of Legend Group	<u>798</u>

33. OPERATING LEASE COMMITMENTS

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

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2009 HK\$'000	2008 HK\$'000
Within one year	1,755	1,370
In the second to fifth years, inclusive	3,447	1,679
After five years	75	–
	<u>5,277</u>	<u>3,049</u>

34. OTHER COMMITMENTS AND EVENT AFTER THE REPORTING PERIOD

In addition to the operating lease commitments detailed in note 33 above, the Group and the Company had the following commitments at the end of the reporting period:

- (a) On 28 January 2008, the Company entered into a non-legally binding memorandum of understanding (the “MOU 1”) with China Innovation Investment Limited (“China Innovation”) a then independent third party and a company listed on the Main Board of the Stock Exchange of Hong Kong Limited, in respect of the strategic co-operation in the civil and military dual-use optoelectronic industry. Pursuant to the MOU 1, China Innovation will base on its first right of refusal to invest in two LED optoelectronic projects, namely 上海大晨光電科技有限公司 (Shanghai Morning Optoelectronic Technology Limited, “SMOTL”), primarily engaged in the New LED lighting Project, and 雲南天達光伏科技股份有限公司 (Yunnan Tianda Photovoltaic Co., Ltd., “Yunnan Tianda”), primarily engaged in the New Solar Energy Project, of 中國兵器工業集團公司 (China North Industries Group Corporation “CNGC”) to provide support to The Company on the manufacturing, assembling and development of LED optoelectronic products and related civil and military dual-use products. The Company will provide strategic solutions and distribution channels to the CNGC's optoelectronic enterprises, which are principally engaged in manufacturing of LED optoelectronic products and are also subject to potential investment by China Innovation.

34. OTHER COMMITMENTS AND EVENT AFTER THE REPORTING PERIOD *(Continued)*(a) *(Continued)*

On 18 March 2008, the Company entered into a cooperation letter of intent (the "LOI") with China Innovation and 南京北方信息產業集團有限公司 (Nanjing North Information Industry Group Co., Ltd. "NNII"), a wholly-owned subsidiary of CNGC. Pursuant to the LOI, the Company, China Innovation and NNII will jointly participate in the share restructuring of 南京北方慧華光電有限公司 (Nanjing North Weihaw Optics Electronics Co., Ltd. "NNWO") which is currently controlled by NNII and engaged in the New Media LCD Project. Upon completion of the restructuring, NNWO will continue to regard civil and military dual-use optoelectronic products as its principal scope of business.

On 18 June 2008, the Company, China innovation and 北京北方光電有限公司 (China Opto-Electro Industries Co., Ltd. ("COEI"), a wholly-owned subsidiary of CNGC, entered into a cooperation framework agreement, pursuant to which the Company and China Innovation have been granted a first right of refusal to acquire not more than 30% equity interests or not more than 30 million shares of COEI under the capital restructuring of COEI. The Company and China Innovation have also agreed to contribute to COEI the first right of refusal to invest in SMOTL (New LED Lighting Project), Yunnan Tianda (New Solar Energy Project) and NNWO (New Media LCD Project) to avoid potential competition.

There was no further development of the cooperation during the year.

- (b) On 10 December 2009, the Company entered into a sale and purchase agreement with an independent third party ("Vendor B") pursuant to which the Company agreed to acquire the entire issued share capital of Nopo International Limited (the "Nopo Acquisition"), which was principally engaged as an agent of the products of a mobile location-based service provider in the PRC and the sole franchised dealer in overseas markets under a distribution agreement, at a consideration of HK\$19,493,000. A refundable deposit of HK\$1,993,000 (note 23), without interest, had been paid by the Company to the Vendor B upon signing of the agreement. The Nopo Acquisition has been completed subsequent to the reporting period on 22 January 2010 with the balance of the consideration of HK\$17,500,000 being settled by the issue of 140,000,000 consideration shares of the Company at an issue price of HK\$0.125 per share.

35. RELATED PARTY TRANSACTIONS

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

The Group

	2009 HK\$'000	2008 HK\$'000
New Era Group (China) Limited (note a)		
Rental paid	320	320
Rental deposit paid	160	160
New Era Foundation (China) Limited (note b)		
Rental deposit paid	<u>170</u>	<u>–</u>

The Company

	2009 HK\$'000	2008 HK\$'000
New Era Group (China) Limited (note a)		
Rental paid	320	320
Rental deposit paid	<u>160</u>	<u>160</u>

- (a) The Company entered into a tenancy agreement (the "Tenancy Agreement A") with New Era Group (China) Limited (the "Landlord A"), a company of which Mr. Xiang Xin, a director of the Company, is also a director. Pursuant to the Tenancy Agreement A, the Landlord A agreed to lease to the Company an office premise for a term of 36 months commencing on 1 July 2008. The Company shall pay a deposit of HK\$160,000 and a monthly rental of HK\$80,000 to the Landlord A with the rental free period for the period from 1 July 2008 to 31 August 2008. The deposit was included in prepayments, deposits and other receivables (note 23) in the statement of financial position.
- (b) On 1 December 2009, a subsidiary of the Company, a subsidiary newly acquired by the Company on 30 December 2009, entered into a tenancy agreement (the "Tenancy Agreement B") with New Era Foundation (China) Limited (the "Landlord B"), a company of which Mr. Xiang Xin, a director of the Company, is also a director. Pursuant to the Tenancy Agreement B, the Landlord B agreed to lease to the Company's subsidiary two office premises for a term of 36 months commencing on 1 January 2010. The Company's subsidiary shall pay a deposit of RMB150,000 (equivalent to approximately HK\$170,000) and a monthly rental of RMB71,000 (equivalent to approximately HK\$81,000) to the Landlord B with no rental free period. The deposit was included in prepayments, deposits and other receivables (notes 23) in the statement of financial position.

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

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

- (a) On 30 December 2009, the cash consideration for the Legend Acquisition was net-off against with the deposit of HK\$5,000,000 (note 32) paid previously.
- (b) On 30 December 2009, the Company issued convertible bonds (note 27) with a fair value of HK\$460,768,000 as part of the consideration for the Legend Acquisition (note 32).

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2009

Financial assets

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2009 (Continued)

Financial liabilities

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

31 December 2008

Financial assets

Group

	Financial assets at fair value through profit or loss				Available-for-sale financial assets HK\$'000	Total HK\$'000
	- designated as such upon initial recognition HK\$'000	- held for trading HK\$'000	Held-to-maturity investments HK\$'000	Loans and receivables HK\$'000		
Available-for-sale investments	-	-	-	-	-	-
Trade receivables	-	-	-	610	-	610
Financial assets included in prepayments, deposits and other receivables	-	-	-	38,821	-	38,821
Cash and bank balances	-	-	-	7,590	-	7,590
	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,021</u>	<u>-</u>	<u>47,021</u>

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2008 (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost	Total
	- designated as such upon initial recognition	- held for trading		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	-	-	219	219
Financial liabilities included in other payables and accruals	-	-	3,827	3,827
Due to a related company	-	-	221	221
	<u>-</u>	<u>-</u>	<u>4,267</u>	<u>4,267</u>

31 December 2009

Financial assets

Company

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2009 (Continued)

Financial liabilities

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

31 December 2008

Financial assets

Company

	Financial assets at fair value through profit or loss				Available-for-sale financial assets HK\$'000	Total HK\$'000
	- designated as such upon initial recognition HK\$'000	- held for trading HK\$'000	Held-to-maturity investments HK\$'000	Loans and receivables HK\$'000		
Financial assets included in prepayments, deposits and other receivables	-	-	-	30,160	-	30,160
Due from subsidiaries	-	-	-	47,437	-	47,437
Cash and bank balances	-	-	-	7,172	-	7,172
	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,769</u>	<u>-</u>	<u>84,769</u>

37. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

31 December 2008 *(Continued)*

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost	Total
	– designated as such upon initial recognition	– held for trading		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities included in other payables and accruals	-	-	1,238	1,238
Due to subsidiaries	-	-	15,060	15,060
	<u>-</u>	<u>-</u>	<u>16,298</u>	<u>16,298</u>

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

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



NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in United States Dollar ("USD") and Hong Kong dollar ("HKD"). Approximately 85% (2008: 100%) of the Group's sales are dominated in currencies other than the functional currency of the operating units marking the sales, and almost 84% (2008: 100%) of costs are dominated in currencies other than the units' functional currency.

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in USD and HKD, of which the exchange rate of USD was quite stable during the year ended 31 December 2009 and 2008.

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 22 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. And a director of the Company has agreed not to demand repayment of the amount due to him until the Group and the Company is in a position to do so.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. At the end of the reporting period, the Group has no significant equity price risk.



38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)***Capital management**

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

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

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

	Group	
	2009 HK\$'000	2008 HK\$'000
Trade payables	–	219
Other payables and accruals	2,727	3,827
Due to a related company	–	221
Due to a director	18,520	–
Less: Cash and bank balances	<u>(6,764)</u>	<u>(7,590)</u>
Net debt	<u>14,483</u>	<u>(3,323)</u>
Total capital:		
Equity attributable to equity holders	<u>498,925</u>	<u>79,808</u>
Capital and net debt	<u>513,408</u>	<u>76,485</u>
Gearing ratio	<u>2.8%</u>	<u>N/A</u>

39. COMPARATIVE AMOUNTS

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2010.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	51,183	81,127	380,523	250,523	273,760
Cost of sales	(50,589)	(84,409)	(359,220)	(230,725)	(280,175)
Gross profit/(loss)	594	(3,282)	21,303	19,798	(6,415)
Other income and gains	608	194	465	1,885	4,481
Selling and distribution costs	-	-	-	-	(168)
Administrative and other operating expenses	(8,906)	(25,835)	(10,546)	(7,992)	(8,211)
Finance costs	-	(758)	(1,503)	(2,397)	(906)
Other impairment loss	(2,415)	(2,677)	(17,604)	(4,268)	(6,991)
Impairment of assets of a disposal group	(39,655)	-	-	-	-
(LOSS)/PROFIT BEFORE TAX	(49,774)	(32,358)	(7,885)	7,026	(18,210)
Income tax expenses	-	(489)	(314)	(802)	(638)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUED OPERATIONS	(49,774)	(32,847)	(8,199)	6,224	(18,848)
DISCONTINUED OPERATION					
Profit for the year from discontinued operation	-	-	-	-	24,575
(LOSS)/PROFIT FOR THE YEAR	(49,774)	(32,847)	(8,199)	6,224	5,727
Attributable to:					
Owners of the Company	(49,774)	(32,847)	(8,199)	6,224	5,727
Minority interests	-	-	-	-	-
	(49,774)	(32,847)	(8,199)	6,224	5,727
ASSETS AND LIABILITIES					
TOTAL ASSETS	528,107	89,021	127,218	123,178	159,791
TOTAL LIABILITIES	(29,182)	(9,213)	(22,005)	(29,226)	(83,271)
	498,925	79,808	105,213	93,952	76,520