ANNUAL REPORT **2010**

DBA Telecommunication (Asia) Holdings Limited

DBA 電訊(亞洲)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3335)

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Yu Longrui
(Chairman and Chief Executive Officer)
Mr. Zheng Feng
Mr. Chan Wai Chuen
Mr. Yu Longhui
Mr. Yeung Shing

Independent Non-executive Directors

Mr. Zheng Qingchang
Mr. Yu Lun
Mr. Yun Lok Ming

Authorized Representatives

Mr. Yeung Shing
Mr. Chan Wai Chuen

Audit Committee

Mr. Zheng Qingchang *(Chairman)*
Mr. Yu Lun
Mr. Yun Lok Ming

Remuneration Committee

Mr. Zheng Qingchang *(Chairman)*
Mr. Yu Lun
Mr. Yun Lok Ming

Company Secretary

Mr. Chan Wai Chuen

Auditor

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
34/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

Registered Office

P.O. Box 309 GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Unit 2307, 23rd Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong
Telephone: (852) 3106 3068
Facsimile: (852) 3106 5533

Stock Code

3335

Website

www.dba-asia.com

Cayman Islands Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Legal Advisors

(As to Hong Kong law)
Fred Kan & Co.

(As to Cayman Islands Law)
Maples and Calder

(As to the PRC law)
Chen & Co.

Principal Bankers

Agricultural Bank of China
Standard Chartered Bank (Hong Kong) Limited

Five Years Financial Summary

Following is a summary of the consolidated results and the consolidated assets and liabilities of the Group for the last five financial years prepared on a basis as stated in the notes below:

Consolidated Results

	For the year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**3,658,074**	2,110,661	1,624,925	1,197,756	670,471
Profits before tax	**299,820**	154,402	339,329	298,238	218,127
Income tax	**(62,433)**	(45,336)	(81,693)	(50,950)	(33,745)
Profit for the year	**237,387**	109,066	257,636	247,288	184,382

Consolidated Assets and Liabilities

	As at 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**545,478**	423,359	288,790	119,535	73,659
Total current assets	**1,316,976**	1,346,705	1,263,065	1,159,658	684,578
Total assets	**1,862,454**	1,770,064	1,551,855	1,279,193	758,237
Total non-current liabilities	**(100,000)**	(408,966)	(338,634)	(319,632)	–
Total current liabilities	**(318,627)**	(154,069)	(117,426)	(70,064)	(56,929)
Total liabilities	**(418,627)**	(563,035)	(456,060)	(389,696)	(56,929)
Net assets	**1,443,827**	1,207,029	1,095,795	889,497	701,308

Notes:

The summary of the consolidated assets and liabilities of the Group as at end for the five financial years ended 31 December 2010 was prepared as if the current group structure had been in existence throughout these financial years.

Financial Highlights

Year ended 31 December

	2010 RMB'000	2009 RMB'000	Increase %
Turnover			
Information technology business	**762,506**	611,174	**24.8**
Intelligent self-service business	**2,859,770**	1,466,185	**95.0**
Agency business for telecommunication products	**35,798**	33,302	**7.5**
	3,658,074	2,110,661	**73.3**
Gross Profit	**476,208**	315,307	**51.0**
Profits attributable to shareholders	**237,387**	109,066	**117.7**
Shareholders' Equity	**1,443,827**	1,207,029	**19.6**
Total Assets	**1,862,454**	1,770,064	**5.2**

		2010 RMB cents	2009 RMB cents	Increase %
Earnings per share	– Basic (Note 1)	**22.88**	10.51	**117.7**
	– Diluted (Note 2)	**21.32**	10.49	**103.2**
Net asset value per share (Note 3)		**139.2**	116.3	**19.7**
Dividends per share		**HK2.0 cents**	Nil	**N/A**

Notes:

1. The calculation of basic earnings per share is based on the profits attributable to ordinary equity shareholders of the Company of approximately RMB237,387,000 (2009: RMB109,066,000) and the weighted average number of 1,037,500,000 ordinary shares (2009: 1,037,500,000 ordinary shares) in issue during the year. Details of the calculations for the years ended 31 December 2010 and 2009 are set in note 8 to the financial statement.

2. The calculation of diluted earnings per share is based on the profits attributable to ordinary equity shareholders of the Company of approximately RMB250,141,000 (2009: RMB128,799,000) and the weighted average number of ordinary shares of 1,173,513,000 ordinary shares (2009: 1,228,047,000 ordinary shares). Details of the calculations for the year ended 31 December 2010 and 2009 are set in note 8 to the financial statement.

3. The calculation of net asset value per share for the year ended 31 December 2010 and 2009 is based on the shareholders' equity and the total number of ordinary shares in issue as at 31 December 2010 and 2009 respectively.

Financial Highlights

Year ended 31 December

	The Group	
	2010	2009
Return on equity	**16.4%**	9.0%
Return on total assets	**12.8%**	6.2%
Current ratio	**4.1**	8.7
Gearing ratio (Note 1)	**22.5%**	31.8%
Debt to equity ratio (Note 2)	**22.5%**	31.8%
Gross profit margin	**13.0%**	14.9%
Net profit margin	**6.5%**	5.2%
Average inventory turnover (Note 3)	**20.6 days**	13.0 days
Average trade receivable turnover (Note 4)	**31.5 days**	46.8 days
Average trade and bills payable turnover (Note 5)	**6.7 days**	8.1 days

Notes:

1. The calculation of gearing ratio is based on the total borrowings divided by total assets at the relevant year end dates;

2. Debt comprises interest-bearing loans;

3. The calculation of average inventory turnover is based on the average of opening and closing inventory balance divided by turnover and multiplied by 365 days;

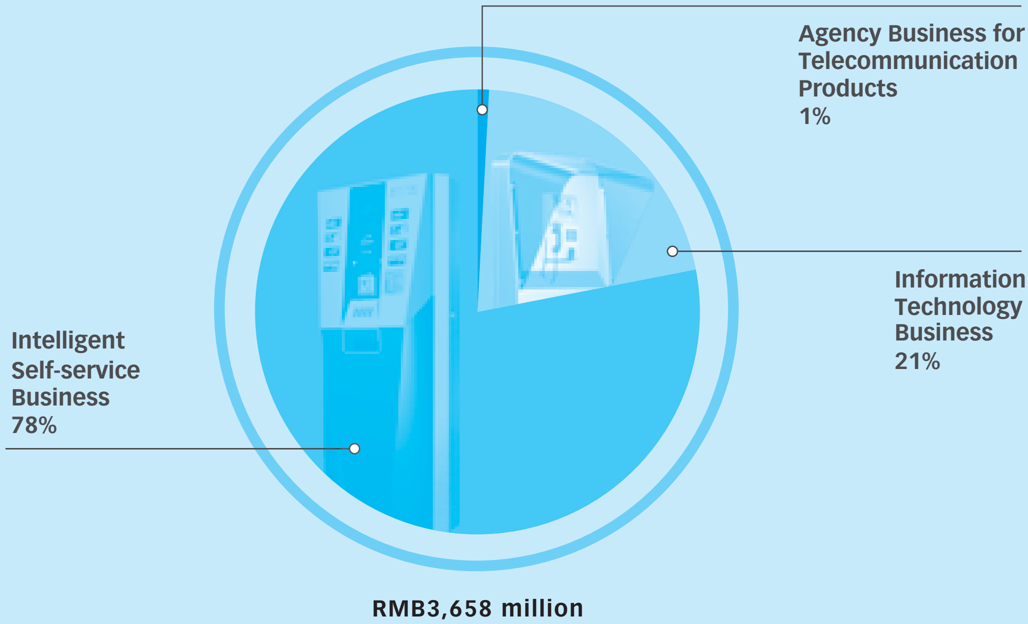
4. The calculation of average trade receivable turnover is based on the average of opening and closing balance for trade receivable, divided by turnover and multiplied by 365 days;

5. The calculation of average trade and bills payable turnover is based on the average of opening and closing for trade payable divided by total cost of sales and multiplied by 365 days.

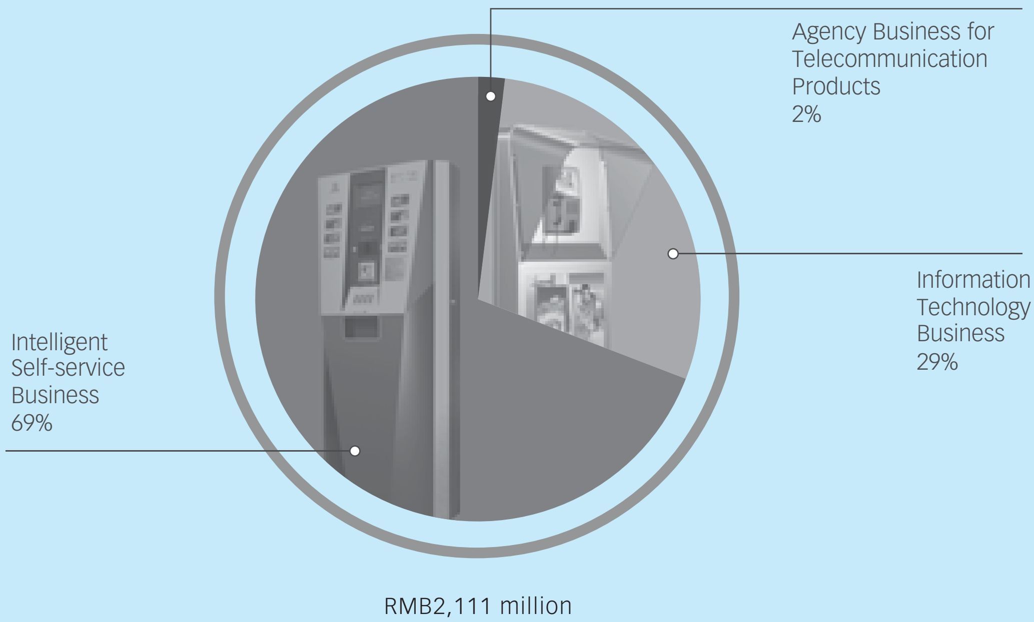
Financial Highlights

Breakdown of Turnover by Business Structure

For the year ended 31 December 2010

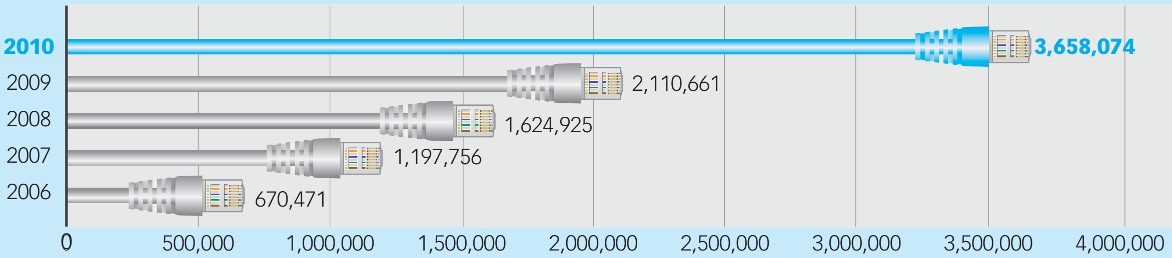


For the year ended 31 December 2009

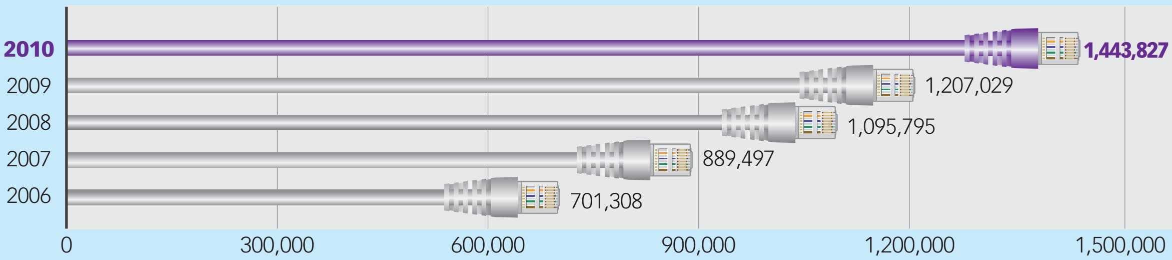


Financial Highlights

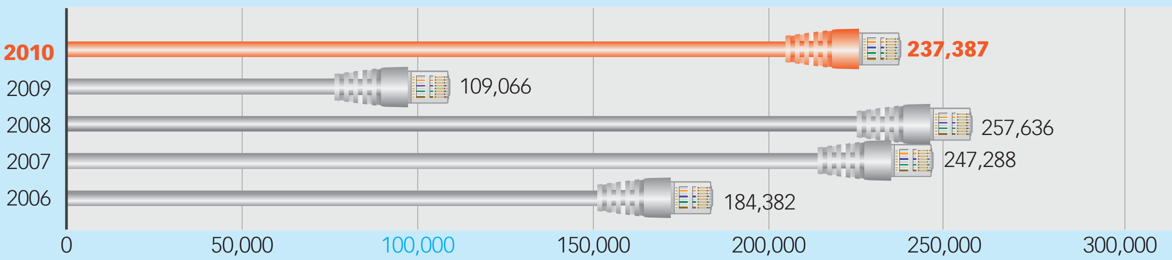
Turnover
RMB'000



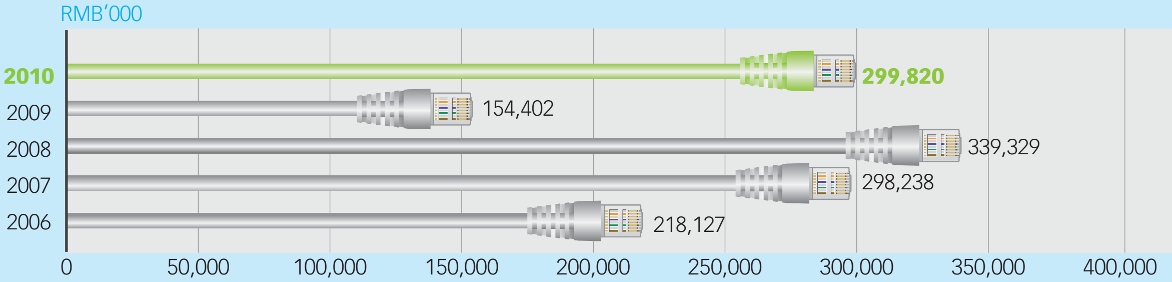
Net assets
RMB'000



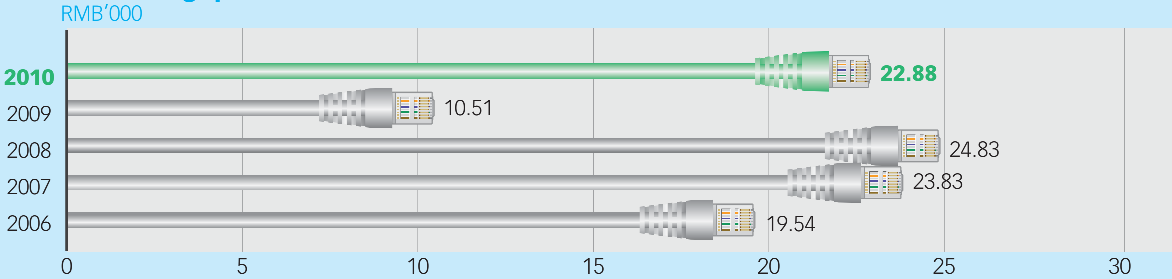
Profits attributable to shareholders
RMB'000



Profits before taxation
RMB'000



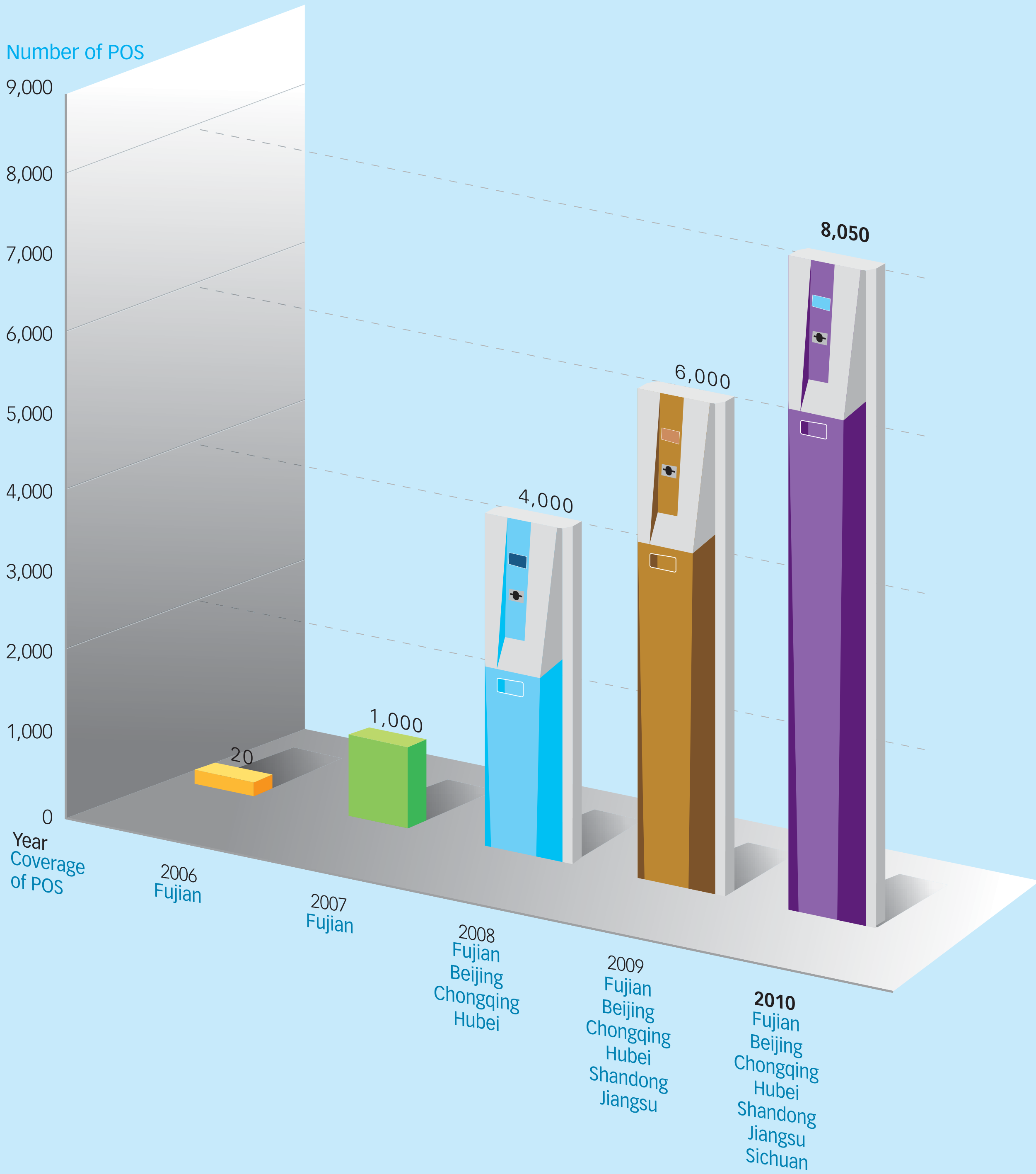
Basic earings per share
RMB'000



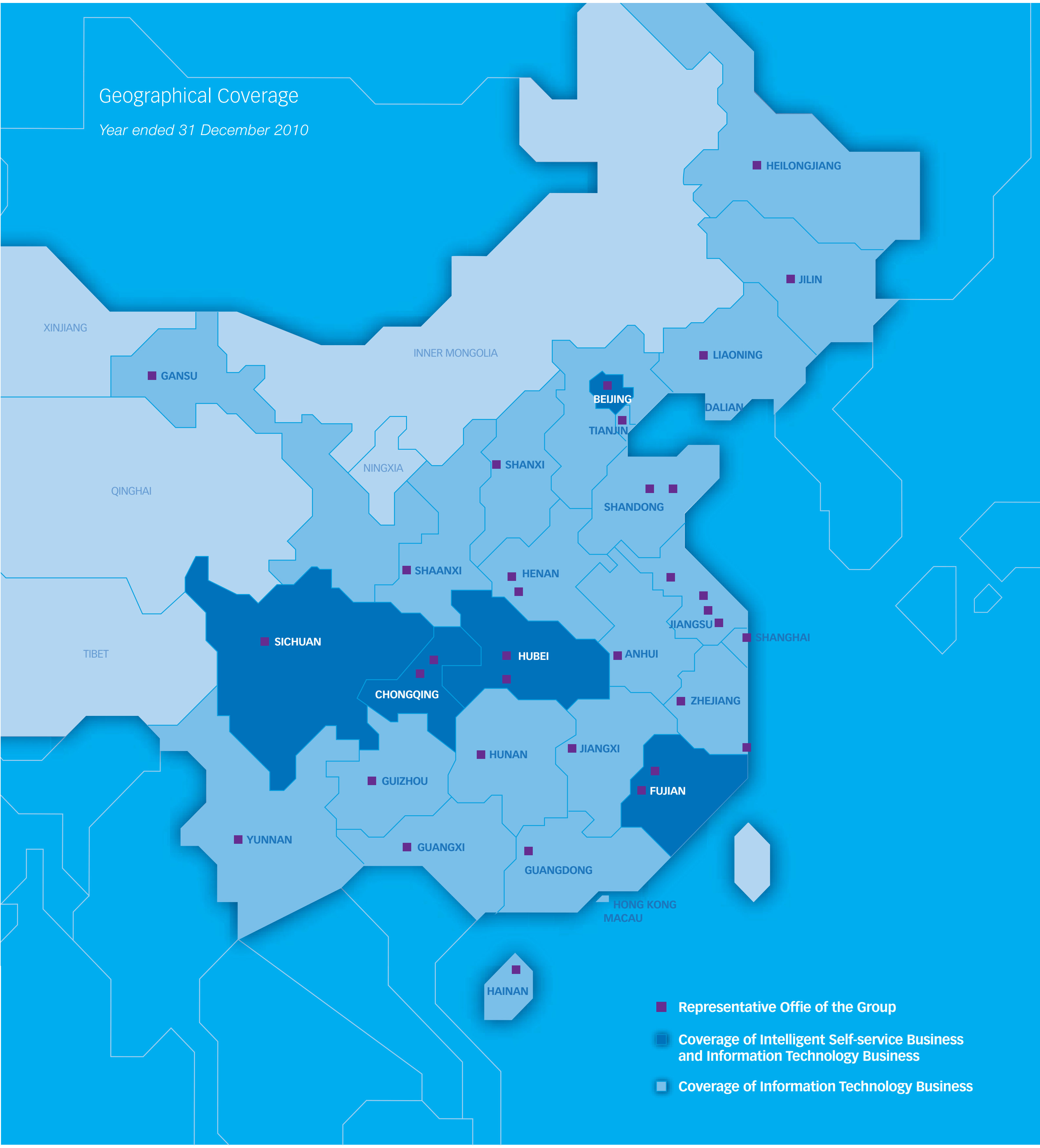
Financial Highlights

Progress of Development for Intelligent Self-service Business

As at 31 December



Financial Highlights



Chairman's Statement

On behalf of the Board of Directors (the "Board" or the "Directors"), I am delighted to announce the financial results of DBA Telecommunication (Asia) Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2010.

Business Review

The Group is principally engaged in the Information Technology Business and Intelligent Self-service Businesses.

For the year ended 31 December 2010, the Group recorded a turnover of approximately RMB3,658 million, representing an increase of 73.3%. Gross profit increase to approximately RMB476 million, representing an increase of 51.0% against last year. Profit attributable to shareholders increase to approximately RMB237 million, an increase of 117.7% against last year. Basic earnings per share were RMB22.88 cents, representing an increase of 117.7% against last year. Turnover from information technology business for the year amounted to approximately RMB763 million, an increase of 24.8% as compared with last year. Intelligent self-service business grew significantly, with total turnover of approximately RMB2,860 million, an increase of 95.0% compared period last year.

Information Technology Business

In recognition of the trend of development in the world telecommunication technology and information-based society in China, the Group implemented the strategy of "Adjustment, Consolidation and Elevation" on the structure of products and technologies for its information technology business with remarkable results. Firstly, it has established three major product categories with competitive advantages, that is city information devices, electronic intelligent equipments and systems and FTTH optical fibre connection products; Secondly, the combination of development in telecommunication technologies and industrial application technologies has expanded the market applications of the Group's technology products in the development of information-based society in China, such as prepaid IC cards for water meters, gas meter terminals and systems, and therefore further enlarge the market base of its products; and thirdly, the research and development activities of the integrated technology solutions for the targeted markets have achieved significant breakthroughs with eight copy rights and patents applications in the system-integrated management software of the integrated technology solutions. Among them, four of which have obtained the copy rights and patents, which realized the enhancement of the Group's IT technology business from hardware manufacturing to integrated technology solutions, and processed the initiative in marketing operations.

Chairman's Statement

Intelligent self-service business

The Group's intelligent self-service business principally is engaged in the provision of services for intelligent self-service payment.

For the intelligent self-service business, in response to the huge market for the technology service industry in China and the Group's strategies for the development of the intelligent self-service business, firstly, in 2010 the Group continued to roll out its intelligent self-service business by forming one additional branch in Sichuan province (the Group has already established seven branches in seven provinces and municipalities with over 8,000 intelligent self-service terminals as at 31 December 2010); secondly, the Group unleashed the potential value of intelligent self-service terminals by expanding its service scope, including the introduction of the LED advertising business and the sales of internet payment cards business into self-service terminals; thirdly, the Group introduced additional service modes and extended the span of the service industry. As of the year end of 2010, more than 3,000 retail customer e-POSs terminals (a terminal integrated telephone and financial e-payments) have been installed. The Group has successfully reached extensive agreements with China UnionPay E-Commerce Co., Ltd. (中國銀聯商務有公司) and related commercial banks on the cooperation of electronic payment services in the commercial sectors.

Financial Review

Liquidity and Financial Resources

As at 31 December 2010, the Group had total assets of approximately RMB1,862 million comprising non-current assets of approximately RMB545 million and current assets of approximately RMB1,317 million.

The Group's total borrowing has significantly reduced from approximately RMB429 million as at 31 December 2009 to approximately RMB286 million as at 31 December 2010. Such reduction was resulted from the partial repayment of the convertible bonds.

The Group's cash and cash equivalents amounted to approximately RMB496 million as at 31 December 2010. They were mostly denominated in RMB and Hong Kong dollars.

Convertible Bonds

On 8 April 2010, the Company has received early redemption notices from the Bondholders to redeem all the outstanding Bonds on 8 May 2010. As at the date of the redemption, the principal amount of all the outstanding Bonds is RMB330,000,000 and the aggregate redemption amounts, including interests or other amounts payable to the Bondholders, amount to RMB375,441,000 (the "Redemption Amount").

The Company will satisfy the payment of the Redemption Amount by the Group's internal resources. As required under the PRC laws and regulations, on 8 April 2010, the Company filed to the SAFE foreign exchange remittance applications for the payment of the Redemption Amount to the Bondholders. Subsequently, upon obtaining the approvals for some of the foreign exchange remittance applications, the Company has settled partial payments for the total amount of RMB228,793,000. As at 31 December 2010, Redemption Amounts payables remaining amounted to RMB156,107,000. As at the date of this report, the rest of the remittance applications with SAFE are still in progress. Currently, the Company is in discussion with the Bondholders with respect to a possible extension of payment schedule of the remaining Redemption Amount, which shall be made by the Company immediately upon obtaining the relevant approvals from the SAFE. The Company will issue a further announcement on the development of the payment of Redemption Amount in due course.

Capital Commitments

As at 31 December 2010, the Group had capital commitments in relation to prepaid lease payment in respect of lease and the acquisition of properties, plant and equipment amounting to approximately RMB12.7 million.

Outlook

In 2011, the Group will continue to carry out its strategic development and expansion of the information technology business and intelligent self-service businesses. The Group believes the Chinese economy and the market where the Group has a presence will further improve in 2011. It is anticipated that the scale and efficiency of the Group's overall business operations will further increase as well.

Information Technology Business

Based on our growth in 2010, the Group will continue to enhance its management efficiency by strengthening our efforts on market penetration and expansion, as well as research and development and marketing of our products. We are confident to anticipate that the IT business will grow steadily. Moreover, the Group will continue to pay close attention to business opportunities emerging from the growing market of information-based applications in the PRC. Under our philosophy of "*Seize the Present and Shape the Future*", the Group will continue to promote the development of new technology and products in a timely and appropriate manner, to keep a sustainable, solid and rapid growth of our IT business.

Intelligent Self-service Business

Upon the approval from the Ministry of Commerce of the People's Republic of China on 1 March 2011, the business scope of Wozhong Intelligent System Service (China) Co., Ltd., has been expanded to sale and recharge of utilities service prepaid cards and self-service payment of other services in addition to the sales of telecommunication, insurance and online game prepaid cards. By constructing the "*Wozhong Community Financial e-Service*" platform, the Group will take this opportunity to extend the service scope of self-service payment and recharge to all-in-one traffic card and other household consumptions.

Chairman's Statement

The Group will continue to implement its business development strategy for intelligent self-service business. At the same time, the Group will explore sustainable development opportunity and improvement in service areas and service scopes, establish and promote the "*Wozhong e-Service*" brand as well as the advertising and marketing of "*Wozhong Community Financial e-Service Platform*". Meanwhile, the Group will continue to strengthen its strategic ties with China Unionpay e-Commerce Co., Ltd., (中國銀聯商務有限公司) and commercial banks on the E-POS business, for the purpose of promoting e-payment service for business customers, and therefore maintaining continuous growth for the Group's intelligent self-service business.

In addition, the Group will continue to improve and enhance its corporate governance standards. Focus will be put on the growth of human resources to meet the operational and management needs for its business and organization expansion. The Group will also continue to make ongoing improvement to various aspects such as brand building, marketing, research and development, service loading and financial expenses control, to persistently enhance its overall competitiveness.

Dividends

Subject to approval by shareholders at the forthcoming annual general meeting on 29 April 2011, the Board has recommended the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2010 (2009: Nil).

Appreciation

On behalf of the Board, I would like to take this opportunity to express gratitude to all staff for their devotion and hard work. I would also like to extend sincere thanks to our customers and shareholders for their continuous support and trust. We will continue to strive for excellence and do our very best to maximize returns to stakeholders in the coming years.

Yu Longrui
Chairman and Chief Executive Officer

Hong Kong, 22 March 2011

Management Discussion and Analysis

Business Review

For the year ended 31 December 2010, the Group recorded a turnover of approximately RMB3,658 million, representing an increase of 73.3% against the same period last year. Gross profit amounted to approximately RMB476 million, representing an increase of 51.0% against the same period last year. Profit attributable to shareholders amounted to approximately RMB237 million, representing an increase of 117.7% against the same period last year. Earnings per share were RMB22.88 cents representing an increase of 117.7%.

Information Technology Business

Due to the implementation of the "Adjustment, Consolidation and Elevation" strategy adopted by the Board of the Group on the structure of products and technologies, the concentration of the Group's resources on its premier projects and the expansion of related technology products in 2009, the information technology business of the Group restored growth and scored satisfactory results in 2010. For the year ended 31 December 2010, turnover from the Group's information technology business increased by 24.8% to approximately RMB763 million, accounting for approximately 20.8% of the Group's total turnover.

By virtue of the Group's marketing strategy of consolidating and enhancing its premier products, the negative impacts of the economic environment and industry consolidation on its business operation were effectively mitigated. The Group has made new breakthroughs in R&D through shifting its focus on hardware development to software design and development and application of integrated technology solutions, which therefore achieved coordinated development of the hardware and software businesses, and help to further enhance the technology content and added value of the Group's products. In recognition of the trend of development of information-based society, the Group strengthened the development of new technologies and products through the integration of telecommunication technologies and industrial applications, such as wireless payment solution for Electricity Tariff and Prepaid IC Card and system for Water Meter, so as to expand the Group's product line and market presence. Meanwhile, the Group continued to step up its efforts in the development of optical fibre access products and multi-media intelligent technology products. For the year ended 31 December 2010, the Group has applied for 17 technology patents and obtained 12 utility model and software copyright patents as well as the production permits for "prepaid IC cards intelligent gas meters" (IC卡預付費智能燃氣表) and "pre-paid IC cards rechargeable water meters" (IC卡預付費充值水表) from the government. Moreover, in 2010 the Group has completed and launched various new products that are in line with the business direction of the Group and boast great synergy effects in the market, such as optic fibre splitters, intelligent self-service payment terminals for transportation and hospital use, multi-media public telephone booths, pre-paid IC card water meter and its network management system software, and pre-paid IC card gas meter and its network management system, providing a strong driving force for the growth of the manufacturing business of the Group in terms of technology and product.

With the launch of new products and in anticipation of increase of customer demand in the future, the Group has gradually put its information technology business into production in the new plants, which will further enhance production efficiency and entitle the Group to preferential tax policies, thus making a significant contribution to the Group's profitability growth.

Management Discussion and Analysis

Intelligent self-service business

The Group's intelligent self-service business continued to achieve rapid development in 2010. For the year ended 31 December 2010, turnover from the intelligent self-service segment increased by 95.0% to approximately RMB2,860 million, accounting for approximately 78.2% of the Group's total turnover. As at 31 December 2010, the Group had established over 8,000 self-service vending terminals in Fujian, Beijing, Chongqing, Hubei, Shandong, Jiangsu and Sichuan and had seen satisfactory sales of payment cards (including tele-communication payment cards), pointing to a very promising market for the product.

The Group will take the opportunity to expand its business scope. On 1 March 2011, the Group has obtained approval from the Ministry of Commerce of the People's Republic of China to further increase its business scope from sales of pre-paid cards to recharging and self-service payment services. By building the "Wozhong e-service" brand and developing an intelligent chain service "*Wozhong Community Financial e-Service Platform*", it helped boosting the growth of the Group's intelligent self-service business as well as bringing convenience to our daily lives and creating value for the public.

In addition, the Group will endeavor to enleash the potential value of its self-service terminals by introducing new services and businesses including advertising business to the service platform. Through Wozhong e-Payment Technology Service (Fujian) Co., Ltd., a wholly owned subsidiary of Wozhong Intelligent System Service (China) Co., Ltd., the Group will also extend its presence in the service industry by launching electronic payment and settlement services by cooperation with UnionPay E-Commerce Co., Ltd. and commercial banks in the commercial sector. With an extensive networks of more than 3,000 electronic payment service terminals (E-POS) (a terminal integrated telephone and financial e-payments) installed for over 3,000 retail customers in Fujian and other provinces, the Group will continue to deploy E-POS systems with major retail customers and therefore boost the aggregate growth of the Group's intelligent self-service business.

Group's Liquidity, Financial Resources and Capital Structure

As at 31 December 2010, the total shareholders' fund of the Group was approximately RMB1,443 million (2009: 1,207 million). The Group had current assets of approximately RMB1,317 million (2009: RMB1,347 million) and current liability of approximately RMB319 million (2009: RMB154 million) and the current ratio was approximately 4.1 times (2009: 8.7 times).

The Group's outstanding borrowing as at 31 December 2010 were the convertible bonds of approximately RMB156 million (2009: RMB359 million) maturing on 8 November 2012 and bank borrowings of approximately RMB130 million (2009: RMB70 million). The Group's gearing ratio (calculated as total borrowing over shareholders' equity) as at 31 December 2010 was 22.5% (2009: 31.8%).

As at 31 December 2010, the Group had cash and cash equivalents of approximately RMB496 million (2009: RMB761 million). The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

Capital Commitments

As at 31 December 2010, the Group had capital commitments in relation to prepaid lease payment in respect of lease and the acquisition of properties, plant and equipment amounting to approximately RMB12.7 million.

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2010.

Charge on the Group's Assets

As at 31 December 2010, the Group had buildings, construction in progress – buildings and prepaid lease payments with an aggregate carrying value of approximately RMB136 million (2009: RMB125 million), which were pledged to secure bank facilities granted to the Group.

Final Dividend

The Board has recommended the payment of a final dividend for the year ended 31 December 2010 of HK2.0 cents per Share (2009: Nil) to shareholders whose names appear on the register of members of the Company on 29 April 2011. Upon approval by the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on 29 April 2011, the final dividend will be paid on or before 29 July 2011.

Closure of Register of Members

The register of members of the Company will be closed between 27 April 2011 and 29 April 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for the final dividend and attending the Annual General Meeting with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 26 April 2011.

Employees and Remuneration Policies

As at 31 December 2010, the Group had approximately 1,016 employees supporting its principal activities. The Group recognizes the importance of having a high caliber and competent staff; hence it continues to provide remuneration packages to employees with reference to prevailing market practices and individuals performance. Other benefits, such as medical coverage and retirement plans, are also provided. In addition, share option may be granted to eligible employees in accordance with the terms of the Group's approved share option scheme.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2010.

Directors' Profile

Executive Directors

Yu Longrui (俞龍瑞), aged 48, is the Chairman, an executive Director and the Chief Executive Officer of the Company and co-founder of the Group. Mr. Yu is responsible for overall strategic planning and formulation of corporate policies for the Group. Mr. Yu graduated from the Fujian College of Agriculture with a bachelor's degree in economics in 1986 and completed research courses for senior factory managers organised by the Economic Management Institute of Tsinghua University in 1998 and another research course on financial studies organised by the Central University of Finance and Economics in 2002. He has more than 15 years of corporate management experience in the PRC telecommunication industry. Mr. Yu was appointed as the Vice-Chairman of the Ninth Council of the Fujian Province Youth Entrepreneur Association and was accredited as the Seventh Outstanding Youth Entrepreneurs of Fujian Province in March 2002. In September 2003, he was appointed as the executive director of the Seventh Board of Directors of the China Enterprise Confederation/China Enterprisers' Association with tenure from September 2003 to August 2008. In March 2004, Mr. Yu was accredited as the Ninth Ten Outstanding Youth Entrepreneurs of Fujian Province. Mr. Yu was appointed as a standing member of the Fujian Communication Industry Association in December 2004. In April 2006, Mr. Yu was appointed as the Vice-Chairman of Fujian Entrepreneur Association. Mr. Yu is the brother of Mr. Yu Longhui, an executive Director of the Company.

Zheng Feng (鄭鳳), aged 47, is an executive Director of the Company and is responsible for the research and development of the Group's technology and products. Mr. Zheng graduated from Xiamen University in 1988 and obtained a bachelor's degree in engineering. He also obtained a master's degree in engineering from the Huazhong University of Science and Technology in 2000. Mr. Zheng was qualified in 2001 as a senior engineer in applied electronics technology by The Fujian Province's Board of Technicians in Senior Engineering Profession. Prior to joining the Group, Mr. Zheng worked as an engineer and a group leader of the laboratory of an enterprise from 1988 to 1996 and the quality control technology manager of a network technology company from 1997 to 2002. Mr. Zheng served as the Chief Technical Officer of a technology company from 2002 to 2003. He has over 22 years of experience in the electronics and telecommunication product industries. Mr. Zheng joined the Group in July 2003.

Chan Wai Chuen (陳偉銓), aged 41, is an executive Director, the Chief Financial Officer and company secretary of the Company. Mr. Chan is responsible for overall financial planning and financial management of the Group. Mr. Chan graduated from the City University of Hong Kong in 1993 with a bachelor's honour degree in accountancy and The Hong Kong Polytechnic University in 2002 with a master's degree in corporate finance. He is a fellow of The Association of Chartered Certified Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has approximately 17 years of experience in financial control, capital market, corporate finance, and mergers and acquisitions. Since his graduation in 1993, he has worked for Ernst & Young and PricewaterhouseCoopers as an auditing and advisory professional for about six years. He then started to work for investment banks in the United Kingdom and in Hong Kong. Prior to joining the Group, he had served as the Chief Financial Officer in two Hong Kong-listed companies for about three years. Mr. Chan joined the Group in August 2004.

Directors' Profile

Yu Longhui (俞龍輝), aged 52, is an executive Director of the Company and co-founders of the Group, Mr. Yu has been the chief executive director of Skyban Telecommunication (Fujian) Limited ("Skyban Telecom"), a subsidiary of the Company, since June 2006. Mr. Yu has been responsible for the project planning and implementation of industry plans in Skyban Telecom. During the period between September 2000 and May 2006, Mr. Yu served as the director and the vice president of Fujian Deban Group Co., Ltd.. From May 1983 to August 2000, Mr. Yu worked in various positions, including senior teacher, the director of political department and the vice general secretary, of Fuqing Hygiene School, Fujian Province. Mr. Yu graduated from Fujian Medical University, formerly known as Fujian Medical College, in January 1983. He obtained a bachelor degree in business administration from Party School of The Fujian Committee of the Chinese Communist Party in December 2002. Mr. Yu further obtained a master degree in business administration from Fuzhou University in January 2005. Mr. Yu was appointed as executive Director on 1 September 2009.

Mr. Yu is the brother of Mr. Yu Longrui, the Chairman, an executive Director and the Chief Executive Officer and the controlling shareholder (as defined in the Rules Governing Listing of Securities on the Stock Exchange of Hong Kong Limited) of the Company.

Yeung Shing (楊誠), aged 48, is an executive Director of the Company and co-founder of the Group. Mr. Yeung is responsible for business development of the Group. He graduated from the Fujian Architecture and Engineering Institute in 1984 majoring in Industrial and Residential Construction. Mr. Yeung was qualified as an engineer by the Appraisal Committee for the mid-level engineering technology personnel in 1995. Mr. Yeung has over 17 years of corporate management experience in the PRC telecommunication industry.

Independent Non-executive Directors

Zheng Qingchang (鄭慶昌), aged 58, graduated from (the Fujian College of Agriculture in 1977 majoring in agricultural machinery and completed a researcher course on Marxist philosophy in the Postgraduate College of the Xiamen University in 1998. He was qualified as a professor by the Appraisal Committee of Senior Teachers of High School of Fujian Province in 1999. Mr. Zheng is the guiding teacher for doctorate program students in professional agricultural and economic management and the deputy head of the Faculty of Arts and Social Science of the Fujian Agricultural and Forestry University. He was appointed as Deputy Head of the Economic and Social Development Research Consultative Committee of the Political Consultative Conference of Fuzhou City in 2004 and the Standing Vice-Chairman of The Research Association with Fujian Province Characteristics in 2001. Mr. Zheng is also an independent non-executive director of a listed company in Shanghai. He was appointed as an independent non-executive Director of the Group on 14 April 2006.

Directors' Profile

Yu Lun (余輪), aged 59, graduated from Fuzhou University in 1986 with a master's degree in engineering. He was qualified as a professor by the Fujian Province's Board of Senior High School Teachers in August 1997 and is a professor and the head of the Faculty of Physics and Information Engineering of Fuzhou University. Mr. Yu was appointed as a standing member of the second Council and the Chairman of the Youth Technological Exchange Association of China Graphical Round Shape Club from 1994 to 1998. He was the general manager of the Fuzhou University Science and Technology Development Company from 1996 to 2003. Mr. Yu was among the Outstanding Experts of Fujian Province selected jointly by the Fujian Provincial Committee of the Chinese Communist Party and the People's Government of Fujian Province in 1997. Mr. Yu was appointed as an expert for the "Digital Fujian" program of the Experts Team Constructing the Public Technological Information Network in 2003 and a member of the Tenth Five Year Plan and 2010 Plan regarding new and high technology industry in Fujian Province in 2000. In 2001, he was appointed as an expert member of the Debate Forum for Experts in Interconnection among Telecommunication Networks of Fujian Province for four years. The Group appointed Mr. Yu as an independent non-executive Director on 14 April 2006.

Yun Lok Ming (忻樂明), aged 42, graduated from the City University of Hong Kong in 1993 with a bachelor's degree in accountancy. He then obtained a master's degree in business administration from the University of Adelaide in 2004. He is a fellow of The Association of Chartered Certified Accountants and an associate of Hong Kong Society of Accountants. Mr. Yun has more than 17 years of experience in auditing and accounting. Mr. Yun was appointed as an independent non-executive Director of the Group on 14 April 2006.

Directors' Report

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2010.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the consolidated financial statements.

Results and Dividend

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 40.

A final dividend of HK2.0 cents (2009: nil) per ordinary share has been proposed by the Directors and is subject to approval by shareholders in the forthcoming annual general meeting of the Company ("AGM").

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2010 amounted to approximately RMB260,509,000 (2009: RMB290,796,000).

Financial Summary

A summary of results, assets and liabilities of the Group for each of the five years ended 31 December 2010 is set on page 3.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

Share Capital

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

Directors' Report

Directors

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

Executive Directors

Mr. Yu Longrui *(Chairman and Chief Executive Officer)*
Mr. Zheng Feng
Mr. Chan Wai Chuen
Mr. Yu Longhui
Mr. Yeung Shing

Independent Non-executive Directors

Mr. Zheng Qingchang
Mr. Yu Lun
Mr. Yun Lok Ming

In accordance with the Article 112 of the articles of association of the Company (the "Articles of Association"), Messrs. Mr. Yu Longhui, Mr. Yeung Shing and Mr. Zheng Qingchang shall retire at the forthcoming annual general meeting of the Company ("AGM") and, being eligible, will offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of independent non-executive Directors to be independent.

Each of the independent non-executive Directors was appointed for a period commencing from his appointment date and subject to retirement by rotation at the annual general meeting.

None of the Directors proposed for re-election at the forthcoming AGM has service contract with the Company or any of its subsidiaries not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests and Short Position in Shares and Share Options

As at 31 December 2010, the interests and short positions of the directors of the Company in the shares of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Positions or Short Positions in Ordinary Shares of the Company:

		Interests in shares as at 31 December 2010					
Name of Directors	Capacity	Personal interests	Corporate interests	Total	Interests in underlying shares pursuant to share option as at 31 December 2010	Aggregate interests as at 31 December 2010	Approximate percentage of issued share capital of the Company as at 31 December 2010
Yu Longrui	Beneficial owner	28,480,000	500,680,000 (Note)	529,160,000	Nil	529,160,000	51.00%
Yu Longhui	Beneficial owner	–	500,680,000	500,680,000	Nil	500,680,000	48.26%

Note:

These 500,680,000 ordinary shares are held by Daba International Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to 77.6%, 6.86%, 5.49%, 4.57%, 2.74% and 2.74% by Mr. Yu Longrui, Mr. Yu Longhui, Ms. Yang Yahua, Mr. Yu Qiang, Mr. Yang Minyong and Mr. Mo Kaifei respectively.

Directors' Rights To Acquire Shares

Interest in Options to subscribe for shares

Pursuant to the Company's share option schemes, the Company has granted to certain directors options to subscribe the shares, details of which as at 31 December 2010 were as follows:

Name of Directors	Date of grant	Exercise period	Exercise price HK$	Number of shares subject to outstanding options at 31 December 2009	Number of shares subject to outstanding options at 31 December 2010	Approximate percentage of issued share capital of the Company at 31 December 2010
Zheng Feng	14.11.2006	01.07.2007-31.12.2009	1.26	836,000	–	–
	14.11.2006	01.07.2008-31.12.2010	1.26	832,000	832,000	0.08%
	14.11.2006	01.07.2009-31.12.2011	1.26	832,000	832,000	0.08%
				1,500,000	1,664,000	0.16%
Chan Wai Chuen	14.11.2006	01.07.2007-31.12.2009	1.26	1,280,000	–	–
	14.11.2006	01.07.2008-31.12.2010	1.26	1,260,000	–	–
	14.11.2006	01.07.2009-31.12.2011	1.26	1,260,000	1,260,000	0.12%
	03.09.2007	01.01.2009-31.12.2011	1.65	2,000,000	2,000,000	0.19%
	03.09.2007	01.01.2010-31.12.2012	1.65	2,000,000	2,000,000	0.19%
	03.09.2007	01.01.2011-31.12.2013	1.65	2,000,000	2,000,000	0.19%
	18.01.2010	01.07.2010-31.12.2013	1.26	–	1,280,000	0.12%
	06.09.2010	01.04.2011-31.12.2014	1.26	–	1,460,000	0.14%
				9,800,000	10,000,000	0.96%
Yeung Shing	03.09.2007	01.01.2009-31.12.2011	1.65	664,000	664,000	0.06%
	03.09.2007	01.01.2010-31.12.2012	1.65	668,000	668,000	0.06%
	03.09.2007	01.01.2011-31.12.2013	1.65	668,000	668,000	0.06%
				2,000,000	2,000,000	0.19%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. These options represent personal interest held by the relevant directors as beneficial owners.

3. During the year, 2,740,000 share options were granted to the directors, no option was exercised by the directors and 3,376,000 share options held by the directors was lapsed or cancelled.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any director of the Company, as at 31 December 2010, other than the interests of the directors of the Company as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Name of Shareholders	**Number of ordinary shares held as at 31 December 2010**	**Approximate percentage of the Company's issued share capital as at 31 December 2010**
Daba International Investments Limited	500,680,000 (Note)	48.26%
Chartered Asset Management Pte Ltd	113,700,000	10.96%
Sanlam Universal Funds plc	82,834,880	7.98%
CAM-GTF Limited	73,412,000	7.08%

Note: Daba International Investments Limited is beneficially owned by Mr. Yu Longrui, Mr. Yu Longhui, Ms. Yang Yahua, Mr. Yu Qiang, Mr. Yang Minyong and Mr. Mo Kafei as to 77.6%, 6.86%, 5.49%, 4.57%, 2.74% and 2.74% respectively. Mr. Yu Longrui is the spouse of Ms. Yang Yahua, brother of Mr. Yu Longhui and Mr. Yu Qiang, brother-in-law of Mr. Yang Minyong and uncle of Mr. Mo Kaifei.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2010, were entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Share Options

On 14 April 2006, the Company adopted a share option scheme (the "Scheme") providing incentives and rewards to eligible participants who have contributed to the success of the Group's operation. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the Company's shareholders. The Scheme will remain in force for 10 years from the date of adoption.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

As at the date of this report, total 24,872,000 share options (representing approximately 2.40% of the existing issued share capital of the Company at the date of this annual report) have been granted or committed to be granted pursuant to the Scheme.

Additional information in relation to the Company's share option schemes is set out in note 29 to the financial statements.

The following table discloses movements in the Company's share options during the year:

	Outstanding as at 31 December 2009	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2010
Category 1: Directors					
Zheng Feng	2,500,000	–	–	836,000	1,664,000
Chan Wai Chuen	9,800,000	2,740,000	–	2,540,000	10,000,000
Yeung Shing	2,000,000	–	–	–	2,000,000
Total for Directors	14,300,000	2,740,000	–	3,376,000	13,664,000
Category 2: Employees	10,400,000	200,000	–	2,560,000	8,040,000
Category 3: Suppliers	9,400,000	–	–	3,160,000	6,240,000
Category 4: Consultant	10,000,000	–	–	3,300,000	6,700,000
All categories	**44,100,000**	**2,940,000**	**–**	**12,396,000**	**34,644,000**

Details of specific categories of share options are as follows:

Option types	Date of grant	Exercise period	Exercise price HK$
2010	14.11.2006	01.07.2008-31.12.2010	1.26
2011	14.11.2006	01.07.2009-31.12.2011	1.26
2011a	03.09.2007	01.01.2009-31.12.2011	1.65
	02.10.2007	01.01.2009-31.12.2011	1.65
2012	03.09.2007	01.01.2010-31.12.2012	1.65
	02.10.2007	01.01.2010-31.12.2012	1.65
2013	03.09.2007	01.01.2011-31.12.2013	1.65
	02.10.2007	01.01.2011-31.12.2013	1.65
2013a	08.01.2010	01.07.2010-31.12.2013	1.26
2014	06.09.2010	01.04.2011-31.12.2014	1.26

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. During the year, 2,940,000 options were granted under the option scheme. The estimated fair value of the options granted during the year is approximately HK$0.236 per option.

3. During the year, 12,396,000 options were lapsed or cancelled under the share option scheme.

4. The fair value of the options granted under the option scheme in the current period measured at the date of grants (18 January 2010 and 6 September 2010) totalled approximately HK$693,979. The following significant assumptions were used to derive the fair value using the Binominal option pricing model:

Expected volatility:	57.40% p.a. and 57.95% p.a. for option granted on 18 January 2010 and 6 September 2010 respectively.
Expected dividend yield:	8.08% p.a.
Expected life:	3.95 year and 4.32 years for options granted on 18 January 2010 and 6 September 2010 respectively
Risk free interest rate:	1.49% and 0.86% (based on 4 year Hong Kong Sovereign) for options granted on 18 January 2010 and 6 September 2010 respectively

The Binomial option pricing model was applied to deriving the fair value of the option.

All the option forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

Based on the closing price of shares on the date of grant and above assumptions, the estimated fair value under the options granted on 18 January 2010 was approximately HK$0.23 per option share. The estimated fair value under the options granted on 6 September 2010 was approximately HK$0.24 per option share.

On 23 March 2011, the board proposed to adjust the exercise period of 14,706,000 share options granted (the "Share Options") under the Share Option Scheme by extending the exercise period of the Share Options by four years (the "Proposed Extension of Exercise Period") . Details of the Share Options are set out below:

Option Types	**No. of Share Options**	**Exercise Price**	**Current Expiry Date**	**Proposed Expiry Date**
2011	11,132,000	HK$1.26	31 December 2011	31 December 2015
2011a	3,574,000	HK$1.65	31 December 2011	31 December 2015

The Board considers the Proposed Extension of Exercise Period to be a reasonable approach to reward the holders of the Share Options (the "Optionholders") for their continuing services and contribution to the Company's performance and to continue to incentivize them to perform their utmost for the Company and that such an approaches balances the interests of both the Company and Shareholders of the Company ("Shareholders"), and these of the Optionholders.

Approval of Shareholders

Under the terms of the Share Option Scheme and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Proposed Extension of Exercise Period requires the approval of shareholders of the Company ("Shareholders") in general meeting.

The Board considers that the Proposed Extension of Exercise Period the interests of the Company and Shareholders as a whole.

Arrangement to Purchase Shares

Other than the share option schemes disclosed above, at no time during the year ended 31 December 2010 was the Company, its holding company, or any or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate, and none of the directors or the chief executive or any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or exercised any such right.

Directors' Service Contract

There is no unexpired directors' service contract that is not terminable by the Company within one year of any Director proposed for re-election at the forthcoming AGM.

Directors' Interests In Contracts Of Significance

Save as disclosed, no contract of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of year or at any time during the year.

Employees and Remuneration Policies

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of the merits, qualifications and competence of employees.

The emoluments of the Directors are decided by the Remuneration Committee with regard to the Company's operating results, individual performance and comparable market statistics. None of the directors or any of their associates, and executive is involved in deciding his own remuneration.

As at 31 December 2010, the Group had approximately 1,016 employees, an increase of approximately 21.2% from a year ago. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibilities. Moreover, the Group provides its employees with training and various benefits including medical welfare, provident funds, bonuses and other incentives. The Group also encourages employees to pursue a balanced lifestyle and provided them with a good working environment to realize their maximum potential and contribution to the Group.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes is set out in note 30 to the consolidated statements and under the heading "Share Option Scheme of the Company" in this report.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2010.

Corporate Governance

The Group continues to achieve high standards of corporate governance which it believes is crucial to the development of its business and to safeguarding the interests of the Company's shareholders.

The Company has also taken effective measures to ensure that it is in compliance with the code provisions and as far as reasonably possible the recommended best practices of the Code on Corporate Governance Practices (the "Code") which came into effect on 1 January 2005. In the opinion of the Board, the Company had complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the accounting period ended 31 December 2010, with derivations from the Code provision A.2.1 of the Code in respect of the separate roles of the Chairman and the Chief Executive Officer.

Code A.2.1 of the Code stipulates that the roles of Chairman and the Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Yu Longrui is currently the Chairman and the Chief Executive Officer of the Company.

After reviewing the management structure, the Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairman of the Board alone. Further, there is a clear division of responsibilities between the management of the Board and the day-to-day management of the business of the Company, which relies on the support of the senior management. The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same position provides the Group with stronger and more consistent leadership and allows for more effective planning.

As such, the power of management of the Company is not concentrated in any one individual. The Board considers that the present structure will not impair the balance of power and authority between the Board and the management of the Group. The Board has full confidence in Mr. Yu Longrui and believes that the current arrangement is beneficial to the business prospect of the Group.

In compliance with the code provisions of the Corporate Governance Code, the Company has an Audit Committee and a Remuneration Committee set up under the Board.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that for the year ended 31 December 2010, all Directors had complied with the required standard set out in the Model Code.

Audit Committee

The Company has an audit committee (the "Audit Committee") which was established in accordance with the requirements of the Corporate Governance Code and Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management. Mr. Zheng Qingchang is the chairman of the committee.

Remuneration Committee

The Company has a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The Remuneration Committee has three members, all independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the committee.

Nomination Committee

The Company has a nomination committee (the "Nomination Committee") with written terms of reference in compliance with Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the board of Directors on appointment of Directors and management of the succession of the board of Directors. The Nomination Committee has three members, all independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the committee.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Major Customers and Suppliers

During the year, the five largest customers of the Group in aggregate accounted for about 3% of the turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for about 34% of its total purchases for the year. Purchase from the largest supplier accounted for about 9% of the total purchases for the year.

None of the Directors, their associates or any shareholders, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had an interest in the share capital of any of the five largest suppliers and customers of the Company.

Pre-emptive Rights

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

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2010 have been audited by Crowe Horwath (HK) CPA Limited. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company.

CCIF CPA Limited retired as auditor at the annual general meeting 2009 and did not offer themselves for re-appointment following the merger of business with PCP CPA Limited resulting in Crowe Horwath (HK) CPA Limited operating as the merged firm. Crowe Horwath (HK) CPA Limited is a new member firm in Hong Kong for Crowe Horwath International.

The financial statements of the Company for the years ended 31 December 2009 and 2008 were audited by CCIF CPA Limited and there have been no other changes of auditors of the Company in past three years.

On behalf of the Board

Yu Longrui
Chairman and Chief Executive Officer

Hong Kong, 22 March 2011

Corporate Governance Report

Code on Corporate Governance Practices

The Board of Directors (the "Board") of the Company is committed to establishing and maintaining high standards of corporate governance. Prior to the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 May 2006, the Company has applied the principles of all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in appendix 14 of Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices since 2006.

Corporate Governance Practice

The Board is in the opinion that the Company has complied with the Code since 11 May 2006.

Code Provision A.2.1. stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yu Longrui is currently the Chairman and the Chief Executive Officer of the Company.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code.

Board of Directors

The Board currently consists of five executive Directors and three independent non-executive Directors. One of the independent non-executive Directors has the appropriate professional and accounting qualifications required by Rule 3.10(2) of the Listing Rules. Composition of the Board shall refer to page 2 of this annual report.

The Board is responsible for the leadership and control of the Group (comprising the Company and its subsidiaries) and oversees the Group's businesses, strategic decisions and performance. Its principal functions are to consider and approve the strategies, financial objectives, annual budget and investment proposals of the Group.

Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with other executive Directors and the management team of each business division, is responsible for managing the business of the Group, including implementation of the strategies and decisions approved by the Board and assuming full responsibility to the Board for operations of the Group.

The Board shall meet at least four times a year after listing on 11 May 2006 at approximately quarterly intervals and also as and when required. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. The Company Secretary and the Qualified Accountant shall attend all Board meetings to provide information on corporate governance, compliance, accounting and financial matters when necessary.

Corporate Governance Report

During the period from 1 January 2010 to 31 December 2010 (the "Reporting Period"), save for executive Board meetings held between executive Directors during the normal course of business of the Company, the Board had held ten regular meetings on 18 January 2010, 20 January 2010, 19 March 2010, 23 March 2010, 7 May 2010, 25 August 2010, 31 August 2010, 6 September 2010, 20 September 2010 and 22 December 2010 respectively.

The members of the Board as at 31 December 2010 and the attendance of each member for the aforesaid meetings are as follows:

Executive Directors	Number of Attendance
Mr. Yu Longrui *(Chairman and Chief Executive Officer)*	10/10
Mr. Zheng Feng	10/10
Mr. Chan Wai Chuen	10/10
Mr. Yu Longhui	10/10
Mr. Yeung Shing	10/10
Independent Non-executive Directors	
Mr. Zheng Qingchang	10/10
Mr. Yu Lun	10/10
Mr. Yun Lok Ming	10/10

The biographies of the Directors are set out on pages 18 to 20 of this annual report.

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all Directors and committee members for comments before being approved by the Board and committees at the next immediate meeting. All minutes are kept by the Company Secretary and are open for inspection by the Directors.

The Company has received annual confirmations of independence from Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming and considers them to be independent of the Group with reference to the factors as set out in Rule 3.13 of the Listing Rules.

The members of the Board have no financial, business, family or material/relevant relationship with each other except Mr. Yu Longrui, the Chairman, an executive Director and the Chief Executive Officer of the Company is the brother of Mr. Yu Longhui, the executive Directors of the Company.

All Directors (including independent non-executive Directors) are subject to retirement at annual general meeting of the Company by rotation at least once every three years in accordance with the Company's Articles of Association. All retiring Directors shall be eligible for re-election. All the independent non-executive Directors have been appointed for a term of one year commencing from 14 April 2006.

Chairman and Chief Executive Officer

Mr. Yu Longrui is currently the Chairman and the Chief Executive Officer of the Company.

After reviewing the management structure, the Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairman of the Board alone. Further, there is a clear division of responsibilities between the management of the Board and the day-to-day management of the business of the Company, which relies on the support of the senior management. The Board believes that vesting the roles of both Chairman and the Chief Executive Officer in the same position provides the Group with stronger and more consistent leadership and allows for more effective planning.

As such, the power of management of the Company is not concentrated in any one individual. The Board considers that the present structure will not impair the balance of power and authority between the Board and the management of the Group. The Board has full confidence in Mr. Yu Longrui and believes that the current arrangement is beneficial to the business prospect of the Group.

Remuneration Committee

The Company established its remuneration committee (the "Remuneration Committee") on 14 April 2006 with written terms of reference in compliance with the Code. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management of the Company. The Remuneration Committee has three members comprising the three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yun Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once a year after listing on 11 May 2006. The Remuneration Committee held one meeting during the Reporting Period on 19 March 2010, all of which were attended by all members.

Nomination Committee

The Company established nomination committee (the "Nomination Committee") on 14 April 2006 with written terms of reference in compliance with the Code. The primary duties of the Nomination Committee are to make recommendations to the Board of Directors on appointment of Directors and management of the succession of the board of Directors. The Nomination Committee has three members comprising the three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yun Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once a year after listing on 11 May 2006. The Nomination Committee held one meeting during the Reporting Period on 19 March 2010, all of which were attended by all members.

Auditor's Remuneration

The external auditors of the Group provided professional services in respect of the audit of financial statements for the year ended 31 December 2010. The external auditors of the Group also reviewed the 2010 unaudited interim financial report of the Company prepared under HKFRSs.

During the year ended 31 December 2010, the remuneration paid to the external auditors of the Group, is set out as follows:

	Fee paid/payable
	RMB'000
Services rendered	
Audit and other non-audit services	1,075

Audit Committee

The Company has established its audit committee (the "Audit Committee") on 14 May 2006 with written terms of reference in compliance with the Code. The Primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee has three members comprising the three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yun Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Audit Committee.

The Audit Committee shall meet at least twice a year after listing on 11 May 2006. The Audit Committee has held three meetings on 20 January 2010, 19 March 2010 and 31 August 2010 respectively.

All members of the Audit Committee possess in-depth experience in their own profession. One of the committee members, Mr. Yun Lok Ming, possesses appropriate professional and accounting qualifications which meet the requirements of Rule 3.10(2) of the Listing Rules.

Full minutes of Audit Committee are kept by the secretary of the Audit Committee. Draft and final version of minutes of the Audit Committee meetings are set to all members of the Audit Committee for their comment and records respectively, in both cases, within a reasonable time after the meeting.

Since 1 January 2010, the Audit Committee met with the external auditor, Crowe Horwath (HK) CPA Limited, twice on 19 March 2010 and 31 August 2010 respectively to discuss any areas of concerns during the audit. The meeting between the external auditor and the Audit Committee on 19 March 2009 was held without the presence of the management of the Company.

The Audit Committee has reviewed the audit plan of the external auditor during the course of their audit at the meeting held on 20 January 2010.

At the meeting on 19 March 2010, the Audit Committee reviewed the annual report with the external auditor without the presence of the management before submission to the Board. The Committee focus not only on the impact of the adoption of new accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements by the Group in review of the Company's annual report.

Accountability

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cashflows of the Group.

In preparing the accounts for the year ended 31 December 2010, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

Crowe Horwath (HK) CPA Limited, the auditor of the Company, acknowledges their reporting responsibilities in the auditor's report on the financial statements of the Group for the year ended 31 December 2010.

Internal Controls

The Company places great importance on internal control and risk management. The Board has overall responsibility for the Group's internal control systems and through the Audit Committee, conducts review on the effectiveness of these systems covering the financial, operational, procedural compliance and risk management functions. The process used in reviewing the effectiveness of these internal control systems includes discussion with management on risk areas identified by management. The purpose of the Group's internal control system is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems so that the Group's objectives can be achieved.

Corporate Communication

The Company is committed to a policy of open and regular communication and fair disclosure of information to the shareholders. The Company acknowledges that accurate and fair disclosure is necessary for the shareholders to form their own judgment on the operation and performance of the Group.

Investor Relations

The Company believes that effective communication with the investment community is essential for enhancing investors' knowledge and understanding of the Company's business performance and strategies. To achieve this, the Company pursues a proactive policy of promoting investor relations and communications. The main purpose of the Company's investor relations policy, therefore, is to enable investors to have access, on a fair and timely basis, to information that is reasonably required for making the best investment decisions.

Corporate Governance Report

During the year ended 31 December 2010, the Group had actively participated in investor forums and road shows held in Hong Kong and abroad. It also arranged briefings and meetings with analysts and fund managers to enhance their understanding of the Group. The Group also received regular investor audit reports from our investor relations consultant after such events; so that the management could internally discuss and review its investor relations program and communicate strategies.

Investors and the public have access to up-to-date corporate information of the Group through the corporate website of www.dba-asia.com. The website enables them to obtain information on the Group's financial performance and latest business developments.

On behalf of the Board

Yu Longrui
Chairman and Chief Executive Officer

Hong Kong, 22 March 2011

Independent Auditor's Report

國富浩華 (香港) 會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

34/F The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
DBA TELECOMMUNICATION (ASIA) HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of DBA Telecommunication (Asia) Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 40 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company, and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 22 March 2011

Betty P.C. Tse
Practising Certificate Number P03024

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
Turnover	4	**3,658,074**	2,110,661
Cost of sales		**(3,181,866)**	(1,795,354)
Gross profit		**476,208**	315,307
Other revenue	4	**10,625**	6,618
Selling and distribution expenses		**(101,904)**	(75,743)
General and administrative expenses		**(52,967)**	(65,835)
Profit from operations		**331,962**	180,347
Finance costs	5(a)	**(32,142)**	(25,945)
Profit before taxation	5	**299,820**	154,402
Income tax	6	**(62,433)**	(45,336)
Profit for the year		**237,387**	109,066
Attributable to:			
Owners of the Company	13	**237,387**	109,066
		RMB Cents	RMB Cents
Earnings per share			
– basic	8(a)	**22.88**	10.51
– diluted	8(b)	**21.32**	10.49

The notes on pages 46 to 112 form part of these financial statements.

Details of dividends payable to owners of the Company attributable to profit for the year are set out in note 7.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Profit for the year	**237,387**	109,066
Other comprehensive (loss)/income for the year		
Exchange differences on translation of financial statements of subsidiaries outside Mainland China, net of nil tax	**(317)**	627
Total comprehensive income for the year	**237,070**	109,693
Attributable to:		
Owners of the Company	**237,070**	109,693

The notes on pages 46 to 112 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Prepaid lease payments	14	**9,754**	9,984
Property, plant and equipment	15	**530,491**	413,375
Intangible assets	16	**5,233**	–
		545,478	423,359
Current assets			
Inventories	18	**314,942**	98,094
Trade receivables	19	**352,081**	279,085
Prepayments, deposits and other receivables	20	**154,180**	208,694
Cash and cash equivalents	21	**495,773**	760,832
		1,316,976	1,346,705
Current liabilities			
Trade and bills payables	22	**57,637**	58,705
Accruals and other payables	23	**55,706**	61,575
Amount due to a director	24	**84**	62
Bank loans	25	**30,000**	20,000
Bonds payable	27	**156,107**	–
Tax payables	26	**19,093**	13,727
		(318,627)	(154,069)
Net current assets		**998,349**	1,192,636
Total assets less current liabilities		**1,543,827**	1,615,995
Non-current liabilities			
Bank loans	25	**100,000**	50,000
Convertible bonds	27	**–**	358,966
		(100,000)	(408,966)
NET ASSETS		**1,443,827**	1,207,029
CAPITAL AND RESERVES	28(a)		
Share capital		**107,900**	107,900
Share premium and reserves		**1,335,927**	1,099,129
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,443,827**	1,207,029

Approved and authorised for issue by the Board of Directors on 22 March 2011

On behalf of the Board

Yu Longrui
Director

Yeung Shing
Director

The notes on pages 46 to 112 form part of these financial statements.

Statement of Financial Position

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Investment in subsidiaries	17	**212,437**	220,335
Current assets			
Prepayments, deposits and other receivables	20	**–**	220
Amounts due from subsidiaries	17	**196,177**	441,341
Cash and cash equivalents	21	**42**	21
		196,219	441,582
Current liabilities			
Accruals and other payables	23	**789**	678
Amount due to a subsidiary	17	**1,323**	1,373
Amount due to a director	24	**84**	–
Bonds payable	27	**156,107**	–
		(158,303)	(2,051)
Net current assets		**37,916**	439,531
Total assets less current liabilities		**250,353**	659,866
Non-current liabilities			
Convertible bonds	27	**–**	(358,966)
NET ASSETS		**250,353**	300,900
CAPITAL AND RESERVES	28(b)		
Share capital		**107,900**	107,900
Share premium and reserves		**142,453**	193,000
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**250,353**	300,900

Approved and authorised for issue by the Board of Directors on 22 March 2011

On behalf of the Board

Yu Longrui
Director

Yeung Shing
Director

The notes on pages 46 to 112 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

			Share premium and reserves									
	Note	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	General reserve RMB'000	Exchange reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Convertible bonds equity reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2009		107,900	215,491	(57,000)	195,680	(41,800)	79,201	7,789	648	587,886	987,895	1,095,795
Profit for the year		–	–	–	–	–	–	–	–	109,066	109,066	109,066
Other comprehensive income		–	–	–	–	627	–	–	–	–	627	627
Total comprehensive income		–	–	–	–	627	–	–	–	109,066	109,693	109,693
Transfer to reserve	28(d)(iii)	–	–	–	31,259	–	–	–	–	(31,259)	–	–
Recognition of equity– settled share-based payment	28(d)(vii)	–	–	–	–	–	–	1,541	–	–	1,541	1,541
At 31 December 2009 and 1 January 2010		107,900	215,491	(57,000)	226,939	(41,173)	79,201	9,330	648	665,693	1,099,129	1,207,029
Profit for the year		-	-	-	-	-	-	-	-	237,387	237,387	237,387
Other comprehensive loss		-	-	-	-	(317)	-	-	-	-	(317)	(317)
Total comprehensive (loss)/income		-	-	-	-	(317)	-	-	-	237,387	237,070	237,070
Redemption of convertible bonds	28(d)(viii)	-	-	-	-	-	-	-	(1,201)	-	(1,201)	(1,201)
Transfer to retained profits upon redemption of convertible bonds		-	-	-	-	-	-	-	553	(553)	-	-
Transfer to reserve	28(d)(iii)	-	-	-	41,408	-	-	-	-	(41,408)	-	-
Cancellation of share options	28(d)(vii)	-	-	-	-	-	-	(172)	-	172	-	-
Lapse of share options	28(d)(vii)	-	-	-	-	-	-	(1,226)	-	1,226	-	-
Recognition of equity-settled share-based payment	28(d)(vii)	-	-	-	-	-	-	929	-	-	929	929
At 31 December 2010		107,900	215,491	(57,000)	268,347	(41,490)	79,201	8,861	-	862,517	1,335,927	1,443,827

The notes on pages 46 to 112 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Operating activities			
Profit before taxation		**299,820**	154,402
Adjustments for:			
Interest income	4	**(3,032)**	(3,118)
Finance costs	5(a)	**32,142**	25,945
Depreciation	5(c)	**28,485**	17,522
Amortisation of prepaid lease payments	5(c)	**230**	166
Loss on disposal of property, plant and equipment	5(c)	**52**	–
Amortisation of intangible asset	5(c)	**324**	–
Equity-settled share-based payment expenses		**929**	1,541
		358,950	196,458
Change in working capital			
Decrease/(increase) in prepayments, deposits and other receivables		**54,514**	(56,547)
Increase in inventories		**(216,848)**	(46,018)
Increase in trade receivables		**(72,996)**	(16,822)
(Decrease)/increase in trade and bills payables		**(1,068)**	37,395
Decrease in accruals and other payables		**(5,869)**	(9,695)
Increase/(decrease) in amount due to a director		**22**	(21)
Cash generated from operations		**116,705**	104,750
PRC enterprise income tax paid	26	**(57,067)**	(56,372)
Net cash generated from operating activities		**59,638**	48,378
Investing activities			
Payment for prepaid lease payment		**–**	(8,727)
Payment for the intangible asset		**(5,557)**	–
Payment for the purchase of property, plant and equipment		**(145,653)**	(143,716)
Increase in pledged bank deposits		**–**	(20,000)
Interest received		**3,032**	3,118
Net cash used in investing activities		**(148,178)**	(169,325)
Financing activities			
Proceeds from new bank loans		**90,000**	70,000
Repayment of bank loans		**(30,000)**	–
Interest paid		**(18,518)**	(5,613)
Repayment of convertible bonds		**(217,684)**	–
Net cash (used in)/generated from financing activities		**(176,202)**	64,387
Net decrease in cash and cash equivalents for the year		**(264,742)**	(56,560)
Cash and cash equivalents at 1 January		**740,832**	796,765
Effect of foreign exchange rate changes		**(317)**	627
Cash and cash equivalents at 31 December	21	**475,773**	740,832

The notes on pages 46 to 112 form part of these financial statements.

1. General Information

DBA Telecommunication (Asia) Holdings Limited (the "Company") was incorporated as an exempted company and registered in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are P.O. Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands and Unit 2307, 23rd Floor, Great Eagle Center, 23 Harbour Road, Wanchai, Hong Kong respectively.

The functional currency of the Company and its subsidiaries (together the "Group") in the People's Republic of China (the "PRC") are Hong Kong dollars ("HK$") and Renminbi ("RMB") respectively. For the purposes of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency for easy reference for international investors.

The subsidiaries of the Company are principally engaged in:

a) Information technology business: the design, manufacture and sales of telecommunication equipment and related products.

b) Intelligent self-services business: sales of telecommunication value-added cards, insurance prepaid cards and online game value-added cards through intelligent self-service terminals; display of advertisements on intelligent self-service terminals; and provision of electronic payment and settlement services.

c) Agency business: trading of telecommunication products.

2. Significant Accounting Policies

a) Statement of compliance

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

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

2. Significant Accounting Policies *(Continued)*

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis as set out in the accounting policies below.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

c) Subsidiaries

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2(t)).

2. Significant Accounting Policies *(Continued)*

d) Property, plant and equipment

Property, plant and equipment are carried in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any (see nate 2 (t)).

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Construction in progress represents buildings and equipment pending installation under construction, and is carried at cost less impairment loss (see note 2(t)). Cost comprises direct costs of construction as well as interest charges during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(p)).

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

Buildings situated on leasehold land	Over the shorter of the term of the lease or 20 years
Leasehold improvements	20%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Intelligent self-service terminals	10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2. Significant Accounting Policies *(Continued)*

d) Property, plant and equipment *(Continued)*

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

An asset's carrying amount is written down immediately to its recoverable amount of the asset's carrying amount is greater than its estimated recoverable amount.

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

e) Intangible assets

Intangible assets with finite useful lives represent customer list held by the Group. The intangible assets are carried in the statement of financial position at cost less accumulated amortization and accumulated impairment loss (see note 2(t)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over its estimated useful life of 10 years. Both the useful lives and method of amortisation are reviewed annually.

f) Leased assets

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

i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2. Significant Accounting Policies *(Continued)*

f) Leased assets *(Continued)*

ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

g) Inventories

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

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

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

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

h) Trade and other receivables

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

2. Significant Accounting Policies *(Continued)*

i) Interest-bearing borrowings

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

j) Trade and other payables

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

k) Convertible bonds

Convertible bonds issued by the Company that contain liability and conversion option are classified separately into the respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, the liability component is measured at fair value. The difference between the gross proceeds of the issue of the convertible bonds and the fair values assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded conversion option is exercised (in which case the balance carried in convertible bonds equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance carried in convertible bonds equity reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

2. Significant Accounting Policies *(Continued)*

k) Convertible bonds *(Continued)*

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component is included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Upon early redemption of the convertible bonds, the early redemption consideration will be allocated to the liability component and equity component using the same allocation basis when the convertible bonds were originally issued. Differences between the fair value and the carrying amount of the liability component will be recognised in profit or loss. The difference between the early redemption consideration and the fair value of the equity component will be included in equity (convertible bonds equity reserve) and released to retained profits.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

m) Research and development costs

All research costs are charged to the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identified and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Product development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, starting from the time when the product is put into commercial production.

2. Significant Accounting Policies *(Continued)*

n) Provisions and contingent liabilities

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

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

o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods including telecommunication equipment, telecommunication value-added cards, insurance prepaid cards and online game value-added cards, are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of goods returned and any trade discounts.

ii) Agency business

Income from agency business is recognised when trading of telecommunication products are rendered.

iii) Interest income

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

iv) Electronic payment and settlement service income

Service income is recognised when the services are rendered.

v) Advertising income

Advertising income is recognised on a time proportion basis over the terms of the agreements.

2. Significant Accounting Policies *(Continued)*

p) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

q) Employee benefits

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

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

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) Termination benefits

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

2. Significant Accounting Policies *(Continued)*

r) Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees:

The accounting policy is set out in note 2(q)(ii).

Share options granted to suppliers/consultants:

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are expensed on a straight-line basis over the vesting period unless the goods or services qualify for recognition as assets. Corresponding adjustment is made to equity (share option reserve).

s) Income tax

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

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

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

2. Significant Accounting Policies *(Continued)*

s) Income tax *(Continued)*

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

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

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

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

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

2. Significant Accounting Policies *(Continued)*

s) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

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

  – the same taxable entity; or

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

t) Impairment of assets

i) Impairment of receivables

Current and non-current receivables that are carried at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

2. Significant Accounting Policies *(Continued)*

t) Impairment of assets *(Continued)*

i) Impairment of receivables (Continued)

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

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

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

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

2. Significant Accounting Policies *(Continued)*

t) Impairment of assets *(Continued)*

ii) Impairment of other assets

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

– property, plant and equipment;

– intangible assets;

– prepaid lease payments; and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

2. Significant Accounting Policies *(Continued)*

t) Impairment of assets *(Continued)*

ii) Impairment of other assets (Continued)

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Mainland China are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of operations outside Mainland China, the cumulative amount of the exchange differences recognised in equity which relate to that operations outside Mainland China is included in the calculation of the profit or loss on disposal.

The results and financial position of operations outside Mainland China are translated into the presentation currency of the Group. Assets and liabilities are translated at the closing rate at the end of the reporting period. Income and expenses are translated at exchange rate at the date of the transactions. All resulting exchange differences are recognised as exchange reserve in a separate component of equity.

2. Significant Accounting Policies *(Continued)*

v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

w) Segment reporting

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

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

3. Changes in Accounting Policies

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

- HKFRS 2 (Amendments), Group cash-settled share-based payment transactions
- HKFRS 3 (revised 2008), Business combinations
- HKAS 27 (revised 2008), Consolidated and separate financial statements
- HKAS 39 (Amendments), Financial instruments: Recognition and measurement – eligible hedged items
- HK(IFRIC) 17, Distributions of non-cash assets to owners
- HK(Int) 5, Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause
- HKFRSs (Amendments), Improvements to HKFRSs issued in 2009
- HKFRSs (Amendments), Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008

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

The amendment to HKAS 39 and the issuance of HK (Int) 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

3. Changes in Accounting Policies *(Continued)*

- The amendment introduced by the Improvements to HKFRSs(2009) omnibus standard in respect of HKAS 17, Leases, has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The impact of the amendments to HKAS 17 have not yet had a material effect on the Group's financial statements.

- The amendments to HKFRS 5 clarify that the disclosure requirements in HKFRSs other than HKFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and the disclosures are not already provided in the consolidated financial statements.

- HKFRS 2 (Amendments) become effective from 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC)11, the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

3. Changes in Accounting Policies *(Continued)*

– If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

– In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  – If the Group acquires an additional interest in a non-wholly-owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  – If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of the reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

  In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

3. Changes in Accounting Policies *(Continued)*

- Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendment to HKAS 17, Leases, arising from the "Improvements to HKFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

4. Turnover and Other Revenue

Turnover represents the invoiced value of goods sold after deducting goods returned, trade discounts and sales tax.

	2010 **RMB'000**	2009 RMB'000
Turnover		
Information technology business: the design, manufacture and sales of telecommunication equipment and related products	**762,506**	611,174
Intelligent self-services business:		
– sales of telecommunication value-added cards, insurance prepaid cards and online game value-added cards through intelligent self-service terminals, display of advertisements on intelligent self-service terminals;	**2,858,955**	1,466,185
– provision of electronic payment and settlement services	**815**	–
Agency business: trading of telecommunication products	**35,798**	33,302
	3,658,074	2,110,661
Other revenue		
Interest income on financial assets not at fair value through profit or loss – bank interest income	**3,032**	3,118
Sales of production technology of telecommunication products	**–**	3,500
Reversal for staff welfare payable	**7,569**	–
Sundry income	**24**	–
	10,625	6,618
	3,668,699	2,117,279

5. Profit Before Taxation

Profit before taxation is arrived at after charging/(crediting) the following:

a) Finance cost

	2010 RMB'000	2009 RMB'000
Interest on convertible bonds		
- Effective interest expense on convertible bonds wholly repayable within five years	**11,988**	23,632
Default interest on bonds payable	**9,459**	–
Interest on bank loans wholly repayable within five years	**7,409**	2,313
Total interest expense on financial liabilities not at fair value through profit or loss	**28,856**	25,945
Debt extinguishment loss on convertible bonds upon redemption	**3,286**	–
	32,142	25,945

b) Staff costs (including directors' emoluments)

	2010 RMB'000	2009 RMB'000
Salaries, wages and other benefits	**61,063**	58,829
Contributions to defined contribution retirement plans	**2,589**	1,290
Equity-settled share-based payment expenses	**929**	1,339
	64,581	61,458

5. Profit Before Taxation *(Continued)*

c) Other items

	2010 RMB'000	2009 RMB'000
Research and development costs (note b)	**19,337**	26,832
Operating lease payment in respect of premises	**2,150**	2,672
Amortisation of intangible assets	**324**	–
Amortisation of prepaid lease payments (note a)	**230**	166
Auditor's remuneration	**1,075**	1,051
Loss on disposal of property, plant and equipment	**52**	–
Cost of inventories (note a)	**3,181,866**	1,795,354
Depreciation (note a)	**28,485**	17,522
Less: Amount included in research and development costs	**(132)**	(120)
	28,353	17,402

Notes:

a) Cost of inventories includes RMB6,158,000 (2009: RMB8,038,000) relating to staff costs, depreciation and amortisation, which is also included in the respective total amounts disclosed separately above.

b) Included in research and development costs were depreciation of RMB132,100 (2009: RMB120,000) and staff costs of RMB6,725,000 (2009: RMB7,044,000).

6. Income Tax in the Consolidated Income Statement

a) Income tax in the consolidated income statement represents:

	2010 RMB'000	2009 RMB'000
Current tax – PRC Enterprise Income Tax for the year	**62,433**	45,336

6. Income Tax in the Consolidated Income Statement *(Continued)*

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

i) The Group had five PRC subsidiaries.

A subsidiary, Fujian Create State Industry Co., Ltd., a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 22% (2009: 20%) on the assessable profits for the year.

A subsidiary, Skyban Telecommunication (Fujian) Limited, a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 22% (2009: 20%) on the assessable profits for the year. It is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. It was under 50% reduction period for the year ended 31 December 2010.

In accordance with the Law of the PRC on Enterprise Income Tax (the "New Law") by order No. 63 of the President of the PRC issued on 16 March 2007 and Implementation Regulation of the New Law by the State Council of the PRC issued on 6 December 2007, the Enterprise Income Tax rate of Fujian Create State Industry Co., Ltd. and Skyban Telecommunication (Fujian) Limited in the PRC increased from 18% to 25% progressively from 1 January 2008 onwards.

A subsidiary, Wozhong Intelligent System Service (China) Co., Ltd., a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 25% (2009: 25%) on the assessable profits for the year.

A subsidiary, Wozhong Advertising (Fuzhou) Co., Ltd., a PRC domestic – invested company, was subject to PRC enterprise income tax at a rate of 25% (2009: 25%) on the assessable profits for the year.

A subsidiary, Wozhong e-Payment Technology Service (Fujian) Co., Ltd., a PRC domestic – invested company, was subject to PRC enterprise income tax at a rate of 25% (2009:25%) on the assessable profits for the year.

ii) No provision for Hong Kong profits tax has been made as the Group did not earn any income subject to Hong Kong profits tax during the year (2009: nil).

iii) The Group had no significant unprovided deferred tax assets or liabilities for the year or as at year end (2009: nil).

6. Income Tax in the Consolidated Income Statement *(Continued)*

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

	2010 **RMB'000**	2009 RMB'000
Profit before taxation	**299,820**	154,402
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**73,067**	34,101
Tax effect of profits entitled to tax exemption in the PRC	**(15,423)**	–
Tax effect of non-deductible expense and unused tax losses not recognised	**5,901**	5,653
Others	**(1,112)**	5,582
Actual tax expense	**62,433**	45,336

7. Dividends

Dividends payable to owners of the Company attributable to the year:

	2010 **RMB'000**	2009 RMB'000
Final dividend proposed after the end of the reporting period of HK2.00 cents per ordinary share (2009:nil)	**17,596**	–

The final dividend for 2010 proposed after the end of the reporting period is subject to shareholders' approval in the forthcoming annual general meeting. The amount has not been recognised as a liability at the end of the reporting period.

8. Earnings Per Share

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB237,387,000 (2009: RMB109,066,000) and the weighted average number of 1,037,500,000 ordinary shares (2009: 1,037,500,000 ordinary shares) in issue during the year.

8. Earnings Per Share *(Continued)*

b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of approximately RMB250,141,000 (2009: RMB128,799,000) and the weighted average number of ordinary shares of 1,173,513,000 (2009: 1,228,047,000 ordinary shares), calculated as follows:

i) Profit attributable to owners of the company (diluted)

	2010 **RMB'000**	2009 RMB'000
Profit attributable to owners	**237,387**	109,066
After tax effect of effective interest on the liability component of convertible bonds	**12,754**	19,733
Profit attributable to owners (diluted)	**250,141**	128,799

ii) Weighted average number of ordinary shares (diluted)

	2010 **'000**	2009 '000
Weighted average number of ordinary shares at 1 January	**1,037,500**	1,037,500
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 29)	**48**	–
Effect of conversion of convertible bonds (note 27)	**135,965**	190,547
Weighted average number of ordinary shares (diluted) at 31 December	**1,173,513**	1,228,047

9. Segment Reporting

Operating segments are identified on the basis of internal reports which provide information about components of the Group. These information are reported to and reviewed by the chief operating decision markers ("CODM") for the purpose of resource allocation and performance assessment. The identities of CODM are board of directors. The CODM consider the business from business activities perspective.

- Information technology business: the design, manufacture and sales of telecommunication equipment and related products.
- Intelligent self-service business: sales of telecommunication value-added cards, insurance prepaid cards and online game value-added cards through intelligent self-service terminals; display of advertisement on intelligent self-service terminals; and provision of electronic payment and settlement services.
- Agency business: trading of telecommunication products.

Currently the above Group's activities are carried out in Mainland China.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all assets other than corporate assets. Segment liabilities include all liabilities managed directly by the segments other than corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales, assistance provided self-service business segment to agency business segment, including sharing of assets and selling and distribution cost, are not measured.

Sales between segments are carried out on arm's length basis. The revenue from external parties reported to the Group's chief operating decision maker is measured in a manner consistent with that in the consolidated income statement.

The measure used for reporting segment profit is "adjusted EBITDA" i.e., "adjusted earnings before interest, taxes, depreciation and amortisation". To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditor's remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue including inter segment sales, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation and amortisation and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments and the reconciliation of the corresponding consolidated totals in the financial statements are shown below.

9. Segment Reporting *(Continued)*

Segment results, assets and liabilities *(Continued)*

a) *For the year ended 31 December 2010*

	Information technology business RMB'000	Intelligent self-service business RMB'000	Agency business RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Revenue from external customers	762,506	2,859,770	35,798	–	3,658,074
Inter-segment revenue	174,900	–	–	(174,900)	–
Reportable segment revenue	937,406	2,859,770	35,798	(174,900)	3,658,074
Reportable segment profit (adjusted EBITDA)	221,934	161,341	8,228	(21,951)	369,552
Corporate expenses					(8,551)
Finance costs					(32,142)
Depreciation and amortisation					(29,039)
Profit before taxation					299,820
Interest income from bank deposits	2,013	1,019	–	–	3,032
Finance cost	–	32,142	–	–	32,142
Depreciation and amortisation	2,455	26,584	–	–	29,039
Income tax expenses	29,850	31,394	1,189	–	62,433
Reportable segment assets	1,141,555	850,174	–	(129,670)	1,862,059
Corporate assets					395
Total assets					1,862,454
Reportable segment liabilities	56,832	341,746	–	–	398,578
Corporate liabilities					20,049
Total liabilities					418,627
Additions to non-current segment assets during the year	37,396	113,814	–	–	151,210

9. Segment Reporting *(Continued)*

Segment results, assets and liabilities *(Continued)*

b) For the year ended 31 December 2009

	Information technology business RMB'000	Intelligent self-service business RMB'000	Agency business RMB'000	Inter–segment elimination RMB'000	Consolidated RMB'000
Revenue from external customers	611,174	1,466,185	33,302	–	2,110,661
Inter-segment revenue	118,803	–	–	(118,803)	–
Reportable segment revenue	729,977	1,466,185	33,302	(118,803)	2,110,661
Reportable segment profit (adjusted EBITDA)	142,390	79,711	7,654	(21,933)	207,822
Corporate expenses					(9,787)
Finance costs					(25,945)
Depreciation and amortisation					(17,688)
Profit before taxation					154,402
Interest income from bank deposits	3,003	115	–	–	3,118
Finance costs	610	25,335	–	–	25,945
Depreciation and amortisation	2,654	15,034	–	–	17,688
Income tax expenses	29,377	14,313	1,646	–	45,336
Reportable segment assets	1,372,797	504,210	–	(107,719)	1,769,288
Corporate assets					776
Total assets					1,770,064
Reportable segment liabilities	(65,219)	(483,342)	–	–	(548,561)
Corporate liabilities					(14,474)
Total liabilities					(563,035)
Additions to non-current segment assets during the year	35,195	117,248	–	–	152,443

9. Segment Reporting *(Continued)*

Geographical segments

No analysis of the Group's turnover from external customers and non-current assets by geographical segment has been presented as all the Group's operating activities are carried out in the PRC.

Major customers

No analysis of the Group's turnover from operations by major customers has been presented as there is no transactions with a single external customer equal to or greater than 10 per cent of the Group's total revenues.

10. Staff Retirement Benefits

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance set up in accordance with the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan managed by independent trustees. Under the MPF Scheme, each relevant entity within the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-sponsored retirement plan, which is a defined contribution retirement plan operated by the local government in the PRC and these subsidiaries make mandatory contributions to the state-sponsored retirement plan to fund the employees retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to profit or loss as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC. Contributions to the plan vest immediately.

The contributions paid for the year were approximately RMB2,589,000 (2009: RMB1,290,000). As at 31 December 2010, there were no material forfeitures available to offset the Group's future contributions (2009: nil).

11. Directors' Emoluments

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	For the year ended 31 December 2010						
Name of director	Directors' fee RMB'000	Discretionary bonuses RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (note) RMB'000	Total RMB'000
Executive directors							
Mr. Yu Longrui	–	138	1,660	21	1,819	–	1,819
Mr. Zheng Feng	–	23	186	1	210	–	210
Mr. Chan Wai Chuen	–	80	1,045	21	1,146	693	1,839
Mr. Yu Longhui	–	22	180	1	203	–	203
Mr. Yeung Shing	–	17	208	21	246	88	334
Independent non-executive directors							
Mr. Yu Lun	66	–	–	–	66	–	66
Mr. Zheng Qingchang	66	–	–	–	66	–	66
Mr. Yun Lok Ming	86	–	–	–	86	–	86
	218	280	3,279	65	3,842	781	4,623

11. Directors' Emoluments *(Continued)*

	For the year ended 31 December 2009						
Name of director	Directors' fee RMB'000	Discretionary bonuses RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (note) RMB'000	Total RMB'000
Executive directors							
Mr. Yu Longrui	–	141	1,692	21	1,854	–	1,854
Mr. Zheng Feng	–	23	185	1	209	26	235
Mr. Chan Wai Chuen	–	82	1,066	21	1,169	704	1,873
Ms. Yang Yahua (resigned on 31 Aug 2009)	–	15	93	1	109	–	109
Mr. Yu Longhui (appointed on 1 Sep 2009)	–	–	53	–	53	–	53
Mr. Yeung Shing	–	18	211	21	250	222	472
Independent non-executive directors							
Mr. Yu Lun	75	–	–	–	75	–	75
Mr. Zheng Qingchang	75	–	–	–	75	–	75
Mr. Yun Lok Ming	88	–	–	–	88	–	88
	238	279	3,300	65	3,882	952	4,834

During the year, no emoluments (2009: nil) were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the directors waived or agreed to waive any remuneration for the years ended December 2010 and 2009.

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q)(ii).

12. Individuals With Highest Emoluments

Of the five individuals with the highest emoluments, four (2009: four) are directors of the Company whose emoluments are disclosed in note 11. The emoluments in respect of the remaining one (2009: one) individual is as follow:

	2010	2009
	RMB'000	RMB'000
Salaries and other benefits	**236**	241
Contributions to retirement scheme	**21**	21
Share-based payments	**85**	111
	342	373

The emoluments of the one (2009: one) individual with highest emoluments are below RMB865,000 (equivalent of HK$1,000,000) (2009: RMB881,000 (equivalent of HK$1,000,000)).

During the year ended 31 December 2010, no emolument was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2009: nil).

13. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company includes a loss of approximately RMB31,132,000 (2009: a loss of RMB30,636,000) which has been dealt with in the financial statements of the Company.

14. Prepaid Lease Payments

	The Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount at 1 January	**10,213**	1,652
Addition	**–**	8,727
Amortisation	**(230)**	(166)
Carrying amount at 31 December	**9,983**	10,213
Current portion included in prepayments, deposits and other receivables (note 20)	**(229)**	(229)
Non-current portion	**9,754**	9,984

a) All the prepaid lease payments are for land situated in the PRC under medium-term leases.

b) At 31 December 2010, all the above prepaid lease payments with an aggregate carrying value of approximately RMB9,983,000 (2009: RMB8,605,000) have been pledged to banks to secure banking facilities, as set out in note 32, granted to the Group.

c) The amortisation charge of RMB60,000 (2009: RMB43,000) and RMB170,000 (2009: RMB123,000) for the year are included in cost of sales and administrative expenses in the consolidated income statement.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Intelligent self-service terminals RMB'000	Construction in progress -intelligent self-service terminals RMB'000	Construction in progress -buildings RMB'000	Total RMB'000
Cost									
At 1/1/2009	18,583	436	20,521	5,951	4,303	162,913	–	104,312	317,019
Exchange adjustments	–	1	–	1	–	–	–	–	2
Additions	–	–	62	324	–	–	131,602	11,728	143,716
Transfer	–	–	–	–	–	117,066	(117,066)	–	–
At 31/12/2009 and 1/1/2010	18,583	437	20,583	6,276	4,303	279,979	14,536	116,040	460,737
Exchange adjustments	–	(16)	–	–	–	–	–	–	(16)
Additions	–	–	33,817	2,444	306	–	105,988	3,098	145,653
Transfer	–	–	–	–	–	120,524	(120,524)	–	–
Disposal	–	–	–	(58)	–	–	–	–	(58)
At 31/12/2010	18,583	421	54,400	8,662	4,609	400,503	–	119,138	606,316
Accumulated depreciation									
At 1/1/2009	7,908	436	10,370	4,496	2,976	3,652	–	–	29,838
Exchange adjustment	–	1	–	1	–	–	–	–	2
Charge for the year	836	–	1,326	277	256	14,827	–	–	17,522
At 31/12/2009 and 1/1/2010	8,744	437	11,696	4,774	3,232	18,479	–	–	47,362
Exchange adjustments	–	(16)	–	–	–	–	–	–	(16)
Charge for the year	836	–	1,024	484	284	25,857	–	–	28,485
Disposal	–	–	–	(6)	–	–	–	–	(6)
At 31/12/2010	9,580	421	12,720	5,252	3,516	44,336	–	–	75,825
Carrying amount									
At 31/12/2010	9,003	–	41,680	3,410	1,093	356,167	–	119,138	530,491
AT 31/12/2009	9,839	–	8,887	1,502	1,071	261,500	14,536	116,040	413,375

a) All buildings are situated in the PRC under medium-term leases.

b) At 31 December 2010, certain of the Group's buildings and all construction in progress – buildings with an aggregate carrying amount of approximately RMB125,640,000 have been pledged to banks to secure banking facilities, as set out in note 32, granted to the Group. At 31 December 2009, all construction in progress-buildings with an aggregate carrying amount of approximately RMB116,040,000 have been pledged to bank to secure banking facilities.

16. Intangible Assets

	The Group	
	2010	2009
	RMB'000	RMB'000
Cost:		
At 1 January	**–**	–
Addition	**5,557**	–
At 31 December	**5,557**	–
Accumulated amortisation:		
At 1 January	**–**	–
Charge for the year	**(324)**	–
At 31 December	**(324)**	–
Carrying amount:		
At 31 December	**5,233**	–

Intangible assets with finite useful lives represent customers list held by the Group.

The amortisation charge for the year is included in general and administrative expenses in the consolidated income statement.

17. Investment in Subsidiaries/Amount Due from/to Subsidiaries

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares at cost	**212,437**	220,335

The amounts due from/(to) subsidiaries are unsecured, non-interest-bearing and repayable on demand.

17. Investment in Subsidiaries/Amount Due from/to Subsidiaries *(Continued)*

Particulars of all subsidiaries as at 31 December 2010 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid-up/ registered capital	Proportion of ownership interest held by the Company		Principal activity
			Directly	Indirectly	
Skyban International Holdings Limited	British Virgin Islands/ Hong Kong	20,000 shares of US$1 each/ 50,000 shares of US$1 each	100%	–	Investment holding
Fujian Create State Industry Co., Ltd. (note (a))	PRC/PRC	Paid-up capital of RMB96,000,000	–	100%	Design, manufacture and sales of telecommunication equipment and related products and trading of telecommunication equipment
International Intelligent System Limited	British Virgin Islands/ Hong Kong	10,000 shares of US$1 each/ 50,000 shares of US$1 each	100%	–	Investment holding
Wozhong Intelligent System Service (China) Co., Ltd. (note (b))	PRC/PRC	Paid-up capital of RMB150,000,000	–	100%	Sales of telecommunication value-added cards, insurance prepaid cards and online game value-added cards through intelligent self-service terminals
Skyban Telecommunication (Fujian) Limited (note (c))	PRC/PRC	Paid-up capital of RMB73,000,000	–	100%	Design, manufacture and sales of telecommunication equipment and related products and trading of telecommunication equipment

17. Investment in Subsidiaries/Amount Due from/to Subsidiaries *(Continued)*

Name	Place of incorporation/ operation	Issued and fully paid-up/ registered capital	Proportion of ownership interest held by the Company Directly	Indirectly	Principal activity
Wozhong Advertising (Fuzhou) Co., Ltd. (note (d))	PRC/PRC	Paid-up capital of RMB5,000,000	–	100%	Display of advertisements on intelligent self-service terminals
Wozhong e-Payment Technology Service (Fujian) Co., Ltd. (note (e))	PRC/PRC	Paid-up capital of RMB5,000,000	–	100%	Provision of electronic payment and settlement services

a) Fujian Create State Industry Co., Ltd. was established in the PRC on 5 April 1997 as a sino-foreign equity joint venture with a registered capital of RMB30,000,000 and with an operating period of 50 years from 5 April 1997 to 4 April 2047. It was restructured into a wholly-foreign-owned enterprise on 13 November 2003. On 5 December 2006, additional registered capital of RMB66,000,000 was injected and total registered capital of the subsidiary is RMB96,000,000.

b) Wozhong Intelligent System Service (China) Co., Ltd. was established in the PRC on 30 November 2006 as a wholly-foreign-owned enterprise and with an operating period of 50 years from 30 November 2006 to 29 November 2056.

c) Skyban Telecommunication (Fujian) Limited was established in the PRC on 26 September 2008 as a wholly-foreign-owned enterprise and has an operating period of 50 years from 26 September 2006 to 25 September 2056.

d) Wozhong Advertising (Fuzhou) Co., Ltd. was established in the PRC on 21 August 2008 as a PRC domestic-invested company and has an operating period of 50 years from 21 August 2008 to 20 August 2058.

e) Wozhong e-Payment Technology Service (Fujian) Co., Ltd. was established in the PRC on 11 December 2009 as a PRC domestic – invested company and has an operating period of 50 years from 11 December 2009 to 10 December 2059.

18. Inventories

	The Group 2010 RMB'000	2009 RMB'000
Raw materials	**60,341**	50,099
Work in progress	**3,478**	1,771
Finished goods	**54,873**	28,526
General merchandise	**196,250**	17,698
Total	**314,942**	98,094

19. Trade Receivables

Sales transactions of the Group's self-service business, excluding the electronic payment and settlement services of the Group, are done on a cash basis. For the information technology business and agency business, the Group normally grants credit terms of 180 days to its customers after evaluating the business relationship with and creditworthiness of the customers. For the electronic payment and settlement services included in the intelligent self-service business, the Group normally grants credit terms of 180 days to its customers after evaluating the business relationship and creditworthiness of its customers.

a) The ageing analysis of trade receivables presented based on invoice date as at the end of the reporting period is as follows:

	The Group 2010 RMB'000	2009 RMB'000
0 to 30 days	**83,728**	53,973
31 to 60 days	**88,516**	54,190
61 to 90 days	**70,560**	53,189
91 to 180 days	**109,277**	117,733
	352,081	279,085

b) Trade receivables that are not impaired

	The Group 2010 RMB'000	2009 RMB'000
Neither past due nor impaired	**352,081**	279,085

19. Trade Receivables *(Continued)*

c) Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Credit evaluations of its customers' financial position and condition is performed on each and every major customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not hold any collateral over these balances.

The Group's credit risk management policy is set out in note 33(b).

20. Prepayments, Deposits and Other Receivables

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance to staff	**1,182**	1,578	**–**	–
Deposit for acquisition of property, plant and equipment	**55,000**	62,511	**–**	–
Deposits	**308**	307	**–**	–
Prepayment to suppliers	**96,514**	143,360	**–**	–
Prepaid expenses	**947**	709	**–**	220
Prepaid lease payments (note 14)	**229**	229	**–**	–
	154,180	208,694	**–**	220

21. Cash and Cash Equivalents

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents in the consolidated statement of financial position	**495,773**	760,832	**42**	21
Less: Pledged deposits (note (a))	**(20,000)**	(20,000)		
Cash and cash equivalents in the consolidated statement of cash flows	**475,773**	740,832		

a) The bank deposit of RMB20,000,000 (2009: RMB20,000,000) are bank deposits pledged to banks to secure credit facilities granted to the Group, as set out in note 32. The carrying amounts of the pledged deposits approximate their fair values.

b) Cash and cash equivalents of approximately RMB495,512,000 (2009: RMB760,416,000) are denominated in PRC Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

c) Cash at bank earns interest at floating rates based on daily bank deposits rates of 0.36% (2009: 0.36%) per annum.

22. Trade and Bills Payables

	The Group	
	2010	2009
	RMB'000	RMB'000
Trade payables (note (a))	**7,637**	8,705
Bills payables (note (b))	**50,000**	50,000
Total	**57,637**	58,705

a) The ageing analysis of trade payables presented based on invoice date as at the end of the reporting period is as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
0 to 30 days	**7,612**	8,559
31 to 60 days	**25**	113
61 to 90 days	**–**	–
91 to 180 days	**–**	–
181 to 365 days	**–**	–
Over 365 days	**–**	33
	7,637	8,705

b) The ageing analysis of bills payables presented based on invoice date as at the end of the reporting period is as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
0 to 30 days	**–**	–
31 to 60 days	**–**	–
61 to 90 days	**–**	40,000
91 to 180 days	**50,000**	10,000
	50,000	50,000

At 31 December 2010, the bills payable of approximately RMB50,000,000 (2009: RMB50,000,000) were secured by certain assets of the Group and personally guaranteed by Mr. Yu Longrui ("Mr. Yu"), a director of the Company as set out in note 32.

23. Accruals and Other Payables

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Staff salaries payable	**1,848**	1,873	**–**	–
Staff welfare payable	**33,259**	42,296	**–**	–
Accrued expenses	**13,690**	10,256	**789**	678
Other non-income tax	**6,909**	7,150	**–**	–
	55,706	61,575	**789**	678

All accruals and other payable are expected to be settled within one year.

24. Amount Due to a Director

The amount is unsecured, non-interest-bearing and repayable on demand.

25. Bank Loans

At 31 December 2010, the borrowings were carried at amortised cost and repayable as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Bank loans		
– secured (note (a))	**30,000**	–
– secured (note (b))	**50,000**	50,000
– secured (note (c))	**40,000**	–
– secured (note (d))	**10,000**	–
– secured (note (e))	**–**	20,000
	130,000	70,000
Representing:		
Within 1 year	**30,000**	20,000
After 2 years but within 5 years	**100,000**	50,000
	130,000	70,000

25. Bank Loans *(Continued)*

a) The bank loan of RMB30,000,000 (2009: nil) bears interest at 5.58% per annum and is repayable on 9 April 2011. This loan is secured by guarantee and certain assets held by a related party as set out in note 32.

b) The bank loans totalling RMB50,000,000 (2009: RMB50,000,000) bear interest at 5.94% per annum and are repayable on August 2012. These loans are secured by the Group's assets and guarantees as set out in note 32.

c) The bank loan of RMB40,000,000 (2009: nil) bears interest at 5.67% per annum and is repayable in instalments beginning from year 2012 to year 2013. This loan is secured by guarantee as set out in note 32.

d) The bank loan of RMB10,000,000 (2009: nil) bears interests at 0.6416% per month and is repayable on 13 January 2013. This loan is secured by the Group's assets as set out in note 32.

e) The bank loans totalling RMB20,000,000 were unsecured, bear interest at 0.5531% to 0.6416% per month and were fully repaid on 20 January 2010.

26. Income Tax in the Statement of Financial Position

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

	The Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**13,727**	24,763
PRC enterprise income tax for the year	**62,433**	45,336
PRC enterprise income tax paid	**(57,067)**	(56,372)
At 31 December	**19,093**	13,727

b) Deferred tax assets and liabilities recognised

No deferred tax (assets)/liabilities were recognised in the consolidated statement of financial position during the year (2009: nil) since the amount is insignificant.

27. Bonds Payable/Convertible Bonds

Pursuant to a bond subscription agreement dated 6 November 2007 (the "Agreement"), the Company issued convertible bonds (the "Bonds") to independent investors on 8 November 2007 for an aggregate principal amount of RMB 330,000,000, to be settled in US dollars. The bondholders have the right to convert them into ordinary shares of the Company at any time on or after 41 days from 8 November 2007 until 7 days prior to 8 November 2012. On 27 April 2009, the conversion price was adjusted from HK$2.08 to HK$1.67 per ordinary share.

The Bonds bear interest at 1% per annum, payable by the Company semi-annually in arrears and are unsecured and will mature on 8 November 2012. On the maturity date, the outstanding convertible bonds will be redeemed by the Company at 128.66% of the outstanding principal amount. Early redemption is permitted under specified circumstances.

Interest expense on the Bonds is calculated using the effective interest method by applying the effective interest rate of 6.00% per annum to the liability component.

On 8 April 2010, the Company received early redemption notices from the Trustee of the bondholders to redeem all outstanding bonds on 8 May 2010. Pursuant to the said notices, the Company shall upon the expiry of such notice, redeem the Bonds at the US dollar equivalent of its RMB principal amount multiplied by 113.27%. The Company was required to repay to the bondholders the principal sum of RMB373,791,000 and the related interests amounting to RMB1,650,000, totally RMB375,441,000 (the "Redemption Amount") on the due date. The Company planned to satisfy the payment of the Redemption Amount, which shall be settled in US dollars, by the Group's internal resources. As required under the relevant PRC laws and regulations, on 8 April 2010, the Company filed to the PRC State Administration of Foreign Exchange ("SAFE") foreign exchange remittance applications for the payment of the Redemption Amount of the Redemption Amount. The Company was unable to remit to Hong Kong the money required for the payment on 8 May 2010 because the remittance applications with the SAFE were still in progress which constituted an event of default as stated in the Agreement. The Company is subject to default interest on overdue sum at the rate of 5 percent per annum. The redemption gave rise to a debt extinguishment loss of approximately RMB3,286,000 (see note 5(a)).

During the year ended 31 December 2010, the Company has obtained approvals on various dates from SAFE of foreign exchange remittance applications and has made payments for the total amount of RMB228,793,000 representing the principal amount of RMB217,684,000, interest of RMB1,650,000 and default interest of RMB9,459,000. Since the bondholders served redemption notices and right to conversion into shares lapsed, convertible bonds were then classified as bonds payable. As at 31 December 2010 and up to the date of approval of these financial statements, redemption money payable remaining outstanding amounted to RMB156,107,000. The trustee has not taken any action against the Company in respect of the default.

27. Bonds Payable/Convertible Bonds *(Continued)*

a) Convertible bonds

The movement of the liability component of the convertible bonds for the year is set out below:

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Liability component at 1 January	**358,966**	338,634
Interest charged	**11,988**	23,632
Interest paid	**(1,650)**	(3,300)
Early redemption of bonds classified as payable during the year (note (c))	**(369,304)**	–
Liability component at 31 December	**–**	358,966

b) Bonds payable

At 30 December 2010, all outstanding bonds repayable to the bondholders are classified as current liabilities.

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Balance at 1 January	**–**	–
Early redemption of bonds classified as payable during the year (note (c))	**373,791**	–
Repayment	**(217,684)**	–
Balance at 31 December	**156,107**	–

c) Redemption and classified as bonds payable

Upon redemption of the convertible bonds, the redemption consideration of RMB373,791,000 was allocated to the liability component and equity component using the same allocation basis when the convertible bonds were originally issued. Differences of RMB3,286,000 between the fair value of RMB372,590,000 and the carrying amount of the liability component of RMB369,304,000 was recognised in profit or loss. The difference of RMB1,201,000 between the redemption consideration and the fair value of the liability component was included in convertible bonds equity reserve. Remaing balance amounting to RMB553,000 was released from convertible bonds equity reserve to retained profits.

Notes to
the Financial Statements
For the year ended 31 December 2010

28. Capital and Reserves

a) The Group

		Share premium and reserves									
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	General reserve RMB'000	Exchange reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Convertible bonds equity reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2009	107,900	215,491	(57,000)	195,680	(41,800)	79,201	7,789	648	587,886	987,895	1,095,795
Profit for the year	–	–	–	–	–	–	–	–	109,066	109,066	109,066
Other comprehensive income	–	–	–	–	627	–	–	–	–	627	627
Total comprehensive income	–	–	–	–	627	–	–	–	109,066	109,693	109,693
Transfer to reserve	–	–	–	31,259	–	–	–	–	(31,259)	–	–
Recognition of equity – settled share-based payment	–	–	–	–	–	–	1,541	–	–	1,541	1,541
At 31 December 2009 and 1 January 2010	107,900	215,491	(57,000)	226,939	(41,173)	79,201	9,330	648	665,693	1,099,129	1,207,029
Profit for the year	–	–	–	–	–	–	–	–	237,387	237,387	237,387
Other comprehensive loss	–	–	–	–	(317)	–	–	–	–	(317)	(317)
Total comprehensive (loss)/income	–	–	–	–	(317)	–	–	–	237,387	237,070	237,070
Redemption of convertible bonds	–	–	–	–	–	–	–	(1,201)	–	(1,201)	(1,201)
Transfer to retained profits upon redemption of convertible bonds	–	–	–	–	–	–	–	553	(553)	–	–
Transfer to reserve	–	–	–	41,408	–	–	–	–	(41,408)	–	–
Cancellation of share options	–	–	–	–	–	–	(172)	–	172	–	–
Lapse of share options	–	–	–	–	–	–	(1,226)	–	1,226	–	–
Recognition of equity – settled share-based payment	–	–	–	–	–	–	929	–	–	929	929
At 31 December 2010	107,900	215,491	(57,000)	268,347	(41,490)	79,201	8,861	–	862,517	1,335,927	1,443,827

28. Capital and Reserves *(Continued)*

b) The Company

	Share capital RMB'000	Share premium and reserves							
		Share premium RMB'000	Exchange reserve RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Convertible bonds equity reserve RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2009	107,900	215,491	(110,010)	249,912	7,789	648	(143,971)	219,859	327,759
Loss for the year	–	–	–	–	–	–	(30,636)	(30,636)	(30,636)
Other comprehensive income	–	–	2,236	–	–	–	–	2,236	2,236
Total comprehensive loss	–	–	2,236	–	–	–	(30,636)	(28,400)	(28,400)
Recognition of equity-settled share-based payment	–	–	–	–	1,541	–	–	1,541	1,541
At 31 December 2009 and 1 January 2010	107,900	215,491	(107,774)	249,912	9,330	648	(174,607)	193,000	300,900
Loss for the year	–	–	–	–	–	–	(31,132)	(31,132)	(31,132)
Other comprehensive loss	–	–	(19,143)	–	–	–	–	(19,143)	(19,143)
Total comprehensive loss	–	–	(19,143)	–	–	–	(31,132)	(50,275)	(50,275)
Redemption of convertible bonds	–	–	–	–	–	(1,201)	–	(1,201)	(1,201)
Transfer to retained profits upon redemption of convertible bonds	–	–	–	–	–	553	(553)	–	–
Cancellation of shares options	–	–	–	–	(172)	–	172	–	–
Lapse of share options	–	–	–	–	(1,226)	–	1,226	–	–
Recognition of equity-settled share-based payment	–	–	–	–	929	–	–	929	929
At 31 December 2010	107,900	215,491	(126,917)	249,912	8,861	–	(204,894)	142,453	250,353

28. Capital and Reserves *(Continued)*

c) Share capital

Authorised and issued share capital

	Number of shares		Amount	
	2010	2009	**2010**	2009
Ordinary shares of HK$0.10 each	**'000**	'000	**HK$'000**	HK$'000
Authorised:				
As at 31 December	**4,000,000**	4,000,000	**400,000**	400,000
Issued and fully paid:				
As at 31 December	**1,037,500**	1,037,500	**103,750**	103,750
			RMB'000	RMB'000
Equivalent to			**107,900**	107,900

d) Nature and purpose of reserves

i) Share premium

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

ii) Merger reserve

Merger reserve represents the excess of the purchase consideration paid in respect of the acquisition of Fujian Create State Industry Co., Ltd. over the amount of the paid-up capital of Fujian Create State Industry Co., Ltd. acquired.

iii) General reserve

General reserve comprises statutory surplus fund and enterprise expansion fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are to be decided by their boards of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital by means of capitalization issues. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue.

28. Capital and Reserves *(Continued)*

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

iv) *Exchange reserve*

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

v) *Contributed surplus*

The contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation prior to the listing of the company's share on 11 May 2006.

vi) *Special reserve*

The special reserve represents the differences between the nominal value and premium of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued for their acquisition at the time of group reorganisation.

vii) *Share option reserve*

The share option reserve of the Company and the Group arising on the grant of share options of the Company and is dealt with in accordance with the accounting policies set out in note 2(r).

viii) *Convertible bonds equity reserve*

The convertible bonds equity reserve represents the value of the unexercised equity component of convertible bonds issued by the Company. The reserve is dealt with in accordance with accounting policies set out in note 2(k).

28. Capital and Reserves *(Continued)*

e) Distributable reserves of the Company

Under the Companies Law (revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 31 December 2010, the Company's reserves available for distribution to shareholders amounted to approximately RMB260,509,000 (2009: RMB290,796,000), computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of RMB215,491,000 (2009: RMB215,491,000), and contributed surplus of RMB249,912,000 (2009: RMB249,912,000), less accumulated losses of RMB204,894,000 (2009: RMB174,607,000).

f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide a satisfactory return to its shareholders.

The management actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic condition. In view of this, the Group will balance its overall capital structure through the payment of divided or the issue of new debt. No changes were made in the objectives or policies during the year.

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain a gearing ratio within 20% to 50%. The Group's gearing ratio, being the Group's total liabilities excluding tax payables over its total equity, as at 31 December 2010 was 28% (2009: 46%).

28. Capital and Reserves *(Continued)*

f) Capital management *(Continued)*

During 2010, the Group's gearing ratio decreased as a result of increase in bank loans and decrease in convertible bonds.

The gearing ratio at 31 December 2010 and 2009 are as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current liabilities:				
Trade and bills payables	**57,637**	58,705	**–**	–
Accruals and other payables	**55,706**	61,575	**789**	678
Amount due to a director	**84**	62	**84**	–
Amount due to a subsidiary	**–**	–	**1,323**	1,373
Bank loans	**30,000**	20,000	**–**	–
Bonds payable	**156,107**	–	**156,107**	–
	299,534	140,342	**158,303**	2,051
Non-current liabilities				
Convertible bonds	**–**	358,966	**–**	358,966
Bank loans	**100,000**	50,000	**–**	–
Total debt	**399,534**	549,308	**158,303**	361,017
Total equity	**1,443,827**	1,207,029	**250,353**	300,900
Gearing ratio	**28%**	46%	**63%**	120%

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

29. Equity-settled Share-based Transactions

The Company has a share option scheme which was adopted on 14 April 2006 whereby the directors of the Company were authorised, at their discretion, to invite the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the Company's shareholders, to take up options at HK$1.00 consideration to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the share option scheme shall not in aggregate exceed 10% of the total number of shares in issue. (i) The options granted on 14 November 2006 are exercisable, subject to a vesting scale which commenced on 1 July 2008, in tranches of 33.3 per cent. per annum and reaching 100 per cent. on 1 July 2009, within a period of two and a half years. (ii) The options granted on 3 September 2007 are exercisable, subject to a vesting scale which commenced on 1 January 2009, in tranches of 33.3 per cent. per annum and reaching 100 per cent. on 1 January 2011, within a period of two years. (iii) The options granted on 2 October 2007 are exercisable, subject to a vesting scale which commenced on 1 January 2009, in tranches of 33.3 per cent. per annum and reaching 100 per cent. on 1 January 2011, within a period of two years. (iv) The options granted on 18 January 2010 are exercisable subject to vesting period until 1 July 2010. (v) The options granted on 6 September 2010 are exercisable subject to vesting period until 1 April 2011.

Shares are issued and allotted upon the exercise of options. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

29. Equity-settled Share-based Transactions *(Continued)*

a) The terms and conditions of the grants that existed during the years are as follows. All options are settled by physical of shares. All options are settled by physical delivery of shares. The terms and conditions of the grants that existed during the years are as follows:

	Number of shares issuable under option	Exercisable period
Options granted to directors:		
– On 14 November 2006	832,000	1 July 2008 to 31 December 2010*
– On 14 November 2006	2,092,000	1 July 2009 to 31 December 2011
– On 3 September 2007	2,664,000	1 January 2009 to 31 December 2011
– On 3 September 2007	2,668,000	1 January 2010 to 31 December 2012
– On 3 September 2007	2,668,000	1 January 2011 to 31 December 2013
– On 18 January 2010	1,280,000	1 July 2010 to 31 December 2013
– On 6 September 2010	1,460,000	1 April 2011 to 31 December 2014
	13,664,000	
Options granted to employees:		
– On 14 November 2006	2,520,000	1 July 2008 to 31 December 2010*
– On 14 November 2006	2,520,000	1 July 2009 to 31 December 2011
– On 3 September 2007	330,000	1 January 2009 to 31 December 2011
– On 3 September 2007	330,000	1 January 2010 to 31 December 2012
– On 3 September 2007	340,000	1 January 2011 to 31 December 2013
– On 2 October 2007	580,000	1 January 2009 to 31 December 2011
– On 2 October 2007	580,000	1 January 2010 to 31 December 2012
– On 2 October 2007	640,000	1 January 2011 to 31 December 2013
– On 18 January 2010	200,000	1 July 2010 to 31 December 2013
	8,040,000	
Options granted to suppliers:		
– On 14 November 2006	3,120,000	1 July 2008 to 31 December 2010*
– On 14 November 2006	3,120,000	1 July 2009 to 31 December 2011
	6,240,000	
Options granted to consultant:		
– On 14 November 2006	3,300,000	1 July 2008 to 31 December 2010*
– On 14 November 2006	3,400,000	1 July 2009 to 31 December 2011
	6,700,000	
	34,644,000	

* The share options were lapsed on 1 January 2011.

29. Equity-settled Share-based Transactions *(Continued)*

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

	2010 Weighted average exercise price	**2010** Number of options '000	2009 Weighted average exercise price	2009 Number of options '000
Outstanding at the beginning of the year	**HK$1.36**	**44,100**	HK$1.36	44,100
Lapsed during the year	**HK$1.26**	**(11,136)**	–	–
Cancelled during the year	**HK$1.26**	**(1,260)**	–	–
Granted during the year	**HK$1.26**	**2,940**	–	–
Outstanding at the end of the year	**HK$1.38**	**34,644**	HK$1.36	44,100
Exercisable at the end of the year	**HK$1.35**	**29,536**	HK$1.33	40,452

c) Share options outstanding as at 31 December had the following remaining contractual lives and exercise prices:

	2010 Remaining contractual life	**2010** No. of shares issuable under options granted '000	2009 Remaining contractual life	2009 No. of shares issuable under options granted '000
Exercise price				
HK$1.26	**0 year**	**–**	0 year	11,136
HK$1.26	**0 year**	**9,772**	1 years	11,032
HK$1.26	**1 years**	**11,132**	2 years	11,132
HK$1.65	**1 years**	**3,574**	2 years	3,574
HK$1.65	**2 years**	**3,578**	3 years	3,578
HK$1.26	**3 years**	**1,480**	4 years	–
HK$1.65	**3 years**	**3,648**	4 years	3,648
HK$1.26	**4 years**	**1,460**	5 years	–
		34,644		44,100

29. Equity-settled Share-based Transactions *(Continued)*

d) Fair value of share options and assumptions:

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

Date of option granted	14 November 2006		3 September 2007			2 October 2007			18 January 2010	6 September 2010
Exercisable period	From 1 July 2008 to 31 December 2010	From 1 July 2009 to 31 December 2011	From 1 January 2009 to 31 December 2011	From 1 January 2010 to 31 December 2012	From 1 January 2011 to 31 December 2013	From 1 January 2009 to 31 December 2011	From 1 January 2010 to 31 December 2012	From 1 January 2011 to 31 December 2013	From 1 July 2010 to 31 December 2013	From 1 April 2011 to 31 December 2014
Fair value at measurement date	HK$0.16	HK$0.19	HK$0.51	HK$0.52	HK$0.51	HK$0.48	HK$0.50	HK$0.48	HK$0.23	HK$0.24
Share price	HK$0.80	HK$0.80	HK$1.56	HK$1.56	HK$1.56	HK$1.57	HK$1.57	HK$1.57	HK$1.02	HK$1.04
Exercise price	HK$1.26	HK$1.26	HK$1.65	HK$1.65	HK$1.65	HK$1.65	HK$1.65	HK$1.65	HK$1.26	HK$1.26
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	52.23%	53.23%	66.45%	66.45%	66.45%	60.96%	60.96%	60.96%	57.40%	57.95%
Option life (expressed as weighted average live used in the modelling under binomial lattice model)	4.13 years	5.13 years	4.33 years	5.33 years	6.33 years	4.25 years	5.25 years	6.25 years	3.95 years	4.32 years
Expected dividends	5.17%	5.07%	3.42%	3.42%	3.42%	3.42%	3.42%	3.42%	8.08%	8.08%
Risk-free interest rate (based on Exchange Fund Notes/4-year Hong Kong Sovereign)	3.75%	3.78%	4.16%	4.23%	4.38%	3.98%	4.09%	4.24%	1.49%	0.86%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends.

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

30. Related Party Transaction

a) During the years ended 31 December 2010 and 2009, the directors consider that the following are related parties of the Group

Name of party	**Relationship with the Group**
Mr. Yu Longrui ("Mr. Yu")	Director of the Company
Fujian Deban Group Co., Ltd. (福建締邦集團有限公司) ("Fujian Deban")	Mr. Yu Longrui is a common director of the Group
Deban International (Hong Kong) Limited (締邦國際(香港)有限公司) ("Deban International")	Mr. Yu Longrui is a common director of the Group
Fujian Dongya New Material Technology Co., Ltd. (福建東亞新材料科技有限公司) ("Fujian Dongya")	A subsidiary of Deban International (Hong Kong) Limited (締邦國際(香港)有限公司)

30. Related Party Transaction *(Continued)*

a) During the years ended 31 December 2010 and 2009, the directors consider that the following are related parties of the Group *(Continued)*

Guarantee

During the year ended 31 December 2010, Mr. Yu issued personal guarantee to secure bank loan and bills payable to a subsidiary to the extent of approximately RMB 180,000,000 (2009: RMB 80,000,000).

During the year ended 31 December 2010, investment securities held by Fujian Deban is pledged for the bank loan of RMB 30,000,000 (2009: nil) granted to the Group.

During the year ended 31 December 2010, a corporate guarantee was provided by Fujian Dongya, a subsidiary of Deban International to secure the bank loans of RMB 70,000,000 (2009: nil).

b) Key management personnel remuneration

Remuneration for key personnel of the Group, including amounts paid to the Company's directors as disclosed in note 11 is as follows:

	2010 **RMB'000**	2009 RMB'000
Short-term employee benefits	**4,558**	4,769
Post-employment benefits	**65**	65
	4,623	4,834

c) Balance with a director

	At 31 December	
	2010 **RMB'000**	2009 RMB'000
Amount due to a director	**84**	62

Note:

(i) The outstanding balance is unsecured, interest-free and repayable on demand.

(ii) During the year ended 31 December 2010, the director advanced RMB 22,000 to the Group, therefore, the amount due to a director increased from RMB 62,000 to RMB 84,000.

Details of the advance during the year are also disclosed in the consolidated statement of cash flows.

31. Commitments

a) Capital commitments

Capital commitments outstanding at 31 December 2010 and 2009 not provided for in the financial statements were as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Authorised and contracted for – acquisition of property, plantand equipment	**12,715**	27,552

b) Lease commitments

The Group as lessee

As at 31 December 2010 and 2009, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Within one year	**1,506**	1,801
After one year but within five years	**370**	1,313
	1,876	3,114

Significant leasing arrangements in respect of land held under operating leases are described in note 14.

Apart from these leases, the Group is the lessee in respect of a number of offices held under operating leases. The leases typically run for an initial period of one to three years. The leases did not include extension options. None of the leases includes contingent rentals.

32. Pledge of Assets

At the end of the reporting period, certain of the Group's liabilities are secured by the Group's assets and guaranteed by a director and related companies. The details are as follows:

Bills payable of RMB50,000,000 (2009: RMB 50,000,000) as set out in note 22 and bank loans totalling RMB120,000,000 (2009: RMB 50,000,000) as set out in note 25(a) to (c) are personally guaranteed not exceeding RMB180,000,000 (2009: RMB 80,000,000) by Mr. Yu, a director of the Company.

The bank loan of RMB30,000,000 (2009: nil) as set out in note 25(a), is further secured by the investment securities amounting to RMB42,000,000. The investment securities are held by a related company, namely Fujian Deban. Mr. Yu is a director of that related company.

Bills payable of RMB50,000,000 (2009: RMB 50,000,000) as set out in note 22 and bank loans of RMB50,000,000 (2009: RMB 50,000,000) as set out in note 25(b) are further secured by the certain of the Group's prepaid lease payment of RMB8,418,000 (2009: RMB 8,605,000) (note 14), all the construction in progress – buildings of RMB119,138,000 (2009: RMB 116,040,000) (note 15) and bank deposit of RMB20,000,000 (2009: RMB 20,000,000) (note 21).

The bank loans of RMB70,000,000 (2009: nil) in total as set out in note 25(a) and (c), are further guaranteed by Fujian Dongya, a subsidiary of Deban International. Mr. Yu is a director of Deban International.

The bank loan of RMB10,000,000 (2009: nil) as set out in note 25(d), is secured by certain of the Group's prepaid lease payment of RMB 1,565,000 (2009: nil) (note 14) and buildings (note 15) of RMB6,502,000 (2009: nil).

33. Financial Risk Management and Fair Values

The Group's major financial instruments include cash and bank deposits, bonds payable and convertible bonds, trade and other receivables, bank loans, trade and bills payables, other payables and balances with related parties. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include fair values risk, credit risk, interest rate risk, liquidity risk and currency risk. The policies on how to mitigate these risks set at below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Fair values

All financial instruments are carried at amounts not materially different from their fair values at 31 December 2010 and 2009 except that the carrying amounts and the fair value of convertible bonds. For 2009, the fair value of convertible bonds was determined by reference to the discounted future cash flow adjusted for interest charged and transaction costs.

33. Financial Risk Management and Fair Values *(Continued)*

b) Credit risk

At 31 December 2010, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance (see note 2(t)).

In respect of trade and other receivables, in order to minimise risk, the management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 180 days from the date of billing.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk. The Group's customers in the PRC are established telecommunication services providers of which the Group is satisfied with a reliable credit standing. At the end of the reporting period, the Group has a certain concentration of credit risk as 8.2% (2009: 12.2%) and 28.1% (2009: 14.4%) of the trade receivables was due from the Group's largest customer and the five largest customers respectively. Taking into account the creditworthiness of the Group's customers, the credit risk measures and the historical levels of the bad debts, the directors consider that such concentration of credit risk would not result in significant credit default exposure to the Group.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

c) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 25 for details of these borrowings) and fair value interest rate risk in relation to fixed-rate bank borrowings and bonds payable/convertible bonds.

33. Financial Risk Management and Fair Values *(Continued)*

c) Interest rate risk *(Continued)*

i) *Interest rate profile*

The following table details the interest rate profile of the Group's and the Company's borrowings at the end of the reporting period:

	The Group			
	2010		2009	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Bonds payable/convertible bonds	**5.00%**	**156,107**	6.00%	358,966
Bank loans	**N/A**	**–**	5.53%-6.42%	20,000
		156,107		378,966
Variable rate Borrowings:				
Bank loans	**5.58-7.80%**	**130,000**	5.94%	50,000
Total borrowings		**286,107**		428,966
Fixed rate borrowings as a percentage of total borrowings		**54.5%**		88.3%

	The Company			
	2010		2009	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Bonds payable/convertible bonds	**5.00%**	**156,107**	6.00%	358,966

33. Financial Risk Management and Fair Values *(Continued)*

c) Interest rate risk *(Continued)*

ii) *Sensitivity analysis*

All of the bank loans of the Group which are fixed rate instruments are intensive to any change in interest rates. A change in interest rate at the end of the reporting period would not affect profit or loss.

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB975,000 (2009: RMB7,108,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2009.

d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from bank to meet its liquidity requirements in the short and longer term. The contractual maturities of financial liabilities are disclosed in note 25 and note 27. There are no unutilised banking facilities as at 31 December 2010 and 31 December 2009.

33. Financial Risk Management and Fair Values *(Continued)*

d) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using variable rates) and the earliest date the Group and the Company can be required to pay.

	2010					2009				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
The Group										
Bonds payable / convertible bonds	156,107	156,107	156,107	-	-	358,966	434,477	3,300	3,300	427,877
Trade and bills payables	57,637	57,637	57,637	-	-	58,705	58,705	58,705	–	–
Accruals and other payable	55,706	55,706	55,706	-	-	61,575	61,575	61,575	–	–
Amount due to a director	84	84	84	-	-	62	62	62	–	–
Bank loans	130,000	140,513	42,919	79,961	17,633	70,000	78,521	23,741	2,970	51,810
	399,534	410,047	312,453	79,961	17,633	549,308	633,340	147,383	6,270	479,687
The Company										
Bonds payable / convertible bonds	156,107	156,107	156,107	-	-	358,966	434,477	3,300	3,300	427,877
Accruals and other payable	789	789	789	-	-	678	678	678	–	–
Amount due to a director	84	84	84	-	-	–	–	–	–	–
Amount due to a subsidiary	1,323	1,323	1,323	-	-	1,373	1,373	1,373	–	–
	158,303	158,303	158,303	-	-	361,017	436,528	5,351	3,300	427,877

To meet the above liquidity demands, the Group has available cash and cash equivalents amounting to approximately RMB475,773,000 as at 31 December 2010 (2009: RMB740,832,000).

33. Financial Risk Management and Fair Values *(Continued)*

e) Currency risk

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors its foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arises.

i) Exposure to currency risk

The Group is exposed to currency risk as certain cash and cash equivalents, deposits and other receivable, other payable and amount due to a director through operations that are denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are Renminbi and Hong Kong dollars.

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group

	Exposure to foreign currencies (expressed in RMB)	
	2010	2009
	HK dollars	HK dollars
	RMB'000	RMB'000
Other receivables	**133**	–
Cash and bank balances	**261**	416
Other payable	**(804)**	(684)
Amount due to a director	**(84)**	(62)
Net exposure arising from recognised assets and liabilities	**(494)**	(330)

The Company

	Exposure to foreign currencies (expressed in RMB)	
	2010	2009
	HK dollars	HK dollars
	RMB'000	RMB'000
Cash and bank balances	**42**	21
Other payable	**(789)**	(678)
Amount due to a director	**(84)**	–
Net exposure arising from recognised assets and liabilities	**(831)**	(657)

33. Financial Risk Management and Fair Values *(Continued)*

e) Currency risk *(Continued)*

ii) Sensitivity analysis

If RMB has strengthened/weakened by 5% against the HK$, with all other variables held constant, equity would have been approximately RMB25,000 (2009: RMB17,000) lower and higher. The Group's profit after tax and retained profits would not be affected (2009: nil) by the changes in foreign exchange rate. The Company's loss after tax and accumulated loss would not be affected (2009: nil) by the change in foreign exchange rate.

The sensitivity analysis above has been determined assuming that the change in exchange rate had occurred at the end of the reporting period and had been applied to the exposure to currency risk for recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate in existence at that date. The 5% strengthening/weakening change represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2009.

34. Accounting Estimates and Judgements

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(a) Key sources of estimation uncertainty

i) Useful lives of property, plant and equipment (Carrying amount: RMB530,491,000 (2009: RMB413,375,000))

The management 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 property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry activities. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

ii) Estimated allowance for impairment of trade receivables, prepayments, deposits and other receivables(Carrying amount: RMB352,081,000 (2009: RMB279,085,000))

The Group makes allowance for impairment loss based on an assessment of the recoverability of trade receivables, prepayments, deposits and other receivables. Provisions are applied to trade receivables, deposits and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates based on the credit history of the customers and the current market conditions. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

34. Accounting Estimates and Judgements *(Continued)*

(a) Key sources of estimation uncertainty *(Continued)*

iii) Estimated net realisable value of inventories (Carrying amount: RMB314,942,000 (2009: RMB98,094,000))

The Group writes down slow-moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Write down to the inventories where there are changes in circumstances, indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of the inventories and written down of inventory expense in the period in which such estimate has been changed.

iv) Income tax (Carrying amount: RMB62,433,000 (2009: RMB45,336,000))

Determining income tax provisions involve judgement on the tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Management's assessment is constantly reviewed.

v) Measurement of convertible bonds (Carrying amount: nil (2009: RMB358,966,000))

Upon the issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note and this amount is carried as current 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 the convertible notes reserve, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

34. Accounting Estimates and Judgements *(Continued)*

(b) Critical accounting judgement in applying the Group's accounting policy

i) Repayment of bonds

On 8 April 2010, the Company received early redemption notices from the Trustee of the bondholders to redeem all outstanding bonds on 8 May 2010 in accordance with the Agreement. On 8 April 2010, the Company received early redemption notices from the Trustee of the bondholders to redeem all outstanding bonds of RMB 330,000,000 at 113.27% on 8 May 2010 in accordance with the Agreement. On 8 April 2010, the Company received early redemption notices from the Trustee of the bondholders to redeem all outstanding bonds on 8 May 2010. Pursuant to the said notices, the Company shall upon the expiry of such notice, redeem the Bonds at the US dollar equivalent of its RMB principal amount multiplied by 113.27%. The Company was required to repay to the bondholders the principal sum of RMB373,791,000 and the related interests amounting to RMB1,650,000, totally RMB375,441,000 (the "Redemption Amount") on the due date. The Company planned to satisfy the payment of the Redemption Amount, which shall be settled in US dollars, by the Group's internal resources. As required under the relevant PRC laws and regulations, on 8 April 2010, the Company filed to the PRC State Administration of Foreign Exchange ("SAFE") foreign exchange remittance applications for the payment of the Redemption Amount. The Company was unable to remit to Hong Kong the money required for the payment on 8 May 2010 because the remittance applications with the SAFE were still in progress which constituted an event of default as stated in the Agreement. The Company is subject to default interest on overdue sum at the rate of 5 percent per annum.

During the year ended 31 December 2010, the Company obtained approvals from SAFE of foreign exchange application and has made payments for the total amount of RMB 228,793,000 representing for the principal amount of RMB 217,684,000, interest of RMB 1,650,000 and default interest of RMB 9,459,000. As at 31 December 2010 and up to the date of approval of these financial statements, redemption money payable remaining outstanding amounted to RMB156,107,000. The trustee has not taken any action against Company in respect of the default.

ii) Functional currency of the Company

Based on the operational environment, the functional currency of the Company is determined by management to be in Hong Kong dollars. The Company incurs administrative and local expenses, comprising mainly directors' emoluments, limited staff costs and office rental payments, which are settled in Hong Kong dollars.

35. Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year ended 31 December 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010. The Group has not early applied any of the following new and revised Standards, Amendments, or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments), Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments), Disclosures – Transfers of Financial Assets[3]
HKFRS 9, Financial Instruments[4]
HKAS 12 (Amendments), Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009), Related Party Disclosures[6]
HKAS 32 (Amendments), Classification of Rights Issues[7]
HK (IFRIC) – Int 14 (Amendments), Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19, Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

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

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HKFRIC 19 will affect the required accounting. In particular, under HKFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The Group is in the process of making an assessment of what the impact of other standards, amendments and interpretations is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.