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## THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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A copy of the Prospectus Documents, together with documents specified in the paragraph headed “Documents delivered to the Registrar of Companies” in Appendix III to this prospectus, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance in Hong Kong. The Registrar of Companies in Hong Kong takes no responsibility as to the contents of any of these documents.

**If you are in any doubt** as to any aspect of this prospectus or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China Trends Holdings Limited, you should at once hand this prospectus and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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### CHINA TRENDS HOLDINGS LIMITED

中國趨勢控股有限公司

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

(Stock Code: 8171)

### RIGHTS ISSUE ON THE BASIS OF FOUR RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE

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The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Wednesday, 30 June 2010. The procedure for acceptance and transfer is set out on page 13 of this prospectus.

**It should be noted that the Underwriting Agreement contains provisions granting VC Brokerage (on behalf of the Underwriters) the right to terminate the obligations of the Underwriters thereunder on the occurrence of certain events. These certain events are set out in the section headed “Rescission or termination of the Underwriting Agreement” on pages 2 and 4 of this prospectus. If the Underwriting Agreement is terminated by VC Brokerage (on behalf of the Underwriters) or does not become unconditional, the Rights Issue will not proceed.**

Dealings in shares were on an ex-rights basis from Monday, 7 June 2010.

Dealings in the Rights Shares in their nil-paid form will take place from Friday, 18 June to Friday, 25 June 2010 (both days inclusive). If the Underwriter terminates the Underwriting Agreement, or the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in their nil-paid form up to the date when the conditions of the Rights Issue are fulfilled (which is expected to be Tuesday, 6 July 2010) will accordingly bear the risk that the Rights Issue could not become unconditional and may not proceed.

Any Shareholders or other persons contemplating any dealings in the Shares or Rights Shares in their nil-paid form are recommended to consult their own professional advisers.

15 June 2010

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## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

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

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

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## EXPECTED TIMETABLE

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*The expected timetable for the Rights Issue set out below is indicative only. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.*

**2010**

First day of dealings in nil-paid Rights Shares . . . . .	Friday, 18 June
Latest time for splitting nil-paid Rights Shares . . . . .	4:00 p.m. on Tuesday, 22 June
Last day of dealings in nil-paid Rights Shares. . . . .	Friday, 25 June
Latest time for acceptance of and payment for the Rights Shares. . . . .	4:00 p.m. on Wednesday, 30 June
Underwriting Agreement becomes unconditional . . . . .	4:00 p.m. on Tuesday, 6 July
Announcement of the results of the Rights Issue to be published. . . . .	Tuesday, 6 July
Refund cheques for wholly and partially unsuccessful excess applications to be posted . . . . .	Thursday, 8 July
Share certificates for Rights Shares to be posted. . . . .	Thursday, 8 July
Dealings in fully-paid Rights Shares commences. . . . .	Monday, 12 July

### **EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE DATE**

The latest time for acceptance of and payment for the Rights Shares will be postponed if there is:

1. a tropical cyclone warning signal number 8 or above, or
2. a “black” rainstorm warning in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 30 June 2010. Instead, the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 12:00 noon on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon. If the latest time for acceptance of and payment for the Rights Shares is postponed in accordance with the foregoing, the dates mentioned in the section headed “Expected timetable” in this prospectus may be affected. An announcement will be made by the Company in such event.

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## RESCISSION OR TERMINATION OF THE UNDERWRITING AGREEMENT

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If prior to the Latest Time for Termination, in the reasonable opinion of VC Brokerage (on behalf of the Underwriters):

- (i) the success of the Rights Issue would be materially and adversely affected by:
  - (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the opinion of VC Brokerage (on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (b) the occurrence of any local, national or international event or change whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, military, financial, economic, industrial, fiscal, currency or market condition or equity securities or stock or other financial market conditions or any monetary or trading settlement system or conditions of other nature (whether or not ejusdem generis with any of the foregoing); or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, which may, in the opinion of VC Brokerage (on behalf of the Underwriters) materially and adversely affect the financial or trading position or prospects of the Group as a whole; or
  - (c) any material adverse change in the business or in the financial or trading position or prospectus of the Group as a whole; or
  - (d) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, China or any other jurisdiction that are relevant to the Group's principal business; or
  - (e) any material litigation or claim or proceedings (including but not limited to petition for winding up or liquidation) being instigated or threatened against the Company or any of the members of the Group; or

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## RESCISSION OR TERMINATION OF THE UNDERWRITING AGREEMENT

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- (ii) any change in, or any event or series of events likely to result in any change in fiscal or monetary policy or foreign exchange or currency markets suspension or restriction of trading in securities, and a change in currency conditions (including without limitation a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) in China, Hong Kong or any other member of the European Union, or any jurisdiction that are relevant to the Group's principal business occurs which in the opinion of VC Brokerage (on behalf of the Underwriters) makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (iii) any event of force majeure affecting China, Hong Kong or any jurisdiction that are relevant to the Group's principal business including without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a notational or international emergency or war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic (including SARS or H5N1 or such related mutated forms), outbreak of an infectious disease, calamity, crisis, strike or lock-out (whether or not covered by insurance); or
- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary under/or the Hong Kong Monetary Authority or otherwise); or
- (v) there shall have occurred, developed, existed or come into effect any material breach by the Company of any provisions of the Underwriting Agreement; or
- (vi) there shall have occurred, developed, existed or come into effect any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the indemnities referred to in the Underwriting Agreement; or
- (vii) the Circular or the Prospectus Documents when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the reasonable opinion of VC Brokerage (on behalf of the Underwriters) is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it; or

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## RESCISSION OR TERMINATION OF THE UNDERWRITING AGREEMENT

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(viii) any suspension in trading of the Shares on the Stock Exchange for more than five consecutive business days,

VC Brokerage (on behalf of the Underwriters) shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

VC Brokerage (on behalf of the Underwriters) shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (i) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriters; or
- (ii) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect comes to the knowledge of the Underwriters.

Any such notice shall be served by VC Brokerage (on behalf of the Underwriters) prior to the Latest Time for Termination.

**If VC Brokerage (on behalf of the Underwriters) rescinds or terminates the Underwriting Agreement in accordance with the terms thereof, the Rights Issue will not proceed.**

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Ascenda Cachet”	Ascenda Cachet CPA Limited (formerly Cachet Certified Public Accountants Limited)
“associates”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	China Trends Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on GEM
“Concerned Country”	the country of the Overseas Shareholder(s) whose registered address(es) as shown in the register of members of the Company on the Record Date
“Convertible Bonds”	convertible bonds in the principal amount of HK\$595,000,000 issued by the Company on 30 December 2009 of which 4,760,000,000 Shares may be issued pursuant thereto at the conversion price of HK\$0.125 per Share (subject to adjustment)
“Director(s)”	director(s) of the Company
“EAF(s)”	the form(s) of application for excess Rights Shares in the agreed form
“EGM”	the extraordinary general meeting of the Company to be held on Monday, 14 June 2010 (or such other date as may be agreed between the Company and VC Brokerage (on behalf of the Underwriters)) for the purpose, inter alia, considering and approving the Rights Issue
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM



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## DEFINITIONS

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“Get Nice Securities”	Get Nice Securities Limited, a licensed corporation to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Honour Sky”	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
“Independent Board Committee”	an independent board committee comprising all non-executive Directors namely Mr. Zhang Zhan Liang, Ms. Lu Yuhe and Mr. Kwok Chi Hung, to advise the Independent Shareholders as to whether the Rights Issue are fair and reasonable and are in the interests of the Company and the Shareholders as a whole
“Independent Shareholders”	Shareholders other than the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates
“Independent Third Party”	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules)
“Last Trading Day”	28 April 2010, being the last full trading day before the release of the announcement of the Company dated 28 April 2010 in relation to the Rights Issue
“Latest Practicable Date”	10 June 2010, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information referred to in this prospectus
“Latest Time for Acceptance”	4:00 p.m. on Wednesday, 30 June 2010 or such other date and/or time as may be agreed between the Company and VC Brokerage (on behalf of the Underwriters), being the latest time for acceptance of the offer of the Rights Shares

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## DEFINITIONS

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“Latest Time for Lodging”	4:00 p.m. on Tuesday, 8 June 2010 or such other date and/or time as may agreed between the Company and VC Brokerage (on behalf of the Underwriters), being the latest date for the lodging of any transfer form in respect of the Shares in order for a transferee to qualify for the Rights Issue
“Latest Time for Termination”	4:00 p.m. on Tuesday, 6 July 2010 or such other time and/or date as may be agreed between the Company and VC Brokerage (on behalf of the Underwriters)
“Morgan Strategic”	Morgan Strategic Limited, a company incorporated in the British Virgin Islands and a substantial Shareholder
“Overseas Shareholder(s)”	Shareholder(s) whose registered address(es) as shown in the register of members of the Company on the Record Date is(are) outside of Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be used in connection with the Rights Issue in the agreed form
“PRC”	the Peoples’ Republic of China, which for the purpose of this prospectus, shall exclude, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Prohibited Shareholders”	those Overseas Shareholders to whom the Company, after making enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant overseas regulatory bodies or stock exchanges, consider it necessary or expedient to exclude them from the Rights Issue
“Prospectus”	the prospectus to be issued to the Shareholders containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Prospectus Posting Date”	Tuesday, 15 June 2010 or such other date as VC Brokerage (on behalf of the Underwriters) may agree in writing with the Company
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company on the Record Date, other than the Prohibited Shareholders

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## DEFINITIONS

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“Record Date”	Monday, 14 June 2010, the date by reference to which entitlements to the Rights Issue are to be determined, or such other date as may be agreed between the Company and VC Brokerage (on behalf of the Underwriters)
“Registrar”	Union Registrars Limited of 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, the Hong Kong branch share registrar of the Company
“Rights Issue”	the issue by way of rights of four Rights Shares for every one Share held on the Record Date at the Subscription Price
“Rights Share(s)”	3,374,958,000 new Shares proposed to be offered to Qualifying Shareholders by way of rights on the terms set out in the Underwriting Agreement and in the Prospectus
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	Share(s) of HK\$0.01 each in the share capital of the Company
“Share Options”	the outstanding options granted by the Company to subscribe for an aggregate of 27,500,000 Shares pursuant to the Share Option Scheme, of which each holder has given an irrevocable undertaking in favour of the Company and the Underwriters not to exercise on or before the Record Date
“Share Option Scheme”	the share option scheme adopted by the Company on 16 July 2002
“Shareholder(s)”	holder(s) of issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.04 per Rights Share under the Rights Issue
“substantial Shareholder”	has the meaning ascribed thereto under the GEM Listing Rules
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Underwriters”	VC Brokerage and Get Nice Securities

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## DEFINITIONS

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“Underwriting Agreement”	the underwriting agreement dated 28 April 2010 entered into between the Company and the Underwriters in respect of the Rights Issue
“Underwritten Shares”	2,732,078,000 Rights Shares
“VC Brokerage”	VC Brokerage Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“3C”	Computer, communication and consumer electronics
“%” or “per cent.”	percentage or per centum

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**LETTER FROM THE BOARD**

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**CHINA TRENDS HOLDINGS LIMITED**

**中國趨勢控股有限公司**

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

(Stock Code: 8171)

*Executive Directors:*

Mr. Xiang Xin (*Chairman*)  
Mr. Yang Gaocai  
Mr. Wong Chak Keung  
Mr. Law Gerald Edwin

*Registered Office:*

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

*Independent non-executive Directors:*

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

*Principal place of business in Hong Kong:*  
26/F, No. 9 Des Voeux Road West  
Sheung Wan  
Hong Kong

15 June 2010

*To the Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE ON THE BASIS OF  
FOUR RIGHTS SHARES FOR EVERY ONE SHARE  
HELD ON THE RECORD DATE**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 28 April 2010 in relation to, among other matters, the Rights Issue in the proportion of four Rights Shares for every one Share holder on the Record Date.

The circular, which contained (i) details of the Rights Issue; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders on the Rights Issue; (iii) the advice from Sinopac Securities (Asia) Limited to the Independent Board Committee and the Independent Shareholders on the Rights Issue; (iv) financial information of the Group; and (v) the notice of EGM, was despatched to the Shareholders on 26 May 2010. At the EGM, the ordinary resolution to approve the Rights Issue was duly passed by the Independent Shareholders.

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## LETTER FROM THE BOARD

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The purpose of this prospectus is to provide you with further information of the Rights Issue, including information on procedures for application and payment and certain financial information and other information in respect of the Group.

### PROPOSED RIGHTS ISSUE

#### Issue statistics

Basis of the Rights Issue:	Four Rights Shares for every one Share held on the Record Date
Number of Shares in issue:	843,739,500 Shares
Number of outstanding Share Options:	27,500,000 Share Options entitling the holders thereof to subscribe for 27,500,000 Shares under the Share Option Scheme. Each of the holders of the Share Options has undertaken to the Company and the Underwriters not to exercise the Share Options prior to the Record Date.
Number of Shares convertible under the outstanding Convertible Bonds:	4,760,000,000 Shares. Each of the holders of the Convertible Bonds has undertaken to the Company and the Underwriters not to exercise the conversion rights attached to the Convertible Bonds prior to the Record Date.
Number of Rights Shares:	3,374,958,000 Rights Shares, which are fully underwritten.
Subscription price:	HK\$0.04 per Rights Share
The enlarged issued share capital upon completion of the Rights Issue:	4,218,697,500 Shares

The Rights Issue is fully underwritten. The Underwriters have agreed to underwrite 2,732,078,000 Rights Shares and have made sub-underwriting arrangement with certain sub-underwriters such that none of the Underwriters and the sub-underwriters will be interested in 30% or more of the issued share capital of the Company as enlarged by the Rights Shares upon completion of the Rights Issue. Other than Honour Sky, a sub-underwriter which has agreed to sub-underwrite 1,236,998,000 Rights Shares under sub-underwriting arrangement with Get Nice Securities, the Underwriters and all other sub-underwriters are Independent Third Parties. The ordinary business of Honour Sky does not include underwriting of securities. Morgan Strategic has undertaken to the Company and the Underwriters that it will subscribe for 642,880,000 Right Shares to which it is entitled under the Right Issue.

As at the Latest Practicable Date, save for the Share Options and the Convertible Bonds, there were no other convertible securities or exchangeable of the Company outstanding.

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## LETTER FROM THE BOARD

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### **Basis of provisional allotment**

Four Rights Shares for every one Share held by a Qualifying Shareholder on the Record Date. Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for.

### **Subscription Price**

The Subscription Price of HK\$0.04 per Rights Share is payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares accepts the provisional allotment of the relevant Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 89.61% to the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 63.30% to the theoretical ex-right price of HK\$0.109 per Share based on the closing price per Share on the Last Trading Day;
- (iii) a discount of approximately 88.57% to the average of the closing prices of Shares for five consecutive trading days up to and including the Last Trading Day of HK\$0.35;
- (iv) a discount of approximately 86.34% to the average of the closing prices of Shares for ten consecutive trading days up to and including the Last Trading Day of approximately HK\$0.293;
- (v) a discount of approximately 94.37% to the audited consolidated net assets value per share of approximately HK\$0.71 as at 31 December 2009; and
- (vi) a discount of approximately 70.15% to the closing price of HK\$0.134 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriters with reference to the volatility of the stock market and the prevailing Share price. The Directors consider that, in order to enhance the attractiveness of the Rights Issue given the current capital market atmosphere, it is appropriate to determine the Subscription Price at a considerable discount to the current market price of the Shares. The Rights Issue allows all Shareholders the opportunity to participate in the growth of the Company and will broaden shareholders' base of the Company without diluting the respective shareholdings of the Shareholders.

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## LETTER FROM THE BOARD

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### **Procedure for acceptance and transfer**

A PAL is enclosed with this prospectus which entitles the Qualifying Shareholder(s) to whom it is addressed to subscribe for the number of the Rights Shares shown therein. If the Qualifying Shareholders wish to accept all the Rights Shares provisionally allotted to them as specified in the PAL, they must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar, by no later than 4:00 p.m. on Wednesday, 30 June 2010. All remittances must be made in Hong Kong dollars (round down to the nearest HK\$0.01) and cheques or cashier orders must be drawn on a bank account in Hong Kong and made payable to “**China Trends Holdings Limited – Rights Issue Account**” and crossed “Account Payee Only”. It should be noted that unless the PAL, together with the appropriate remittance, has been lodged with the Registrar by 4:00 p.m. on Wednesday, 30 June 2010, whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Qualifying Shareholders wish to accept only part of their provisional allotment or transfer part of their rights to subscribe for the Rights Shares provisionally allotted to them under the PAL or to transfer their rights to more than one person, the entire PAL must be surrendered and lodged for cancellation by no later than 4:00 p.m. on Tuesday, 22 June 2010 to the Registrar, who will cancel the original PAL and issue new PALs in the denominations required.

All cheques or cashier orders will be presented for payment following receipt and all interest earned on such moneys will be retained for the benefit of the Company. Any PAL in respect of which the cheque or cashier order is dishonoured on first presentation is liable to be rejected, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

The Company reserves the right to refuse to accept any application for the Rights Shares where it believes that in doing so would violate the applicable securities legislations or other laws or regulations of any jurisdiction. No application for the Rights Shares will be accepted from any person who is a Prohibited Shareholder (if any).

If the Underwriter exercises the right to terminate or rescind the Underwriting Agreement or if the conditions of the Rights Issue are not fulfilled, the monies received in respect of application for the Rights Shares and/or excess Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form have been validly transferred or, in the case of joint application, to the first-named person without interest, by means of cheques despatched in the ordinary post at the risk of such Qualifying Shareholders or such other persons to their registered addresses on or before Thursday, 8 July 2010.

### **Qualifying Shareholders**

The Company will provisionally allot the Rights Shares and has sent the Prospectus containing details of the Rights Issue to the Qualifying Shareholders and, for information only, to the Prohibited Shareholders. PALs and EAFs have been sent to the Qualifying Shareholders only.



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## LETTER FROM THE BOARD

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### **Rights of Prohibited Shareholders (if any)**

No person receiving this prospectus, a PAL or EAF in any territory outside Hong Kong may treat it as an offer or invitation to apply for the Rights Shares or excess Rights Shares, unless in a territory where such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements thereof. It is the responsibility of anyone outside Hong Kong wishing to make an application for the Rights Shares to satisfy itself/himself/herself, before acquiring any rights to subscribe for the provisionally allotted Rights Shares or excess Rights Shares, as to the observance of the laws and regulations of all relevant territories, including the obtaining of any governmental or other consents, and to pay any taxes and duties required to be paid in such territory in connection therewith.

Based on the register of members of the Company as at the Record Date, there were a total of 2 Overseas Shareholder(s) with registered addresses in the PRC (the “Concerned Country”). Pursuant to Rule 17.41(1) of the Listing Rules, the Company has made enquiry regarding the legality and feasibility of extending the Rights Issue to such Overseas Shareholders. Based on the legal opinions from legal advisers in the Concerned Country, there is no restriction to extend the Rights Issue to such Overseas Shareholders and there are no Prohibited Shareholders for the Rights Issue. Accordingly, the Rights Issue will be extended to such Overseas Shareholders and the Prospectus Documents will be sent to such Overseas Shareholders. Save for the aforesaid Overseas Shareholders, all Shareholders on the Company’s register of members as at the Record Date have Hong Kong registered addresses.

### **Fractional entitlements to the Rights Shares**

The Company will not provisionally allot fractions of Rights Shares. The aggregate of fractions of the Rights Shares will be sold by the Company in the market if a net premium can be obtained. Any unsold fractions of the Rights Shares will be made available for excess application by the Qualifying Shareholders.

### **Application for excess Rights Shares**

Qualifying Shareholders may apply for any unsold entitlements of the Prohibited Shareholders, any unsold fractions of Rights Shares and any Rights Shares provisionally allotted but not accepted by any Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares.

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## LETTER FROM THE BOARD

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If the Qualifying Shareholders wish to apply for any Rights Shares in addition to their provisional allotment, they must complete and sign the enclosed EAF in accordance with the instructions printed thereon and lodge it, together with a separate remittance for the amount payable (round down to the nearest HK\$0.01) on application in respect of the excess Rights Shares applied for, with the Registrar, by no later than 4:00 p.m. on Wednesday, 30 June 2010. All remittances must be made in Hong Kong dollars and cheques or cashier orders must be drawn on a bank account in Hong Kong and made payable to “**China Trends Holdings Limited – Excess Application Account**” and crossed “Account Payee Only”.

The Registrar will notify the Qualifying Shareholders of any allotment of excess Rights Shares made to them, which will be at the discretion of the Directors on a fair and equitable basis on a sliding scale, with reference to the number of excess Rights Shares being applied for under each application (i.e. Qualifying Shareholders applying for smaller number of Rights Shares are allocated with a higher percentage of successful application but will receive less number of Rights Shares; whereas Qualifying Shareholders applying for larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive higher number of Rights Shares). However, no preference will be given to topping-up odd lots to whole board lots.

Shareholders or potential investors should note that the number of excess Rights Shares which may be allocated to them may be different where they make applications for excess Rights Shares by different means, such as making applications in their own names as against through nominees who also hold Shares for other Shareholders or investors. Shareholders and investors whose Shares are held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders and investors whose Shares are registered in the name of nominee companies should note that the aforesaid arrangement in relation to the allocation of excess Rights Shares on the basis on sliding scale will not be extended to beneficial owners individually. Shareholders and investors should consult their professional advisers if they are in any doubt as to their status.

If no excess Rights Shares are allotted to a Qualifying Shareholder, the amount tendered on application is expected to be returned to that Qualifying Shareholder in full by ordinary mail and at their own risk on or before Thursday, 8 July 2010. If the number of excess Rights Shares allotted to the Qualifying Shareholders is less than that applied for, the surplus application moneys are also expected to be returned to them by ordinary mail and at their own risk on or before Thursday, 8 July 2010.

All cheques or cashier orders will be presented for payment following receipt and all interest earned on such moneys will be retained for the benefit of the Company. Any EAF in respect of which a cheque or cashier order is dishonoured on first presentation is liable to be rejected.

The EAF is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques or cashier orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses by the Registrar. No action has been taken to permit the offering of the Rights Shares or the distribution of the Prospectus Documents in any territory outside

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## LETTER FROM THE BOARD

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Hong Kong, and therefore the EAFs may not be used by any person whose registered address is outside Hong Kong. Accordingly, no person receiving a copy of the EAF in any territory outside Hong Kong may treat it as an offer or invitation to apply for Rights Shares, unless in the relevant territory such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements. It is the responsibility of anyone outside Hong Kong wishing to make an application for the Rights Shares to satisfy itself/himself/herself as to the observance of the laws and regulations of all relevant territories, including the obtaining of any government or other consents, and to pay any taxes and duties required to be paid in such territory in connection therewith. The Company reserves the right to refuse to accept any application for excess Rights Shares where it believes that doing so would violate applicable securities or other laws or regulations.

### **Status of the Rights Shares**

When issued and fully paid, the Rights Shares will rank *pari passu* in all respects with the existing Shares in issue. Holders of fully-paid Rights Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

### **Application for listings**

The Company will apply to the Listing Committee of the Stock Exchange for the listings of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. The board lot size of nil-paid Rights Shares is the same as that of the fully-paid Rights Shares of 4,000 Shares.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in both their nil-paid and fully paid forms on the Stock Exchange or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted to CCASS.

No part of the share capital of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

### **Stamp duty**

Dealings in the Rights Shares in both their nil-paid and fully-paid forms which are registered in the Registrar will be subject to the payment of stamp duty in Hong Kong.

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## LETTER FROM THE BOARD

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### Share certificates

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary mail at their own risk on Thursday, 8 July 2010.

### UNDERWRITING ARRANGEMENT

#### Undertakings

As at the date of the Underwriting Agreement,

- (i) there were 27,500,000 outstanding Share Options and each of the holders of the Share Options has given an irrevocable undertaking in favour of the Company and the Underwriters not to exercise any of the Share Options on or before the Record Date;
- (ii) there were outstanding Convertible Bonds in the principal amount of HK\$595,000,000 and each of the holders of the Convertible Bonds has given an irrevocable undertaking in favour of the Company and the Underwriters not to exercise the conversion rights attached to the Convertible Bonds on or before the Record Date; and
- (iii) Morgan Strategic, a substantial Shareholder holding 160,720,000 Shares, has given an irrevocable undertaking in favour of the Company and the Underwriters to subscribe for the 642,880,000 Rights Shares to which Morgan Strategic is entitled under the Rights Issue in the manner provided in the Underwriting Agreement.

#### Underwriting Agreement

Date: 28 April 2010 (after trading hours)

Issuer: The Company

Underwriters: VC Brokerage; and Get Nice Securities

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Underwriters and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules).

Number of Underwritten Shares: 2,732,078,000 Rights Shares as to 1,495,080,000 Rights Shares to be underwritten by VC Brokerage and 1,236,998,000 Rights Shares to be underwritten by Get Nice Securities.

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## LETTER FROM THE BOARD

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Commission: 2% of the aggregate Subscription Price in respect of the 2,732,078,000 Underwritten Shares, which was determined after arm's length negotiations between the Company and the Underwriters, and the Directors (including the independent non-executive Directors) are of the view that the commission is fair and reasonable.

### Conditions of the Rights Issue

The Rights Issue is conditional on:

- (i) the passing of a resolution by the Independent Shareholders at the EGM to approve the Rights Issue as contained in the notice of EGM, by no later than the Prospectus Posting Date;
- (ii) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Prospectus Posting Date;
- (iii) compliance with and performance of all the undertakings and obligations of the Company under the Underwriting Agreement;
- (iv) compliance by the Company with all its obligations under the Underwriting Agreement in respect of its delivery of documents to the Underwriters;
- (v) the delivery to the Stock Exchange, filing and registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors in compliance with section 342C of the Companies Ordinance (and all other documents required to be attached thereto) not later than the Prospectus Posting Date and otherwise in compliance with the GEM Listing Rules and the Companies Ordinance;
- (vi) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date;
- (vii) the despatch of the circular in relation to the Rights Issue on or before 26 May 2010 or such other date as VC Brokerage (on behalf of the Underwriters) may agree with the Company; and

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## LETTER FROM THE BOARD

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- (viii) the performance of irrevocable undertakings by (a) each of the holders of the Share Options in favour of the Company and the Underwriters not to exercise the Share Options held by each of them; (b) each of the holders of the Convertible Bonds in favour of the Company and the Underwriters not to exercise the conversion rights attached to the Convertible Bonds held by each of them; and (c) Morgan Strategic in favour of the Company and the Underwriters to subscribe for the 642,880,000 Rights Shares to which Morgan Strategic is entitled under the Rights Issue.

If the conditions above are not satisfied and/or waived (in respect of conditions (iii) and (iv) only) by VC Brokerage (on behalf of the Underwriters) by the Latest Time for Termination, or such later date or dates as VC Brokerage (on behalf of the Underwriters) may agree with the Company in writing, the Underwriting Agreement shall terminate and (save in respect of certain provisions in the Underwriting Agreement and any rights or obligations which may accrue under the Underwriting Agreement prior to such termination) no party will have any claim against any other party for costs, damages, compensation or otherwise, save that all such costs, fees and other out-of-pocket expenses (including legal fee incurred by the Underwriters but excluding the sub-underwriting fees) as may have been properly incurred by the Underwriters in connection with the proposed Rights Issue or otherwise in connection with the arrangements contemplated by the Underwriting Agreement shall be borne by the Company absolutely.

As at the Latest Practicable Date, condition (ii) and (vii) have been fulfilled.

The Underwriters shall, not later than the Latest Time for Termination, enter into binding agreement(s) with certain sub-underwriting agent(s), which, other than Honour Sky, shall be independent third party(ies) not connected or acting in concert with any directors, chief executive, management shareholders or substantial shareholder(s) of the Company or its subsidiaries or any of their respective associates, for sub-underwriting of the Rights Shares, such that (i) a sufficient public float of the Shares be maintained in compliance with Rule 11.23(7) of the GEM Listing Rules; and (ii) the Underwriters together with parties acting in concert with it shall not have a mandatory offer obligation under Rule 26 of the Takeovers Code.

### **Rescission or termination of the Underwriting Agreement**

If prior to the Latest Time for Termination, in the reasonable opinion of VC Brokerage (on behalf of the Underwriters):

- (i) the success of the Rights Issue would be materially and adversely affected by:
- (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the opinion of VC Brokerage (on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

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## LETTER FROM THE BOARD

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- (b) the occurrence of any local, national or international event or change whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, military, financial, economic, industrial, fiscal, currency or market condition or equity securities or stock or other financial market conditions or any monetary or trading settlement system or conditions of other nature (whether or not ejusdem generis with any of the foregoing); or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, which may, in the opinion of VC Brokerage (on behalf of the Underwriters) materially and adversely affect the financial or trading position or prospects of the Group as a whole; or
  - (c) any material adverse change in the business or in the financial or trading position or prospectus of the Group as a whole; or
  - (d) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, China or any other jurisdiction that are relevant to the Group's principal business; or
  - (e) any material litigation or claim or proceedings (including but not limited to petition for winding up or liquidation) being instigated or threatened against the Company or any of the members of the Group; or
- (ii) any change in, or any event or series of events likely to result in any change in fiscal or monetary policy or foreign exchange or currency markets suspension or restriction of trading in securities, and a change in currency conditions (including without limitation a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) in China, Hong Kong or any other member of the European Union, or any jurisdiction that are relevant to the Group's principal business occurs which in the opinion of VC Brokerage (on behalf of the Underwriters) makes it inexpedient or inadvisable to proceed with the Rights Issue; or
  - (iii) any event of force majeure affecting China, Hong Kong or any jurisdiction that are relevant to the Group's principal business including without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a notational or international emergency or war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic (including SARS or H5N1 or such related mutated forms), outbreak of an infectious disease, calamity, crisis, strike or lock-out (whether or not covered by insurance); or
  - (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary under/or the Hong Kong Monetary Authority or otherwise); or
  - (v) there shall have occurred, developed, existed or come into effect any material breach by the Company of any provisions of the Underwriting Agreement; or

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## LETTER FROM THE BOARD

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- (vi) there shall have occurred, developed, existed or come into effect any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the indemnities referred to in the Underwriting Agreement; or
- (vii) the circular of the Company in relations to the Rights Issue or the Prospectus Documents when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the reasonable opinion of VC Brokerage (on behalf of the Underwriters) is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it; or
- (viii) any suspension in trading of the Shares on the Stock Exchange for more than five consecutive business days,

VC Brokerage (on behalf of the Underwriters) shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

VC Brokerage (on behalf of the Underwriters) shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (i) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriters; or
- (ii) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect comes to the knowledge of the Underwriters.

Any such notice shall be served by VC Brokerage (on behalf of the Underwriters) prior to the Latest Time for Termination.

**If VC Brokerage (on behalf of the Underwriters) rescinds or terminates the Underwriting Agreement in accordance with the terms thereof, the Rights Issue will not proceed.**

### **WARNING OF THE RISKS OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES**

**The Rights Issue is subject to, among other things, the fulfillment or waiver of the conditions set out in the paragraph headed “Conditions of the Rights Issue” above. In particular, it is subject to the Underwriting Agreement not being rescinded or terminated in accordance with its terms.**



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## LETTER FROM THE BOARD

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Accordingly, the Rights Issue may or may not proceed and the Shareholders and the public are reminded to exercise with caution when dealing in the Shares.

Any dealings in the Shares from now up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or Rights Shares in their nil-paid form are recommended to consult their own professional advisers.

### REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in sales and marketing of information technology products and solutions.

The estimated net proceeds of the Rights Issue will be approximately HK\$132 million. The Company intends to use part of the net proceeds as to approximately HK\$100 million in research and development, sales and distribution and general operation for the development of the Group's energy management contract business and the balance of approximately HK\$32 million as general working capital of the Group.

According to the 關於加快推行合同能源管理促進節能服務產業發展的意見 (Opinion to Accelerate the Energy Management Contract and Facilitate the Energy-Saving Sector Development#) (the “**Development Opinion**”) jointly formulated by National Development and Reform Commission, Ministry of Finance, People's Bank of China and State Administration of Taxation, the work objectives of the PRC government is to push ahead the development of energy-saving sector services. The PRC government aims to support and foster a group of specialised energy-saving services companies and expand a group of integrated large-scale energy-saving services companies by 2012, thereby establishing a dynamic, distinguished and regulated energy-saving services market.

The Development Opinion will include energy management contract within the scope of investment of the central budget and central energy-saving and emission reduction special fund, subsidies or incentive support policies. The PRC government has also implemented taxation preferential policies on energy management contract, including the business tax exemption of energy-saving services companies for the taxable income generated from the implementation of energy management contract; the value-added tax exemption of for assets transferred to the user at nil consideration as a results of the implementation of the energy management contract project; three-year full enterprise income tax exemption since the first profitable year, followed by two-year 50% reduction of enterprise income tax.

The Development Opinion also encourages the innovation of credit products, expansion of the scope of guarantee, rationalisation of application and approval procedures by financial institutions such as banks based on the characteristics of financing needs of the energy-saving services companies in order to provide project financing and insurance services to energy-saving services companies. In addition, the fixed assets injected by the energy-saving services companies upon the implementation of the energy management contract project may apply for secured loans from the banks according to

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## LETTER FROM THE BOARD

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the relevant requirements. The PRC government is also in favour of the implementation of sizeable, branded and networked operation through merger and acquisition, joint venture and restructuring of the energy-saving services companies, thus becoming a large-scale services enterprise with a renowned brand and strong competitiveness.

The Group has the experience in the consumer electronics industry for years and it has developed energy-saving desktop computers. The Board considers that the business model on the contract for energy-saving management could be applied effectively in the consumer electronics industry where the mass usage of desktop computers involved in the public sector and schools. The Group plans to develop the business of energy management contract as a move to enhance its competitiveness and strengthen in the distribution and marketing of information technology products and solutions. The Group is planning to provide energy-saving 3C products and solutions to customers by mean of energy management contract under build-operate-transfer or BOT model and to promote them in different aspects of the society in the PRC. The energy management contract to be made between the Group and the clients, will be normally for five years and it is a commercial operating model that the Group provides its clients with a set of energy saving services, project financing, engineering construction, and related services by providing energy-saving electronic products like desktop computers. The Group will realise its investment return and profit by sharing relevant percentage of the energy saving efficiency realised by the clients' energy saving measures. With strong support from the PRC government to promote the implementation of energy management contract to facilitate the energy-saving service sector in the economy, the Group is expected that the energy management contract will be gradually well developed and competitive in the PRC market. The Directors consider that to provide energy management contract in the distribution and marketing of information technology products, the Group can also enjoy the state's preferential policies and enhance the revenue of the Group. The Group also intends to make use of the listing status of the Company to implement a sizeable network operation through merger and acquisition and formation of joint venture with other companies. The Company has not entered into any agreement, understanding and negotiation and has no intention to dispose the existing business of the Group as at the Latest Practicable Date.

The Company entered into three cooperative framework agreements on 7 May 2010, 14 May 2010 and 28 May 2010 respectively. In order to enhance its business development, the Group is expected, through the possible acquisition under the cooperative framework agreements, to further extend the business of energy management contract to e-commerce market, the distribution and redemption platform for electronic products and advertisement broadcasting platform. The energy saving efficiency realised by the clients under the energy management contract in total will be converted into reward redemption coupon as a gift to the clients. The clients could redeem their coupons in exchange for 3C or other household electronic products in the e-commerce platform and/or the distribution and redemption platform for electronic products.

The Company entered into a cooperative framework agreement with 博大偉業(北京)教育文化發展有限公司 (transliterated as Grand Business (Beijing) Educational and Cultural Development Company Limited) on 3 June 2010 setting out the preliminary understanding in the provision of energy-saving computers and related solutions by mean of energy management contract from the Group to 博大偉業(北京)教育文化發展有限公司 to implement its multi-media education platform.

Given that the net proceeds from the Rights Issue would enhance the Company's capital base and would not incur any interest expenses burden to the Group as compared to debt financing, the Directors (including the independent non-executive Directors) believe that raising fund by way of the Rights Issue is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### RISK FACTORS

Shareholders and prospective investors should be aware that the Group is exposed to certain degree of potential risks which include, but not limited to, the following:

- i) Economic, political and legal environments and/or policies in the PRC: Given that the Group's operations for existing business (sales and marketing of information technology products and solutions) and energy management contract business are carried on in the PRC, the Group's operations, profitability, financial position and prospects may be adversely affected by the economic, political and legal environments and/or policies in the PRC.
- ii) Reliance on a limited number of clients - Given that the existing business is highly dependent on a limited number of the customers for a significant portion of the Group's revenues, there is no assurance that the Group will be able to maintain the sales orders with these customers in which the Group's revenue will be adversely affected.
- iii) Investment in energy management contract business: The Group has no operating history for the energy management contract business. The business may pose challenges to the Group in the areas of administration, operation and risk management. The Group's prospect must be considered in light of the associated risks and the uncertainties frequently encountered by companies in their early stages of development. Since the Group does not engage in the energy management contract business before and there has been no track record, the Group is not in a position to assure the timing and amount of any return or profits that may be generated from the business.
- iv) Competition: The Group faces the fierce competition in the existing business resulting in the drop in turnover and profit margin in recent years. It is also expected that the Group will operate in a highly competitive environment and face competitions from other energy-saving services companies in the PRC. The Group plans to target companies and customers mainly in the PRC but there is no assurance that the energy management contract business can be secured. Whilst the Company has recently entered into two cooperative framework agreements with the potential vendors, it may take time for the Group to source the business and build up its network in the energy management contract business. Further, if the Group fails to maintain its competitive edge, the turnover and financial position of the Group in respect of the energy management contract business may be adversely affected.
- v) Credit risk: Credit risk management is extremely important for the energy management contract business. The energy management contract business involves certain due diligence work on the creditworthiness of the clients and suppliers depending on the forms of energy-saving services and 3C products to be provided. If any client or related party defaults and the risk management measures cannot effectively reduce or eliminate the risks in advance, the results of operation and financial position of the Company may be materially and adversely affected.

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## LETTER FROM THE BOARD

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- vi) Reliance on key personnel: The Group's performance in relation to the existing business and the energy management contract business to a large extent depends on the services and performance of the key personnel for conducting the existing business and the energy management contract business. The Group may also need to recruit additional personnel to achieve its planned growth. The failure of the Group to retain or recruit the necessary personnel, or the loss of the services of any of its key personnel, could have a material adverse effect on the Group's business, results of operations and financial condition in relation to the existing business and the energy management contract business.
- vii) Technology development: Driven by resources constraints, environmental protection and higher customers' requirements on functions and quality of products, the technology development in the information technology products, 3C products and solutions in future will focus on efficient, energy-saving and environment-friendly manufacturing process and new value-added products which required more advanced technologies. There is no assurance that the Group will be able to keep pace with the technology development in the existing business and the energy management contract business.
- viii) Exchange rate: The fluctuation of RMB exchange rate and changes in foreign exchange regulations may adversely affect the business operation of the Group.

## LETTER FROM THE BOARD

### SHAREHOLDING STRUCTURE

Set out below are the shareholding structures of the Company immediately before and upon completion of the Rights Issue:

	As at the Latest Practicable Date		Immediately after the completion of the Rights Issue assuming that all Qualifying Shareholders have taken up their entitlement in full		Immediately after completion of the Rights Issue assuming that none of the Qualifying Shareholder has taken up their entitlements except Morgan Strategic (Note 4)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Morgan Strategic (Note 1)	160,720,000	19.05	803,600,000	19.05	803,600,000	19.05
Nopo Group Limited (Note 2)	140,000,000	16.59	700,000,000	16.59	-	-
Get Nice Securities (Note 3)	-	-	-	-	1,236,998,000	29.32
VC Brokerage (Note 4)	-	-	-	-	1,495,080,000	35.44
<b>Sub-total:</b>	<b>300,720,000</b>	<b>35.64%</b>	<b>1,503,600,000</b>	<b>35.64%</b>	<b>3,535,678,000</b>	<b>83.31</b>

#### Public Shareholders

Nopo Group Limited (Note 2)	-	-	-	-	140,000,000	3.32
Other public Shareholders	543,019,500	64.36	2,715,097,500	64.36	543,019,500	12.87
<b>Public Shareholders Sub-total:</b>	<b>543,019,500</b>	<b>64.36</b>	<b>2,715,097,500</b>	<b>64.36</b>	<b>683,019,500</b>	<b>16.19</b>
<b>Total</b>	<b>843,739,500</b>	<b>100.00</b>	<b>4,218,697,500</b>	<b>100.00</b>	<b>4,218,697,500</b>	<b>100.00</b>

#### Notes:

1. Morgan Strategic has undertaken to the Company and the Underwriters that it will subscribe for 642,880,000 Rights Shares to which it is entitled under the Rights Issue.
2. Assuming that Nopo Group Limited does not take up its entitlements under the Rights Issue, it will become a public Shareholder immediately after completion of the Right Issue.
3. Honour Sky has agreed to sub-underwrite 1,236,998,000 Rights Shares under sub-underwriting arrangement with Get Nice Securities.
4. For illustration purpose only. In the event that none of the Qualifying Shareholder has taken up their entitlements except Morgan Strategic, under the sub-underwriting arrangements made by VC Brokerage with sub-underwriters, the Company will be able to meet the public float requirement upon completion of the Rights Issue.

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## LETTER FROM THE BOARD

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Based on the present shareholding of the Company set out above, the sub-underwriting arrangements as mentioned in the paragraph headed “Conditions of the Rights Issue” in this prospectus and to the best information of the Company, the Company is not aware of any Shareholder who would, as a result of taking up the Rights Shares to which he/she/it is entitled under the Rights Issue, incur an obligation to make a general offer under the Takeovers Code.

### ADJUSTMENTS TO SHARE OPTIONS AND THE CONVERTIBLE BONDS

Adjustments to the exercise or conversion prices and/or number of Shares issuable in respect of the Share Options and Convertible Bonds may be required under the relevant terms of the Share Option Scheme and the respective instruments. The Company will appoint an approved merchant bank or the auditors of the Company to certify the necessary adjustments, if any, to the exercise or conversion prices and/or number of Shares issuable in respect of the Share Options and Convertible Bonds. Further announcement will be made by the Company in this regard.

### PREVIOUS FUND RAISING EXERCISES OF THE COMPANY

There has not been any fund raising exercise conducted by the Company in the past 12 months immediately preceding the announcement of the Company dated 28 April 2010.

### FURTHER INFORMATION

Your attention is drawn to the information set out in the appendices to this prospectus.

Yours faithfully,  
For and on behalf of the Board  
**China Trends Holdings Limited**  
**Xiang Xin**  
*Chairman*

## 1. FINANCIAL SUMMARY

The following is a summary of the published results, assets and liabilities of the Group for each of the three years ended 31 December 2007, 2008 and 2009 as extracted from the 2007, 2008 and 2009 annual reports of the Company. The auditors of the Company for the three years ended 31 December 2007, 2008 and 2009 were Ascenda Cachet. Their opinion on the consolidated financial statements of the Group for the year ended 31 December 2007 were unqualified. The auditors of the Company formed a disclaimer opinion on the consolidated financial statements of the Group for the years ended 31 December 2008 and 2009. For details regarding the unqualified opinion for 2007, please refer to the auditors' report for the year ended 31 December 2007 in the 2007 annual report of the Company. For details regarding the disclaimer opinion for 2008, please refer to the auditors' report for the year ended 31 December 2008 in the 2008 annual report of the Company. For details regarding the disclaimer opinion for 2009, please refer to the auditors' report for the year ended 31 December 2009 as extracted from the 2009 annual report of the Company set out under the sub-section headed "Independent Auditors' Report" in this Appendix I.

**CONSOLIDATED INCOME STATEMENTS***For the year ended 31 December 2009*

	<i>Notes</i>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
REVENUE	5	51,183	81,127	380,523
Cost of sales		<u>(50,589)</u>	<u>(84,409)</u>	<u>(359,220)</u>
Gross profit/(loss)		594	(3,282)	21,303
Other income and gains	5	608	194	465
Administrative and other operating expenses		(8,906)	(25,835)	(10,546)
Finance costs	7	–	(758)	(1,503)
Other impairment losses	6	(2,415)	(2,677)	(17,604)
Impairment of assets of a disposal group	12	<u>(39,655)</u>	<u>–</u>	<u>–</u>
LOSS BEFORE TAX	6	(49,774)	(32,358)	(7,885)
Income tax expense	10	<u>–</u>	<u>(489)</u>	<u>(314)</u>
LOSS FOR THE YEAR		<u><u>(49,774)</u></u>	<u><u>(32,847)</u></u>	<u><u>(8,199)</u></u>
Attributable to:				
Owners of the Company	11	(49,774)	(32,847)	(8,199)
Minority interests		<u>–</u>	<u>–</u>	<u>–</u>
		<u><u>(49,774)</u></u>	<u><u>(32,847)</u></u>	<u><u>(8,199)</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>	<u><u>(1.55) cents</u></u>
– Diluted		<u><u>(7.14) cents</u></u>	<u><u>(5.60) cents</u></u>	<u><u>N/A</u></u>

There were no extraordinary items and exceptional items during each of the three years ended 31 December 2007, 2008, and 2009 based on the annual reports of the Company for the respective years.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	14	1,588	1,251	406
Available-for-sales investments	15	–	–	–
Intangible assets	16	482,794	–	–
Deferred tax assets	17	–	280	306
Prepaid licenses fee	18	–	–	–
Total non-current assets		<u>484,382</u>	<u>1,531</u>	<u>712</u>
<b>CURRENT ASSETS</b>				
Inventories	20	1,178	1,700	–
Contract works in progress	21	–	34,340	3,382
Trade receivables	22	–	610	63,287
Prepayments, deposits and other receivables	23	27,894	43,250	35,095
Cash and bank balances	24	<u>6,764</u>	<u>7,590</u>	<u>24,742</u>
		35,836	87,490	126,506
Assets of a disposal group classified as held for sale	12	<u>7,889</u>	<u>–</u>	<u>–</u>
Total current assets		<u>43,725</u>	<u>87,490</u>	<u>126,506</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	25	–	219	–
Trust receipt loans		–	0	12,040
Other payables and accruals		2,727	3,827	4,752
Tax payable		46	4,946	5,046
Due to a director	26	18,520	–	–
Due to a related company	26	<u>–</u>	<u>221</u>	<u>167</u>
		21,293	9,213	22,005
Liabilities directly associated with the assets classified as held for sale	12	<u>7,889</u>	<u>–</u>	<u>–</u>
Total current liabilities		<u>29,182</u>	<u>9,213</u>	<u>22,005</u>
<b>NET CURRENT ASSETS</b>		<u>14,543</u>	<u>78,277</u>	<u>104,501</u>



**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

		<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>498,925</u>	<u>79,808</u>	<u>105,213</u>
Net assets		<u><u>498,925</u></u>	<u><u>79,808</u></u>	<u><u>105,213</u></u>
<b>EQUITY</b>				
Equity attributable to owners of the Company				
Issued capital	28	7,037	5,865	5,865
Equity component of convertible bonds	27	460,768	–	–
Reserves	31(a)	<u>31,120</u>	<u>73,943</u>	<u>99,348</u>
		498,925	79,808	105,213
<b>Minority interests</b>		<u>–</u>	<u>–</u>	<u>–</u>
Total equity		<u><u>498,925</u></u>	<u><u>79,808</u></u>	<u><u>105,213</u></u>

## 2. INDEPENDENT AUDITORS' REPORT

*Set out below are the auditor's report on the financial statements of the Group for the year ended 31 December 2009 as extracted from the 2009 annual report of the Company. Capitalised terms used therein shall have the meanings as ascribed to them in the 2009 annual report of the Company and reference to page numbers stated therein shall refer to that of the 2009 annual report.*

*For the year ended 31 December 2009*

### **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.

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.

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.

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.

**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

## AUDITED FINANCIAL STATEMENTS

Set out below is the audited financial statements of the Group for the year ended 31 December 2009 as extracted from the Company's 2009 annual report. For avoidance of doubt, capitalized terms used therein shall have the same meanings as ascribed to them in the Company's 2009 annual report and reference to page numbers stated therein shall refer to that of the Company's 2009 annual report.

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	<i>Notes</i>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
REVENUE	5	51,183	81,127
Cost of sales		(50,589)	(84,409)
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	(39,655)	–
LOSS BEFORE TAX	6	<u>(49,774)</u>	<u>(32,358)</u>
Income tax expense	10	–	(489)
LOSS FOR THE YEAR		<u>(49,774)</u>	<u>(32,847)</u>
Attributable to:			
Owners of the Company	11	(49,774)	(32,847)
Minority interests		–	–
		<u>(49,774)</u>	<u>(32,847)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		<u>(7.14) cents</u>	<u>(5.60) cents</u>
Diluted		<u>(7.14) cents</u>	<u>(5.60) cents</u>



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	<i>Notes</i>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>14</i>	1,588	1,251
Available-for-sale investments	<i>15</i>	–	–
Intangible assets	<i>16</i>	482,794	–
Deferred tax assets	<i>17</i>	–	280
Prepaid licenses fee	<i>18</i>	–	–
Total non-current assets		<u>484,382</u>	<u>1,531</u>
<b>CURRENT ASSETS</b>			
Inventories	<i>20</i>	1,178	1,700
Contract works in progress	<i>21</i>	–	34,340
Trade receivables	<i>22</i>	–	610
Prepayments, deposits and other receivables	<i>23</i>	27,894	43,250
Cash and bank balances	<i>24</i>	6,764	7,590
		35,836	87,490
Assets of a disposal group classified as held for sale	<i>12</i>	<u>7,889</u>	–
Total current assets		<u>43,725</u>	<u>87,490</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	<i>25</i>	–	219
Other payables and accruals		2,727	3,827
Tax payable		46	4,946
Due to a director	<i>26</i>	18,520	–
Due to a related company	<i>26</i>	–	221
		21,293	9,213
Liabilities directly associated with the assets classified as held for sale	<i>12</i>	<u>7,889</u>	–
Total current liabilities		<u>29,182</u>	<u>9,213</u>
<b>NET CURRENT ASSETS</b>		<u>14,543</u>	<u>78,277</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>498,925</u>	<u>79,808</u>
Net assets		<u><u>498,925</u></u>	<u><u>79,808</u></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	<i>28</i>	7,037	5,865
Equity component of convertible bonds	<i>27</i>	460,768	–
Reserves	<i>31(a)</i>	31,120	73,943
		498,925	79,808
Minority interests		–	–
Total equity		<u><u>498,925</u></u>	<u><u>79,808</u></u>

## 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	<u>7,037</u>	<u>75,330</u>	<u>-</u>	<u>5,117</u>	<u>460,768</u>	<u>11,157</u>	<u>(60,484)</u>	<u>498,925</u>	<u>-</u>	<u>498,925</u>

*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>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(49,774)	(32,358)
Adjustments for:			
Impairment of trade receivables	<i>6</i>	1,700	2,677
Impairment of prepayments, deposits and other receivables	<i>6</i>	455	–
Written-off of property, plant and equipment	<i>6, 14</i>	260	–
Equity-settled share option expenses		–	7,442
Finance costs		–	758
Interest income	<i>6</i>	(1)	(148)
Depreciation of property, plant and equipment	<i>14</i>	253	170
Impairment of assets of a disposal group	<i>12</i>	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)

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	<i>Notes</i>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
		(826)	(17,152)
Cash and cash equivalents at beginning of year		<u>7,590</u>	<u>24,742</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<u><u>6,764</u></u>	<u><u>7,590</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	24	<u><u>6,764</u></u>	<u><u>7,590</u></u>

## STATEMENT OF FINANCIAL POSITION

31 December 2009

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

**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.

**2.1(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 and HKAS 27 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 (early adopted)</i>
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 and HKAS 1 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:

**(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.

(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.

(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.

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

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.

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2009
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2010
- <sup>3</sup> Effective for annual periods beginning on or after 1 February 2010
- <sup>4</sup> Effective for annual periods beginning on or after 1 July 2010
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2011
- <sup>6</sup> 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.

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.

#### **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.

#### **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.

**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.

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.

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.

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.

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.

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:

*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.

*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.

*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.

**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.

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.

#### **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.

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.



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.

#### *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.

**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.

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 <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	10,975	40,208	–	51,183
Intersegment sales	–	–	–	–
	<u>10,975</u>	<u>40,208</u>	<u>–</u>	51,183
<b>Reconciliation:</b>				
Elimination of intersegment sales				–
<b>Revenue</b>				<u>51,183</u>
<b>Segment results</b>	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				(39,655)
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				35,682
Total assets				<u>528,107</u>
Segment liabilities	7,889	–	18,768	26,657
Unallocated liabilities				2,525
Total liabilities				<u>29,182</u>
<b>Other segment information:</b>				
Capital expenditure*	183	–	667	850
Depreciation and amortisation	253	–	–	253

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

## 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>
<b>Segment revenue:</b>				
Sales to external customers	81,127	–	–	81,127
Intersegment sales	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>81,127</u>	<u>–</u>	<u>–</u>	81,127
Reconciliation:				
Elimination of intersegment sales				<u>–</u>
Revenue				<u>81,127</u>
<b>Segment results</b>				
	(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>
<b>Segment assets</b>				
Segment assets	51,390	–	–	51,390
Unallocated assets				<u>37,631</u>
Total assets				<u>89,021</u>
<b>Segment liabilities</b>				
Segment liabilities	7,976	–	–	7,976
Unallocated liabilities				<u>1,237</u>
Total liabilities				<u>9,213</u>
<b>Other segment information:</b>				
Capital expenditure	1,015	–	–	1,015
Depreciation and amortisation	<u>170</u>	<u>–</u>	<u>–</u>	<u>170</u>

**Geographical information***(a) Revenue from external customers*

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
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*

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
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:

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>Revenue</b>		
Sales of goods	<u>51,183</u>	<u>81,127</u>
<b>Other income and gains</b>		
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>

## 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 <sup>#</sup>	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	<u>(1)</u>	<u>(148)</u>

<sup>#</sup> 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 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest:		
Bank borrowings wholly repayable within five years	–	252
Factoring of trade receivables	–	506
	<u>–</u>	<u>758</u>
	<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 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
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>
	<u>677</u>	<u>5,463</u>

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

\* 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.



	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Equity- settled share option benefits <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<b>2008</b>					
<b>Executive directors</b>					
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)	–	–	–	–	–
	–	336	7	3,720	4,063
<b>Independent non-executive directors</b>					
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
	3	–	–	1,397	1,400
Total	<u>3</u>	<u>336</u>	<u>7</u>	<u>5,117</u>	<u>5,463</u>

*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	2008
	HK\$'000	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 directors	
	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>

**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.

	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – Hong Kong		
Charge for the year	–	47
Underprovision in previous years	–	416
	–	463
Deferred tax		
Charge for the year ( <i>note 17</i> )	–	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:

	<b>2009</b>		<b>2008</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
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:

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

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

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

# 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.

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

	2009 HK\$'000	2008 HK\$'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
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)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment	–	(7)
Net cash flows used in investing activities	–	(7)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(341)	(9,288)
Cash and cash equivalents at beginning of year	418	9,706
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>77</b>	<b>418</b>

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

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
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:

	<i>HK\$'000</i>	
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>

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

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>Earnings</b>		
Loss for the year attributable to ordinary equity holders of the Company from the Disposal Group	(2,820)	(22,625)
	<b>Number of shares</b>	
	<b>2009</b>	<b>2008</b>
<b>Shares</b>		
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.

**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:

	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>Earnings</b>		
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>
<b>Number of shares</b>		
	<b>2009</b>	<b>2008</b>
<b>Shares</b>		
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>
<b>31 December 2009</b>					
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><u>787</u></u>	<u><u>357</u></u>	<u><u>107</u></u>	<u><u>–</u></u>	<u><u>1,251</u></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><u>619</u></u>	<u><u>100</u></u>	<u><u>869</u></u>	<u><u>–</u></u>	<u><u>1,588</u></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><u>619</u></u>	<u><u>100</u></u>	<u><u>869</u></u>	<u><u>–</u></u>	<u><u>1,588</u></u>

## Group

	<b>Leasehold improvements</b> <i>HK\$'000</i>	<b>Furniture and fixtures</b> <i>HK\$'000</i>	<b>Office and computer equipments</b> <i>HK\$'000</i>	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>31 December 2008</b>					
At 1 January 2008:					
Cost	–	370	360	414	1,144
Accumulated depreciation	–	(70)	(254)	(414)	(738)
Net carrying amount	<u>–</u>	<u>300</u>	<u>106</u>	<u>–</u>	<u>406</u>
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	<u>787</u>	<u>357</u>	<u>107</u>	<u>–</u>	<u>1,251</u>
At 31 December 2008:					
Cost	838	506	401	414	2,159
Accumulated depreciation	(51)	(149)	(294)	(414)	(908)
Net carrying amount	<u>787</u>	<u>357</u>	<u>107</u>	<u>–</u>	<u>1,251</u>

## Company

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

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

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.

## 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>
<b>31 December 2009</b>			
At 1 January 2009			
Cost	17	–	17
Accumulated amortisation and impairment	(17)	–	(17)
Net carrying amount	<u>–</u>	<u>–</u>	<u>–</u>
At 1 January 2009, net of accumulated amortisation and impairment			
	–	–	–
Acquisition of subsidiaries ( <i>note 32</i> )	–	482,794	482,794
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	(17)	–	(17)
Net carrying amount	<u>–</u>	<u>482,794</u>	<u>482,794</u>
<b>31 December 2008</b>			
At 1 January 2008 and 31 December 2008			
Cost	17	–	17
Accumulated amortisation and impairment	(17)	–	(17)
Net carrying amount	<u>–</u>	<u>–</u>	<u>–</u>

	<b>Company</b>	
	<b>Trade mark</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(note (a))</i>	
<b>31 December 2009</b>		
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>	<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>	<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 streams (the "Profit Streams") 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.

#### 17. DEFERRED TAX ASSETS

	<b>Accelerated depreciation</b>	<b>Group Tax losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<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>—</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

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

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.

#### 19. INTERESTS IN SUBSIDIARIES

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

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 (note (a))	BVI	1 ordinary share of US\$1 each	100	–	Investment holding
China Net-PC Limited ("CNP") (note (a))	BVI	50,000,000 ordinary share of US\$0.01 each	–	100	Investment holding
Boss Systems Limited (note (a))	BVI	100 ordinary shares of US\$1 each	–	95	Investment holding
博思(中國)信息系統有限公司 (note (a) and note (c))	The People's Republic of China	RMB60,000,000	–	95	Software development and provision of multi-media and advertising business
Boss Power Limited (note (a))	Hong Kong	1,000,000 ordinary shares of HK\$1 each	–	100	Trading of electronic equipments and components and computer products
Boss Education Limited (note (a))	Hong Kong	1,000 ordinary shares of HK\$1 each	–	51	Provision of educational and training programs
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



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	
Hanbit I & T (HK) Co., Limited ( <i>note (b)</i> )	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 ( <i>note (b)</i> )	BVI	100 ordinary shares of US\$1 each	–	100	Provision of agency services and investment holding
Quasar Communication Technology Limited ( <i>note (b)</i> )	Hong Kong	10,000 ordinary shares of HK\$1 each	–	100	Sales and marketing of mobile phone appliance solution
Synerex Inc. ( <i>note (b)</i> )	BVI	10,200 ordinary shares of US\$1 each	–	100	Investment holding
Zetta Global Limited ( <i>note (b)</i> )	Hong Kong	100 ordinary shares of HK\$1 each	–	100	Provision of management services to group companies
Zetta Media Holdings Limited ( <i>note (b)</i> )	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.

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	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Finished goods	<u>1,178</u>	<u>1,700</u>	<u>1,178</u>	<u>–</u>

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

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	2008
	HK\$'000	HK\$'000
Trade receivables	5,588	4,498
Impairment	(5,588)	(3,888)
	—	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)	—
	—	—
	—	610

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	2008
	HK\$'000	HK\$'000
Within 1 month	—	610
1 to 2 months	—	—
2 to 3 months	—	—
Over 3 months	—	—
	—	610
	—	610

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

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

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

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	—	610
Less than 1 month past due	—	—
1 to 3 months past due	—	—
Over 3 months	<u>—</u>	<u>—</u>
	<u><u>—</u></u>	<u><u>610</u></u>

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	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments	363	340	296	299
Deposits for proposed acquisitions (note (a))	25,000	30,000	25,000	30,000
Deposits for a proposed acquisition for "Nopo" (note (b))	1,993	–	1,993	–
Trade deposits paid (note (c))	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 (note (d) and note 12):				
Prepayments	(43)	–	–	–
Trade deposits paid (note (c))	(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:

- (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).

(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.

#### 24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	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	2008
	HK\$'000	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:

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

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:

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



## 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>	—	—	—	—
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	—	—	—	(86)	(86)
	<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>

## 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.

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\$
<b>Directors</b>								
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 <sup>(#1)</sup>	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	5,000,000	-	-	(5,000,000)	-	0.28
Sze Lin Tang <sup>(#2)</sup>	9 Apr 2008	9 Apr 2008 – 8 Apr 2013	2,500,000	-	-	(2,500,000)	-	0.28
Leung Wing Kin <sup>(#3)</sup>	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>	
<b>Consultant</b>								
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>	
<b>Employees</b>								
	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>	

<sup>#1</sup> 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.

<sup>#2</sup> 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.

<sup>#3</sup> 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.

**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

### 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 <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Equity component of convertible bonds <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2008	68,379	-	2,060	14,879	-	(3,585)	81,733
Equity-settled share option arrangement ( <i>note 29</i> )	-	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 ( <i>note 28</i> )	7,037	-	-	-	-	-	7,037
Share issue expenses ( <i>note 28</i> )	(86)	-	-	-	-	-	(86)
Share options lapsed during the year ( <i>note 29</i> )	-	(1,860)	-	-	-	1,860	-
Warrants lapsed during the year ( <i>note 30</i> )	-	-	(900)	-	-	900	-
Issue of convertible bonds ( <i>note 27</i> )	-	-	-	-	460,768	-	460,768
Total comprehensive income for the year	-	-	-	-	-	(54,930)	(54,930)
At 31 December 2009	<u>75,330</u>	<u>5,117</u>	<u>-</u>	<u>14,879</u>	<u>460,768</u>	<u>(64,572)</u>	<u>491,522</u>

*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 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
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>

### 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.

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>	<b>Fair value recognised on acquisition</b> <i>HK\$'000</i>	<b>Previous carrying amount</b> <i>HK\$'000</i>
Property, plant and equipment	<i>14</i>	667	667
Intangible assets*	<i>16</i>	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	<i>27</i>	<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 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
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.

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 ( <i>note a</i> )		
Rental paid	320	320
Rental deposit paid	160	160
New Era Foundation (China) Limited ( <i>note b</i> )		
Rental deposit paid	170	–

#### The Company

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

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

*Financial liabilities*

	Financial liabilities at fair value through profit or loss – designated		Financial liabilities at amortised cost	Total
	as such upon initial recognition <i>HK\$'000</i>	– held for trading <i>HK\$'000</i>		
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 – designated				Available- for-sale financial assets	Total
	as such upon initial recognition <i>HK\$'000</i>	– held for trading <i>HK\$'000</i>	Held-to- maturity investments <i>HK\$'000</i>	Loans and receivables <i>HK\$'000</i>		
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>

*Financial liabilities*

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

**31 December 2009***Financial assets***Company**

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

*Financial liabilities*

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition		Financial liabilities at amortised cost	Total
	HK\$'000	– held for trading 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 – designated as such upon initial recognition		Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
	HK\$'000	– held for trading 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>

*Financial liabilities*

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition		Financial liabilities at amortised cost	Total
	HK\$'000	– held for trading 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.

**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.

**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:

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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><u>513,408</u></u>	<u><u>76,485</u></u>
Gearing ratio	<u><u>2.8%</u></u>	<u><u>N/A</u></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.

## 3. INDEBTEDNESS

### Borrowings

As at the close of business on 30 April 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus (the "Indebtedness Date"), the Group did not have any outstanding borrowings.

### Contingent liabilities

As at 30 April 2010, the Group had no material contingent liabilities.

### Capital commitments

As at 30 April 2010, the Group had no material capital commitments.



**Operating lease commitments**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of 2 to 10 years. At 30 April 2010, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings amounting to approximately HK\$4,572,000.

**Pledge of assets**

As at 30 April 2010, the Group had no pledge of assets.

**Disclaimer**

Save as aforesaid and apart from intra-group liabilities, as at 30 April 2010 the Group had no debt securities issued and outstanding, and authorised or otherwise created but issued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured, and guaranteed, unguaranteed, secured and unsecured bank borrowings including, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there has not been any material adverse change in the indebtedness and contingent liabilities of the Group since 30 April 2010.

**4. WORKING CAPITAL**

Taking into account the internally generated funds and the estimated net proceeds from the Rights Issue (if the Rights Issue becomes unconditional), the Directors are of the opinion that the Group will have sufficient working capital for its present requirements, that is for at least 12 months from the date of this prospectus, in the absence of unforeseeable circumstances.

**5. FINANCIAL AND TRADING PROSPECTS**

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.

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, from Ascenda Cachet in respect of the unaudited pro forma financial information of the group as set out in this appendix:*

**CACHET**

**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**

15 June 2010

The Directors  
China Trends Holdings Limited  
26/F., No. 9, Des Voeux Road West,  
Sheung Wan, Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Trends Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) in connection with the proposed Rights Issue (the “Rights Issue”) on the basis of four rights shares (the “Rights Shares”) for every one share held on the record date at a subscription price of HK\$0.04 per Rights Share. The basis of preparation of the unaudited pro forma financial information is set out in Appendix II to the Prospectus.

#### **Respective Responsibilities of Directors of the Company and Reporting Accountants**

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to whom those reports were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the Directors of Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its nature, does not provide any assurance of indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2009 or at any future date;
- the results and cash flows of the Group for the year ended 31 December 2009 or for any future periods.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

**ASCENDA CACHET CPA LIMITED**  
**(Formerly Cachet Certified Public Accountants Limited)**  
Certified Public Accountants

**Chan Chi Yuen**  
Practising Certificate Number P02671

**1. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

The following unaudited pro forma financial information of the Group has been prepared to illustrate the effect of the proposed rights issue (the “Rights Issue”) on the basis of four rights shares (the “Rights Shares”) for every one share held on the record date at a subscription price of HK\$0.04 per Rights Share. The Rights Issue is fully underwritten by VC Brokerage Limited and Get Nice Securities Limited (“Get Nice Securities”) (hereinafter collectively referred to as the “Underwriters”) who have agreed to underwrite 2,732,078,000 Rights Shares and have made sub-underwriting arrangement with certain sub-underwriters such that none of the Underwriters and the sub-underwriters will be interested in 30% or more of the issued share capital of the Company as enlarged by the Rights Shares upon completion of the Rights Issue. Other than Honour Sky International Limited, a sub-underwriter who has agreed to sub-underwrite 1,236,998,000 Rights Shares under sub-underwriting arrangement with Get Nice Securities, the Underwriters and all other sub-underwriters are independent third parties. Morgan Strategic Limited has undertaken to the Company and the Underwriters that it will subscribe for 642,880,000 Right Shares to which it is entitled under the Right Issue.

The unaudited pro forma consolidated statement of comprehensive income and consolidated statement of cash flows of the Group are prepared based on the audited consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2009 as extracted from the annual report of the Company, after a number of pro forma adjustments assuming the Rights Issue had been completed on 1 January 2009.

The unaudited pro forma consolidated statement of financial position of the Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2009 as extracted from the annual report of the Group for the year ended 31 December 2009, after a number of pro forma adjustments assuming the Rights Issue had been completed on 31 December 2009.

The unaudited pro forma financial information is prepared to provide information on the Group as a result of the completion of the Rights Issue. It is prepared for illustrative purpose only and it does not purport to represent what the results, cash flows or financial position of the Group as on the completion of the Rights Issue.

## 2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE GROUP

For the year ended 31 December 2009

	Consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 HK\$'000 (Audited)	Pro-forma adjustments		Pro forma consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 as if the Rights Issue completed HK\$'000 (Unaudited)
		HK\$'000 (Unaudited) (Note a)	HK\$'000 (Unaudited) (Note b)	
REVENUE	51,183			51,183
Cost of sales	<u>(50,589)</u>			<u>(50,589)</u>
Gross profit	594			594
Other income and gains	608			608
Administrative and other operating expenses	(8,906)			(8,906)
Finance costs	–			–
Other impairment losses	(2,415)			(2,415)
Impairment of assets of a disposal group	<u>(39,655)</u>			<u>(39,655)</u>
LOSS BEFORE TAX	(49,774)			(49,774)
Income tax expense	<u>–</u>			<u>–</u>
LOSS FOR THE YEAR	<u><u>(49,774)</u></u>			<u><u>(49,774)</u></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><u>(49,774)</u></u>			<u><u>(49,774)</u></u>
Attributable to:				
Owners of the Company	(49,774)			(49,774)
Minority interests	<u>–</u>			<u>–</u>
	<u><u>(49,774)</u></u>			<u><u>(49,774)</u></u>

### 3. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE GROUP

At 31 December 2009

	Consolidated statement of financial position of the Group as at 31 December 2009 HK\$'000 (Audited)	Pro-forma adjustments		Pro forma consolidated statement of financial position of the Group as at 31 December 2009 as if the Rights Issue completed HK\$'000 (Unaudited)
		HK\$'000 (Unaudited) (Note a)	HK\$'000 (Unaudited) (Note b)	
<b>Non-current assets</b>				
Property, plant and equipment	1,588			1,588
Available-for-sale investments	–			–
Intangible assets	482,794			482,794
Deferred tax assets	–			–
Prepaid license fee	–			–
Total Non-current assets	<u>484,382</u>			<u>484,382</u>
<b>Current assets</b>				
Inventories	1,178			1,178
Contract works in progress	–			–
Trade receivables	–			–
Prepayments, deposits and other receivables	27,894			27,894
Cash and bank balances	<u>6,764</u>	134,998	(3,300)	<u>138,462</u>
Assets of a disposal group classified as held for sale	35,836			167,534
	<u>7,889</u>			<u>7,889</u>
Total current assets	<u>43,725</u>			<u>175,423</u>
<b>Current liabilities</b>				
Trade payables	–			–
Other payables and accruals	(2,727)			(2,727)
Tax payable	(46)			(46)
Due to a director	(18,520)			(18,520)
Due to a related company	–			–
	(21,293)			(21,293)
Liabilities directly associated with the assets classified as held for sale	<u>(7,889)</u>			<u>(7,889)</u>
Total current liabilities	<u>(29,182)</u>			<u>(29,182)</u>

	Consolidated statement of financial position of the Group as at 31 December 2009 <i>HK\$'000</i> (Audited)	Pro-forma adjustments <i>HK\$'000</i> (Unaudited) <i>(Note a)</i>		<i>HK\$'000</i> (Unaudited) <i>(Note b)</i>	Pro forma consolidated statement of financial position of the Group as at 31 December 2009 as if the Rights Issue completed <i>HK\$'000</i> (Unaudited)
NET CURRENT ASSETS	14,543				146,241
TOTAL ASSETS LESS CURRENT LIABILITIES	498,925				630,623
Net assets	<u>498,925</u>				<u>630,623</u>
<b>EQUITY</b>					
Equity attributable to owners of the Company					-
Issued capital	7,037	33,750			40,787
Equity component of convertible bonds	460,768				460,768
Reserves	31,120	101,248	(3,300)		129,068
Minority interests	498,925				630,623
Total equity	<u>498,925</u>				<u>630,623</u>

#### 4. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE GROUP

For the year ended 31 December 2009

	Consolidated statement of cash flows of the Group for the year ended 31 December 2009 <i>HK\$'000</i> (Audited)	Pro-forma adjustments <i>HK\$'000</i> (Unaudited) ( <i>Note a</i> )		<i>HK\$'000</i> (Unaudited) ( <i>Note b</i> )	Pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2009 as if the Rights Issue completed <i>HK\$'000</i> (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Loss before tax	(49,774)				(49,774)
Adjustments for:					
Impairment of trade receivables	1,700				1,700
Impairment of prepayments, deposits and other receivables	455				455
Written-off of property, plant and equipment	260				260
Equity-settled share option expenses	–				–
Finance costs	–				–
Interest income	(1)				(1)
Depreciation of property, plant and equipment	253				253
Impairment of assets of a disposal group	39,655				39,655
	(7,452)				(7,452)
Increase in inventories	(1,178)				(1,178)
Increase in contract works in progress	–				–
Decrease in trade receivables	610				610
Increase in prepayments, deposits and other receivables	(2,669)				(2,669)
Increase in trade payables	–				–
Increase in other payables and accruals	1,466				1,466
Decrease in amount due to a related company	(221)				(221)
	(9,444)				(9,444)
Interest received	1				1
Interest paid	–				–
Hong Kong profits tax paid	(112)				(112)
<b>Net cash flows used in operating activities</b>	<b>(9,555)</b>				<b>(9,555)</b>



	Consolidated statement of cash flows of the Group for the year ended 31 December 2009 <i>HK\$'000</i> (Audited)	Pro-forma adjustments		Pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2009 as if the Rights Issue completed
		<i>HK\$'000</i> (Unaudited) (Note a)	<i>HK\$'000</i> (Unaudited) (Note b)	<i>HK\$'000</i> (Unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of items of property, plant and equipment	(183)			(183)
Net cash inflow from acquisition of subsidiaries	798			798
Net cash outflow for disposal of subsidiaries	(77)			(77)
<b>Net cash flows from investing activities</b>	<u>538</u>			<u>538</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of trust receipt loans, net	–			–
Proceed from issue of shares, net	8,123	134,998	(3,300)	139,821
Advance from a director	68			68
<b>Net cash flows from financing activities</b>	<u>8,191</u>			<u>139,889</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(826)			130,872
Cash and cash equivalents at beginning of year	<u>7,590</u>			<u>7,590</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>6,764</u></u>			<u><u>138,462</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>				
Cash and bank balances	<u><u>6,764</u></u>	134,998	(3,300)	<u><u>138,462</u></u>

**Notes to Unaudited Pro Forma Financial Information of the Group**

- (a) The adjustment reflects a total of 3,374,958,000 Rights Shares at a subscription price of HK\$0.04 per Rights Share had been fully subscribed, assuming the completion of Rights Issue had taken place on 31 December 2009, and with a gross proceed of approximately HK\$134,998,000 received by the Company.
  
- (b) The adjustment reflects the costs directly related to the issue of the Rights Shares.

## 5. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an illustrative and unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared on the basis of the notes set out below for illustrating the effect of the Rights Issue on the consolidated net tangible assets of the Group as if it had taken place on 31 December 2009. This pro forma financial information has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 31 December 2009 or any future date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the consolidated net tangible assets of the Group as at 31 December 2009 as set out in the financial information of the Group in Appendix I of this prospectus and is adjusted for the effect of the Rights Issue.

	Consolidated net tangible assets of the Group as at 31 December 2009 <i>(Note 1)</i> <i>HK\$'000</i>	Estimated net proceeds from the Rights Issue <i>(Note 2)</i> <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group after the Rights Issue <i>HK\$'000</i>	Consolidated net tangible assets of the Group per Share as at 31 December 2009 <i>(Note 3)</i> <i>HK\$</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share as at 31 December 2009 <i>(Note 4)</i> <i>HK\$</i>
Based on the Subscription Price of HK\$0.04 per Rights Share	16,131	131,698	147,829	0.02	0.04

*Notes:*

1. The consolidated net tangible assets of the Group as at 31 December 2009 is arrived at by deducting the intangible assets of approximately HK\$482,794,000 from the net assets of the Group of approximately HK\$498,925,000 as at 31 December 2009.
2. The estimated net proceeds from the Rights Issue are calculated based on 3,374,958,000 Rights Shares to be issued at the Subscription Price of HK\$0.04 per Rights Share, after deduction of the estimated related legal and professional expenses and listing fees of approximately HK\$3,300,000.
3. The calculation of consolidated net tangible assets value of the Group per Share as at 31 December 2009 is based on the consolidated net tangible assets of the Group of approximately HK\$16,131,000 and the 703,739,500 Shares in issue as at 31 December 2009.
4. The calculation of unaudited pro forma adjusted consolidated net tangible assets value of the Group per Share as at 31 December 2009 is based on the unaudited pro forma adjusted consolidated net tangible assets of the Group after the Rights Issue of approximately HK\$147,829,000 and 4,218,697,500 shares in issue immediately following the completion of the Rights Issue.
5. No adjustment has been made to reflect the trading results or other transaction of the Group entered into subsequent to 31 December 2009.

## 1. RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

## 2. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

### (a) Share capital

Authorised capital:		<i>HK\$</i>
<u>30,000,000,000</u>	ordinary shares of HK\$0.01 each	<u>300,000,000</u>
Issued and fully paid or credited as fully paid:		
843,739,500	ordinary shares of HK\$0.01 each as at the Latest Practicable Date	8,437,395
3,374,958,000	Rights Shares to be issued	33,749,580
<u>4,218,697,500</u>		<u>42,186,975</u>

All the Shares in issue and the Rights Shares (when allotted and fully paid) to be issued rank pari passu with each other in all respects including as regards to dividends and voting rights.

### (b) Share Options

As at the Latest Practicable Date, there were the outstanding options granted by the Company to subscribe for an aggregate of 27,500,000 Shares at the exercise price of HK\$0.28 per Share pursuant to the Share Option Scheme.

**(c) Convertible Bonds**

As at the Latest Practicable Date, the Convertible Bonds in the principal amount of HK\$595,000,000 of which 4,760,000,000 Shares may be issued pursuant thereto at the conversion price of HK\$0.125 per Share (subject to adjustment). Details of the Convertible Bonds are set out in the circular of the Company dated 26 May 2009.

As at the Latest Practicable Date, save for the Share Options and the Convertible Bonds, there were no other convertible securities or exchangeable of the Company outstanding.

**3. DISCLOSURE OF INTERESTS****(a) Director's and chief executive's interests in the Company**

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

*(i) Interest in the underlying Shares of the Company – Share Options*

Name	Date of grant	Exercisable period	Nature of interest	Exercise price per Share (HK\$)	Number of underlying Shares for Share Options	Approximately percentage of interests
Xiang Xin	9 April 2008	9 April 2008 to 8 April 2013	Beneficial owner	0.28	5,000,000 (L)	0.59%
Wong Chak Keung	9 April 2008	9 April 2008 to 8 April 2013	Beneficial owner	0.28	5,000,000 (L)	0.59%
Zhang Zhan Liang	9 April 2008	9 April 2008 to 8 April 2013	Beneficial owner	0.28	2,500,000 (L)	0.30%

*(ii) Interest in the underlying Shares of the Company – Convertible Bonds*

Name	Nature of interest	Number of underlying Shares for Convertible Bonds	Approximately percentage of interests
Xiang Xin ( <i>note 2</i> )	Interest of controlled corporation	1,621,520,000 (L)	192.18%
Wong Chak Keung	Beneficial owner	32,967,600 (L)	3.91%

*(iii) Interest in unissued Shares*

Name	Nature of interest	Number of unissued Shares held	Approximately percentage of interests
Xiang Xin ( <i>note 3</i> )	Interest of controlled corporation	1,236,998,000 (L)	146.61%

*Notes:*

1. The letter “L” denotes the Shareholders’ long position in the Shares.
2. The underlying Shares of the Company are held by Honour Sky. Mr. Xiang Xin is the sole director of Honour Sky and Mr. Xiang’s family member(s) (excluding Mr. Xiang) is/are the ultimate beneficiaries of Honour Sky.
3. Honour Sky, a sub-underwriter who has agreed to sub-underwrite 1,236,998,000 Rights Shares under sub-underwriting arrangement with Get Nice Securities. Accordingly, Mr. Xiang Xin is taken to be interested in 1,236,998,000 unissued Shares.

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

**(b) Substantial shareholders and other persons’ interests in Shares and underlying Shares**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10%

or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Group:

(i) *Interest in issued Shares*

Name	Nature of interest	Number of Shares held	Approximately percentage of interests
Morgan Strategic Limited	Beneficial owner	160,720,000 (L)	19.05%
Top Ten International s.a.r.l. (note 2)	Interest of controlled corporation	160,720,000 (L)	19.05%
Chen Darren (note 2)	Interest of controlled corporation	160,720,000 (L)	19.05%
Tao Xue Juan (note 3)	Interest of controlled corporation	160,720,000 (L)	19.05%
Nopo Group Limited	Beneficial owner	140,000,000 (L)	16.59%
Song Xia (note 4)	Interest of controlled corporation	140,000,000 (L)	16.59%

(ii) *Interest in the underlying Shares of the Company – Convertible Bonds*

Name	Nature of interest	Number of underlying Shares for Convertible Bonds	Approximately percentage of interests
China Technology Education Trust Association (note 5)	Beneficial owner	2,460,176,000 (L)	291.58%
Honour Sky	Beneficial owner	1,621,520,000 (L)	192.18%
Chinese Star (PTC) Ltd. (note 6)	Interest of controlled corporation	1,621,520,000 (L)	192.18%
Kung Ching (note 6)	Interest of controlled corporation	1,621,520,000 (L)	192.18%
HSBC International Trustee Limited (note 7)	Interest of controlled corporation and trustee of a trust	1,621,520,000 (L)	192.18%
Ocean Space Development Limited	Beneficial owner	330,520,000 (L)	39.17%
Zhang Shao Cai (note 8)	Interest of controlled corporation	330,520,000 (L)	39.17%

Name	Nature of interest	Number of underlying Shares for Convertible Bonds	Approximately percentage of interests
Metropower Holdings Limited	Beneficial owner	153,848,800 (L)	18.23%
Timepeak Holdings Limited ( <i>note 9</i> )	Interest of controlled corporation	153,848,800 (L)	18.23%
Wang Yan Li ( <i>note 9</i> )	Interest of controlled corporation	153,848,800 (L)	18.23%
Morgan Strategic	Beneficial owner	128,000,000 (L)	15.17%
Top Ten International s.a r.l. ( <i>note 2</i> )	Interest of controlled corporation	128,000,000 (L)	15.17%
Chen Darren ( <i>note 2</i> )	Interest of controlled corporation	128,000,000 (L)	15.17%
Tao Xue Juan ( <i>note 3</i> )	Interest of controlled corporation	128,000,000 (L)	15.17%

*(iii) Interest in unissued Shares*

Name	Nature of interest	Number of unissued Shares held	Approximately percentage of interests ( <i>note 19</i> )
VC Brokerage ( <i>note 10</i> )	Beneficial owner	1,495,080,000 (L)	177.20%
VC Financial Group Limited ( <i>note 11</i> )	Interest of controlled corporation	1,495,080,000 (L)	177.20%
Value Convergence Holdings Limited ( <i>note 11</i> )	Interest of controlled corporation	1,495,080,000 (L)	177.20%
Get Nice Securities ( <i>note 12</i> )	Beneficial owner	1,236,998,000 (L)	146.61%
Get Nice Incorporated ( <i>note 13</i> )	Beneficial owner	1,236,998,000 (L)	146.61%
Get Nice Holdings Limited ( <i>note 13</i> )	Interest of controlled corporation	1,236,998,000 (L)	146.61%



Name	Nature of interest	Number of unissued Shares held	Approximately percentage of interests (note 19)
Honour Sky (note 14)	Beneficial owner	1,236,998,000 (L)	146.61%
Chinese Star (PTC) Ltd. (note 6)	Interest of controlled corporation	1,236,998,000 (L)	146.61%
Kung Ching (note 6)	Interest of controlled corporation	1,236,998,000 (L)	146.61%
HSBC International Trustee Limited (note 7)	Interest of controlled corporation and trustee of a trust	1,236,998,000 (L)	146.61%
Kingston Securities Limited (note 15)	Beneficial owner	300,000,000 (L)	35.56%
Galaxy Sky Investments Limited (note 16)	Interest of controlled corporation	300,000,000 (L)	35.56%
Eagle Mission Limited (note 16)	Interest of controlled corporation	300,000,000 (L)	35.56%
Active Dynamic Limited (note 16)	Interest of controlled corporation	300,000,000 (L)	35.56%
Chu Yuet Wah (note 16)	Interest of controlled corporation	300,000,000 (L)	35.56%
Chiu Kok Wah (note 17)	Beneficial owner	125,000,000 (L)	14.81%
Chung Oi Ling Stella (note 18)	Beneficial owner	125,000,000 (L)	14.81%
Sham Tze Choi (note 19)	Beneficial owner	125,000,000 (L)	14.81%

## Notes:

1. The letter “L” denotes the Shareholders’ long position in the Shares.
2. Morgan Strategic is a private company owned 40% by Top Ten International s.a r.l. (“Top Ten”) and Top Ten is a private company wholly and beneficially owned by Mr. Chen Darren. Accordingly, Top Ten and Mr. Chen Darren are interested in the Shares and the underlying Shares of the Company held by Morgan Strategic.

3. Morgan Strategic is a private company owned 60% by Ms. Tao Xue Jun. Accordingly, Ms. Tao Xue Jun is interested in the Shares and the underlying Shares held by Morgan Strategic.
4. Nopo Group Limited is a private company wholly and beneficially owned by Ms. Song Xia. Accordingly, Ms. Song Xia is interested in the Shares held by Nopo Group Limited.
5. The underlying Shares of the Company are held by China Technology Education Trust Association (the "Association"), a society registered under the provisions of section 5A(1) of the Societies Ordinance in 2005, which is a charitable society providing charity and financial aid to education and employment in Hong Kong and Mainland China. Mr. Xiang Xin is a council member of the Association.
6. Honour Sky is a private company wholly and beneficially owned by Chinese Star (PTC) Ltd. Accordingly, Chinese Star (PTC) Ltd. is interested in the underlying Shares and unissued Shares of the Company held by Honour Sky. Ms. Kung Ching, the spouse of Mr. Xiang Xin, is also the director of Chinese Star (PTC) Ltd. and is taken to be interested in the underlying Shares and unissued Shares (see note 13 below) of the Company held by Honour Sky.
7. The underlying Shares and the unissued 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. The family members of Mr. Xiang Xin (but not including Mr. Xiang) are the discretionary beneficiaries of The New Era Development No. 1 Trust.
8. Ocean Space Development Limited, a company incorporated in the British Virgin Islands, is a private company wholly and beneficially owned by Mr. Zhang Shao Cai. Accordingly, Mr. Zhang Shao Cai is interested in the underlying Shares held by Ocean Space Development Limited.
9. Metropower Holdings Limited is a private company wholly and beneficially owned by Timepeak Holdings Limited ("Timepeak") and Timepeak is a private company wholly and beneficially owned by Mr. Wang Yan Li. Accordingly, Timepeak and Mr. Wang Yan Li are interested in the underlying Shares held by Metropower Holdings Limited.
10. VC Brokerage becomes interested in 1,495,080,000 unissued Shares of the Company by virtue of the Underwriting Agreement entered into between the Company, VC Brokerage and Get Nice Securities.
11. VC Financial Group Limited is a wholly-owned subsidiary of Value Convergence Holdings Limited and is interested in the entire issued share capital of VC Brokerage. Accordingly, VC Financial Group Limited and Value Convergence Holdings Limited are interested in the unissued Shares held by VC Brokerage.
12. Get Nice Securities becomes interested in 1,236,998,000 unissued Shares by virtue of the Underwriting Agreement entered into between the Company, VC Brokerage and Get Nice Securities.
13. Get Nice Incorporated is a wholly-owned subsidiary of Get Nice Holdings Limited and is interested in the entire issued share capital of Get Nice Securities. Accordingly, Get Nice Incorporated and Get Nice Holdings Limited are interested in the unissued Shares held by Get Nice Securities.
14. Honour Sky becomes interested in 1,236,998,000 unissued Shares by virtue of the sub-underwriting arrangement entered into between Honour Sky and Get Nice Securities.
15. Kingston Securities Limited becomes interested in 300,000,000 unissued Shares by virtue of the sub-underwriting arrangement entered into between VC Brokerage and Kingston Securities Limited.

16. Kingston Securities Limited is a wholly-owned subsidiary of Galaxy Sky Investments Limited. Galaxy Sky Investments Limited is a wholly-owned subsidiary of Eagle Mission Limited. Eagle Mission Limited is a 80% owned subsidiary of Active Dynamic Limited which in turn is wholly-owned by Chu Yuet Wah. Accordingly, each of Galaxy Sky Investments Limited, Eagle Mission Limited, Active Dynamic Limited and Chu Yuet Wah is interested in the unissued Shares held by Kingston Securities Limited.
17. Chiu Kok Wah becomes interested in 125,000,000 unissued Shares by virtue of the sub-underwriting arrangement entered into between VC Brokerage and Chiu Kok Wah.
18. Chung Oi Ling Stella becomes interested in 125,000,000 unissued Shares by virtue of the sub-underwriting arrangement entered into between VC Brokerage and Chung Oi Ling Stella.
19. Sham Tze Choi becomes interested in 125,000,000 unissued Shares by virtue of the sub-underwriting arrangement entered into between VC Brokerage and Sham Tze Choi.
20. The approximately percentage of interests in the Company is calculated on the basis of 843,739,500 Shares in issue as at the Latest Practicable Date.

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

#### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### 5. EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
Ascenda Cachet	Certified Public Accountants

Ascenda Cachet has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion herein of their letter or its name in the form and context in which it appears.

Ascenda Cachet does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## 6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this prospectus and are or may be material:

- (i) the sale and purchase agreement dated 20 September 2008 entered into between the Company and Zhuang Xiao Shan to acquire an 24% equity interests in Guangdong Allwin Culture Development Co., Limited at the consideration of HK\$25,000,000 which had been paid by the Company as a deposit. On 27 February 2009 and 30 June 2009 respectively, the Company had verbally agreed with Ms. Zhuang Xiao Shan to terminate the acquisition for the purpose of further negotiation for the terms and ways of possible cooperation and/or transaction would be entered into between the Company and Zhuang Xiao Shan on or before 30 September 2009 or such later date as the Company and Zhuang Xiao Shan may agree;
- (ii) the tenancy agreement dated 1 July 2008 entered into between the Company and New Era Group (China) Limited, a company of which Xiang Xin, a director of the Company, is also a director, pursuant to which New Era Group (China) Limited agreed to lease to the Company an office premise for a term of 36 months commencing on 1 July 2008 at a monthly rental of HK\$80,000 with the rental free period for the period from 1 July 2008 to 31 August 2008. The Company also paid a deposit of HK\$160,000 to New Era Group (China) Limited;
- (iii) the placing agreement dated 31 December 2008 entered into between the Company and China Everbright Securities (HK) Limited as the placing agent pursuant to which the Company had conditionally agreed to place, through the placing agent on a best effort basis, in aggregate of 117,290,300 placing shares to not fewer than six places at a price of HK\$0.07 per Share;
- (iv) the cooperation agreement dated 11 July 2008 entered into between Protex (China) Systems Limited and C Y Foundation to develop a computer games competition in the 30,000 internet cafes operated by C Y Foundation. Protex (China) Systems Limited will provide LED LCD-NC to the internet cafes and the C Y Foundation will provide the computer software;

- (v) the sale and purchase agreement dated 18 February 2009 entered into between the Company, Ocean Space Development Limited and Zhang Shao Cai in relation to the sale and purchase of one ordinary share of US\$1.00 in the issued share capital of Legend Century Investments Limited and the shareholder's loan owing or incurred by Legend Century Investments Limited to Ocean Space Development Limited at completion at an aggregate consideration of HK\$600,000,000;
- (vi) the assets transfer agreement dated 30 September 2009 entered into between the Company and Zhuang Xiao Shan in relation to the acquisition of the copyrights of a film library at a consideration of HK\$25,000,000;
- (vii) the sale and purchase agreement dated 10 December 2009 entered into between the Company and Nopo Group Limited in relation to the acquisition of the entire issued share capital of Nopo International Limited at a consideration of HK\$19,493,000;
- (viii) the conditional sale and purchase agreement (the "**Sale and Purchase Agreement**") dated 15 June 2009 entered into between Yu Shu Kuen and the Company in relation to the sale and purchase of the entire issued share capital of and the loan due from Ace Solution Technology Limited at a consideration of HK\$1;
- (ix) the deed of assignment and novation (the "**First Deed**") dated 30 September 2009 entered into among the Company, Yu Shu Kuen and Adventure Corporate Service Limited in relation to the assignment of all the rights and novation of all the obligations of Yu Shu Kuen to Adventure Corporate Service Limited under the Sale and Purchase Agreement;
- (x) the deed of assignment and novation dated 1 December 2009 entered into among the Company, Yu Shu Kuen and Adventure Corporate Service Limited in relation to the assignment of all the rights and novation of all the obligations of Adventure Corporate Service Limited to Yu Shu Kuen under the Sale and Purchase Agreement (as supplemented by the First Deed);
- (xi) the Underwriting Agreement;
- (xii) the non-legally binding cooperative framework agreement dated 7 May 2010 entered into between the Company and 深圳市諾普電子商務有限公司 (transliterated as Shenzhen Nopo Electronic Commerce Co., Ltd.) setting out the preliminary understanding in relation to the possible acquisition of reward redemption platform with capacity of 10 million subscribers and related assets and the consideration for the possible acquisition shall not be more than HK\$50 million and will be subject to the appraisal performed by the qualified valuer and further negotiations between the Company and 深圳市諾普電子商務有限公司 (transliterated as Shenzhen Nopo Electronic Commerce Co., Ltd.);
- (xiii) the non-legally binding cooperative framework agreement dated 14 May 2010 entered into between the Company and Yu Tone Industrial Investment Limited setting out the preliminary understanding in relation to the possible acquisition of Yu Tone Industrial

Investment Limited by the Company and the consideration for the possible acquisition will be subject to the appraisal on the assets of Yu Tone Industrial Investment Limited performed by a qualified valuer and further negotiations between the Company and the shareholder(s) of Yu Tone Industrial Investment Limited;

- (xiv) the non-legally binding cooperative framework agreement dated 28 May 2010 entered into between the Company and Joy China Group Limited setting out the preliminary understanding in relation to the possible acquisition of advertisement broadcasting platform with capacity of not less than 10 million subscribers and the consideration for the possible acquisition shall not be less than HK\$160 million and will be subject to the appraisal performed by the qualified valuer and further negotiations between the Company and Joy China Group Limited; and
- (xv) the non-legally binding cooperative framework agreement dated 3 June 2010 entered into between the Company and 博大偉業(北京)教育文化發展有限公司 (transliterated as Grand Business (Beijing) Educational and Cultural Development Company Limited) setting out the preliminary understanding in the provision of energy-saving computers and related solutions by mean of energy management contract from the Group to 博大偉業(北京)教育文化發展有限公司 to implement its multi-media education platform.

## 8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

## 9. MATERIAL ADVERSE CHANGE

Save as disclosed herein, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2009, being the date to which the latest published audited financial statements of the Group was made up.

## 10. EXPENSES

The expenses in connection with the Rights Issue, including underwriting commission, financial advisory fees, printing, registration, translation, legal and accountancy charges and listing fees are estimated to amount approximately HK\$3.3 million and are payable by the Company.

## 11. CORPORATE INFORMATION

Executive Directors

Mr. Xiang Xin (*Chairman*)  
Mr. Yang Gaocai  
Mr. Wong Chak Keung  
Mr. Law Gerald Edwin

Independent non-executive Directors	Mr. Zhang Zhan Liang Ms. Lu Yuhe Mr. Kwok Chi Hung
Audit committee	Mr. Zhang Zhan Liang ( <i>Chairman</i> ) Ms. Lu Yuhe Mr. Kwok Chi Hung
Remuneration committee	Mr. Zhang Zhan Liang ( <i>Chairman</i> ) Ms. Lu Yuhe Mr. Kwok Chi Hung
Company secretary	Mr. Wong Chak Keung, <i>CPA, CPA (Aust)</i>
Compliance officer	Mr. Xiang Xin
Authorised representatives	Mr. Xiang Xin Mr. Wong Chak Keung
Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	26/F, No. 9 Des Voeux Road West Sheung Wan Hong Kong
Auditors	Ascenda Cachet CPA Limited 13F Neich Tower 128 Gloucester Road Wanchai Hong Kong
Principal share registrar	HSBC Trustee (Cayman) Limited PO Box 484 HSBC House 68 West Bay Road Grand Cayman, KY1-1106 Cayman Islands
Hong Kong branch share registrar	Union Registrars Limited 18/F, Fook Lee Commercial Centre Town Place 33 Lockhart Road Wanchai Hong Kong

Principal bankers	Bank of China No. 1 Garden Road Hong Kong
	DBS Bank G/F, The Center 99 Queen's Road Central Central Hong Kong
	Agricultural Bank of China No. 69, Jianguomen Nei Avenue Dongcheng District Beijing, P.R.China 100005

GEM stock code	8171
Company's website	www.8171.com.hk

## 12. PARTIES INVOLVED IN THE RIGHTS ISSUE

Underwriters	VC Brokerage Limited 28/F., The Centrium 60 Wyndham Street Central, Hong Kong
	Get Nice Securities Limited 10/F, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong
Independent financial adviser to the Independent Board Committee in relation to the Rights Issue	SinoPac Securities (Asia) Limited 21/F, One Peking, 1 Peking Road Tsim Sha Tsui, Kowloon, Hong Kong
Legal advisers to the Company	<i>As to Hong Kong Law</i> Michael Li & Co 14th Floor, Printing House 6 Duddell Street Central, Hong Kong



Reporting accountants	Ascenda Cachet CPA Limited 13F Neich Tower 128 Gloucester Road Wanchai Hong Kong
Hong Kong branch share registrar	Union Registrars Limited 18/F, Fook Lee Commercial Centre Town Place 33 Lockhart Road Wanchai Hong Kong

### 13. DIRECTORS

#### Executive Directors

**Mr. Xiang Xin**, aged 47, was the Chairman of the Board. Mr. Xiang has worked in a number of large organisations 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 the chairman and the chief executive officer of China Innovation Investment Limited ("**China Innovation**"). Mr. Xiang joined the Group on 25 February 2008.

**Mr. Yang Gaocai**, aged 42, the Co-President of the Company, is actively involved in the political and business sectors in 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**, 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**, 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**, 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 (transliterated as 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.

**Ms. Lu Yuhe**, aged 33, 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**, 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.

#### **Particulars of the Directors**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
Mr. Xiang Xin ( <i>Chairman</i> )	Room 4607, Convention Plaza Apartments, 1 Harbour Road, Wan Chai, Hong Kong	Chinese
Mr. Yang Gaocai	Flat B, 26/F, Splendid Place, 39 Taikoo Shing Road, Hong Kong	Chinese
Mr. Wong Chak Keung	Flat B, 26/F, Tower 3, Metro Town, Tseung Kwan O, Hong Kong	Chinese

Name	Address	Nationality
Mr. Law Gerald Edwin	10B Tower 5, Ocean Shores, 88 O King Road, Tseung Kwan O, Hong Kong	Chinese
Mr. Zhang Zhan Liang	Room 103, 3#, Fang Cheng Yuan 2, Fang Zhuang, 100078, Feng Tai District, Beijing, PRC	Chinese
Ms. Lu Yuhe	Room 16A, Block 3, Hengxing Yuan, No.1402 Qiaoxiang Road, Futian District, Shenzhen, PRC	Chinese
Mr. Kwok Chi Hung	Flat D 8/F., Nga Yuen, 66-68 Village Road, Happy Valley, Hong Kong	Chinese

#### **Audit committee**

The Company established an audit committee on 16 July 2002 in accordance with the requirements of the GEM Listing Rules. The audit committee currently comprises all three independent non-executive Directors, Mr. Zhang Zhan Liang as the chairman and Ms. Lu Yuhe and Mr. Kwok Chi Hung as the members. 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.

#### **14. MISCELLANEOUS**

- (A) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this prospectus in which any Director is materially interested and which is significant to the business of the Group.
- (B) As at the Latest Practicable Date, none of Ascenda Cachet and any Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Group were made up.
- (C) As at the Latest Practicable Date, there was no capital of any member of the Group which was under option, or agreed conditionally or unconditionally to be put under option.
- (D) As at the Latest Practicable Date, there was no restriction affecting the remittance of profits or repatriation of capital into Hong Kong from outside Hong Kong.

- (E) As at the Latest Practicable Date, the Group had sufficient foreign exchange to pay forecasted or planned dividends and to meet its foreign exchange liabilities as they become due.
- (F) This prospectus and the accompanying form of proxy have been prepared in both English and Chinese. In the case of any discrepancies, the English texts shall prevail over their respective Chinese texts.

#### **15. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES**

A copy of each of the Prospectus Documents and the consent letter referred to in the paragraph headed “Expert” in this appendix, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

#### **16. LEGAL EFFECT**

The Prospectus Documents and all acceptances of any offer or application contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong. When an acceptance or application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

#### **17. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection during normal business hours at the head office and principal place of business in Hong Kong of the Company at 26/F, No. 9 Des Voeux Road West, Sheung Wan, Hong Kong from the date of this prospectus up to and including 30 June 2010:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the two years ended 31 December 2008 and 2009;
- (c) the accountants’ report from Ascenda Cachet on the unaudited pro forma financial information following completion of the Rights Issue, the text of which is set out in Appendix II to this prospectus;
- (d) the written consents referred to in the paragraph headed “Expert” in this appendix;
- (e) the material contracts as referred to in the paragraph headed “Material contracts” in this appendix;
- (f) the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands; and
- (g) the circular of the Company dated 26 May 2010 in relation to the Rights Issue.