中國東方文化集團有限公司

China Oriental Culture Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2371)

Annual Report

2010

Contents

Corporate Information

Executive Directors

Ms. CHAN Shui Sheung Ivy
Ms. SO Wai Lam
Mr. LIU Yong Fei
Mr. TIN Ka Pak
Mr. CHEN Fu Ju
Mr. LI Qing

Independent Non-executive Directors

Mr. CHOW Shiu Ki
Mr. WU Xian
Mr. LEUNG Siu Kee
Mr. ZHAO Yong

Company Secretary

Mr. TING Pong Ming

Audit Committee

Mr. LEUNG Siu Kee
(Chairman of the Audit Committee)
Mr. CHOW Shiu Ki
Mr. WU Xian
Mr. ZHAO Yong

Remuneration Committee

Mr. ZHAO Yong
(Chairman of the Remuneration Committee)
Ms. CHAN Shui Sheung Ivy
Mr. LEUNG Siu Kee

Nomination Committee

Mr. CHOW Shiu Ki
(Chairman of the Nomination Committee)
Ms. CHAN Shui Sheung Ivy
Mr. LEUNG Siu Kee
Mr. ZHAO Yong

Authorised Representatives

Ms. CHAN Shui Sheung Ivy
Mr. TING Pong Ming

Auditor

SHINEWING (HK) CPA Limited

Principal Bankers

Fubon Bank (Hong Kong) Limited
Hang Seng Bank Limited

Registered Office

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

Principal Place of Business in Hong Kong

Suites 1205-1207
12th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong

Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited
P.O. Box 484, HSBC House
68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Website

www.chinaoc.com.hk

Stock Code

2371

Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years:

Results

	2010 RMB	2009 RMB	2008 RMB	2007 RMB	2006 RMB
Turnover	**32,397,529**	31,334,168	23,966,337	85,117,959	125,386,040
Gross (loss) profit	**(33,217,808)**	424,481	4,993,103	20,352,220	42,113,281
(Loss) profit for the year	**(105,290,637)**	(9,232,699)	(33,040,453)	(19,457,177)	12,357,589
(Loss) profit for the year attributable to:					
Owners of the Company	**(105,150,324)**	(9,232,699)	(33,040,453)	(19,457,177)	12,357,589
Non-controlling interests	**(140,313)**	–	–	–	–
	(105,290,637)	(9,232,699)	(33,040,453)	(19,457,177)	12,357,589
Basic (loss) earnings per share (RMB cents)	**(8.50)**	(2.24)	(8.19)	(4.93)	3.09

Assets and Liabilities

	2010 RMB	2009 RMB	2008 RMB	2007 RMB	2006 RMB
Non-current assets	**674,586,991**	33,966,548	46,612,083	25,101,847	30,309,215
Current assets	**110,074,793**	149,585,576	48,992,824	127,219,620	149,466,932
Current liabilities	**(25,601,099)**	(13,903,116)	(10,826,104)	(32,934,597)	(42,423,660)
Net current assets	**84,473,694**	135,682,460	38,166,720	94,285,023	107,043,272
Non-current liabilities	**(73,129,236)**	–	–	–	(716,934)
Non-controlling interests	**(815,520)**	–	–	–	–
Equity	**685,115,929**	169,649,008	84,778,803	119,386,870	136,635,553

Management Discussion and Analysis

Financial Review

For the year ended 31 December 2010, the Group recorded a turnover of RMB32,397,529 (2009: RMB31,334,168), representing an increase of 3.4% as compared to that of last year. Of these, turnover derived from sales of third party software and hardware was increased from RMB2,669,491 in last year to RMB13,800,082, representing an increase of 417%. Turnover derived from maintenance, training and other services was RMB1,427,891 (2009: RMB10,655,250), representing a decrease of 86.6%. The Group holds financial assets at fair value through profit or loss and had a turnover and segment loss amounted to RMB17,169,556 and RMB8,961,578 respectively during the year.

Administrative expenses for the year ended 31 December 2010 was approximately RMB40,321,997 (2009: RMB38,791,833), representing an increase of 3.9% as compared to that of last year. The increase in expenses was mainly due to consultancy and professional fee related to the advertising media business.

The loss for the year attributable to owners of the Company aggregated at approximately RMB105,150,324 (2009: RMB9,232,699). The basic loss per share for the year ended 31 December 2010 was RMB8.503 cents (2009: RMB2.240 cents).

Business Review

The Group is principally engaged in i) rendering mobile communication network optimisation services, software development and system integration services to telecommunication operators in the PRC; ii) securities trading, and iii) advertising media.

Mobile Communication Network Optimisation Services, Software Development and System Integration Services

In 2010, with the development of 3G entering into the stage of business competition and the acceleration in the integration of telecom, broadcasting and internet networks, the telecommunication operators in the PRC have been gradually shaking off the shadow of the financial crisis, but at the same time they also encountered challenges from higher customer requirements in terms of network quality, business innovation and others. Many of them have increased investments in mobile communication network and broadband network. In order to keep up with these new changes, the Group has made corresponding adjustments by strengthening its development in system integration business, and has achieved stable progress.

Securities Trading

Segmental turnover and loss of the securities trading division were RMB17,169,556 and RMB8,961,578 respectively. The loss recorded was mainly due to the loss on disposal of financial assets at fair value through profit or loss for the year ended 31 December 2010.

As at 31 December 2010, the Group held the financial assets at fair value through profit or loss amounted to approximately RMB21,960,286 (2009: approximately RMB35,944,421).

Management Discussion and Analysis

Advertising Media

Outdoor Advertising Business

On 18 August 2010, the Group entered into the master agreement obtaining the exclusive operating rights of advertising media including but not limited to advertising billboards on towers, bridges and light boxes on tunnel walls and concierges, etc, located on highways in Hebei Province with 中廣國際廣告公司 ("CRTVAD"). The Group is entitled to obtain the 10-year exclusive operating rights of not less than 2,800 billboards which are located in 15 existing highways and another 5 under construction in Hebei Province by 1 January 2013 and ultimately not less than 3,973 billboards. Moreover, the Group has the pre-emptive rights to obtain the exclusive operating rights of other highways in other provinces if CRTVAD obtains any in the future. An individual transfer agreement regarding the obtaining of 10-year exclusive operating rights of 680 billboards comprising 630 existing billboards and 50 billboards to be constructed, that are or will be located on highways in the Hebei Province, was signed on 21 October 2010.

On 27 December 2010, the Group entered into the Agreement in relation to the granting to the Group by 北京歌華聖唐傳媒廣告有限公司 of a 5-year exclusive right for the operation of advertising media on the external walls and roofs of renowned commercial buildings, roads and highways in Beijing, the PRC.

Business Outlook

Mobile Communication Network Optimisation Services, Software Development and System Integration Services

The Group will enhance the development of network optimisation and system integration business focusing on telecommunication and information technology. Meanwhile, the Group will keep collaborating with telecom equipment manufacturers in mainland and abroad, intensifying the cooperation with emerging Internet companies and at the same time, to seek approaches on product innovation in telecom value added businesses against the new situation.

Securities Trading

The financial market in Hong Kong is expected to continue to be volatile during the first half of 2011. The Group will remain cautious in its investment approach and strategy.

Management Discussion and Analysis

Advertising Media

Outdoor LED Displays

Since 2010, the Group obtained the rights to operate outdoor mega LED displays in major cities in the PRC for the broadcasting of advertising and informatory programs on these displays. The outdoor LED displays scheduled to be broadcasted in 2011 would be situated at the South Square of the Shanghai North Railway Station in Shanghai, Langfang City (廊坊市) in Hebei Province and the Olympic Axis (奧林匹克中心區中軸大道) at the main venues of the Olympic Games (奧林匹克會主會場) in Beijing. The Group is confident that the operation of outdoor mega LED displays will generate stable income and will continue to cooperate with prestigious business partners for the exploration of new business opportunities.

Outdoor Advertising Media

With the aim to be one of the major players in the outdoor advertising media business in the PRC, the Group will speed up the pace to obtain more outdoor advertising media from CRTVAD. After the completion of the transfer of the first 680 billboards in the first quarter of 2011, another lot of billboards will be transferred in the second quarter of 2011.

Besides, the Group continues to maintain the strategic partnership with 北京歌華聖唐傳媒廣告有限公司 and more adverting media in the golden area in Beijing are expected to be granted in 2011.

With the continuous growth in economy in the PRC, the advertising media industry will become considerably more promising in the foreseeable future. The Group has therefore set the goal to forge ahead into the advertising media industry in the PRC.

Other Media Business

On 11 February 2010, the Group entered into a sale and purchase agreement relating to the acquisition of 98% shareholding in 北京柯瑞環宇傳媒文化有限公司 ("Kery Media"). Kery Media is principally engaged in the business of the provision of sales, packaging and promotion of audio-visual products services, consultancy services relevant to the media industry, as well as advertising, event organising and artists' management in the PRC. Kery Media is a renowned private TV drama series production enterprise with first-class TV drama series and movie production, distribution and promotion team in the PRC. Acquisition of the Kery Media will give the Company a greater involvement in the PRC media business and provide an excellent opportunity to generate better revenues and profits.

Advance to an Entity

On 10 July 2009, Smart Century Investment Limited ("Smart Century"), a wholly-owned subsidiary of the Company, provided financial assistance in the sum of HK$20,000,000 to Apex One Enterprises Limited ("Apex One"), a 49%-owned and affiliated company of the Company. The principal activity of Apex One is securities trading. For more details, please refer to the Company's announcements dated 10 July 2009 and 13 July 2009.

At 31 December 2010, the amount due from Apex One was approximately RMB23,527,000.

Management Discussion and Analysis

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and the bank balances.

As at 31 December 2010, the Group had bank balances and cash of approximately RMB41,657,214 as compared to the bank balances and cash of RMB84,962,454 as at 31 December 2009.

The Group's net current assets totalled approximately RMB84,474,000 as at 31 December 2010, against approximately RMB135,683,000 as at 31 December 2009. The Group's current ratio was approximately 4.3 as at 31 December 2010 as compared with 10.8 as at 31 December 2009.

Gearing Ratio

The gearing ratio of the Group (measured as total liabilities to total assets) was 12.6% as at 31 December 2010 (2009: 7.6%).

Capital Structure

As at 31 December 2010, the Company's issued share capital was HK$157,543,577 (approximately RMB142,125,763) and the number of its issued ordinary shares was 1,575,435,768 shares of HK$0.10 each ("Shares").

During the year, the Company had issued 3,500,000 ordinary shares and 1,111,979,768 ordinary shares by means of exercise of share options and conversion of convertible loan notes, respectively. In addition, the Company had repurchased and cancelled 1,100,000 ordinary shares during the year ended 31 December 2010. Details are set out in the section "*Purchase, Redemption or Sale of the Company's Listed Securities*" on page 19.

Material Acquisitions and Disposals

On 27 April 2008, Million Gold Holdings Limited entered into a sale and purchase agreement (as amended by supplemental agreements and last supplemental agreements) to acquire 100% of Precious Luck Enterprises Limited ("Precious Luck") and its subsidiaries at an aggregate consideration of HK$780 million, of which HK$24 million in cash and HK$756 million in convertible loan notes. At the extraordinary general meeting of the Company held on 16 November 2009, the resolution for approving the acquisition was passed by the shareholders of the Company. The acquisition was completed on 2 January 2010. For further details, please refer to the circular made by the Company dated 26 October 2009 and notes 20 and 34 to the consolidated financial statements.

On 25 June 2010, Smart Century entered into a sale and purchase agreement with an independent third party ("Purchaser") pursuant to which Smart Century agreed to sell and Purchaser agreed to acquire the entire issued share capital of Alpaco Company Limited ("Alpaco") ("Alpaco Sale Shares") and Watson China Limited ("Watson") ("Watson Sale Shares"), wholly-owned subsidiaries of Smart Century. A total cash consideration of HK$9 million, being HK$4.8 million representing the consideration for Alpaco Sales Shares and HK$4.2 million representing the consideration for Watson Sale Shares respectively. The disposal of Watson and Alpaco were completed on 18 August 2010 and 19 October 2010 respectively. Following the disposals, the business segment of properties investments was classified as discontinued operations. For further details, please refer to note 39 to the consolidated financial statements.

Management Discussion and Analysis

Foreign Exchange Exposure

Substantially all of the business transactions of the Group are denominated in RMB and HK$. The Group adopts a conservative financial policy. As at 31 December 2010, the Group did not have any bank liabilities, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

Charges on Group Assets

As at 31 December 2010, the Group did not have any charges on its assets (2009: Nil).

Contingent Liabilities

As at 31 December 2010, the Group did not have any material contingent liabilities (2009: Nil).

Capital Commitment

As at 31 December 2010, the Group had outstanding capital commitment in respect of the acquisition of 100% of the issued and paid-up capital of Bold Champion International Limited of approximately HK$10,000,000 (2009: Nil).

Employee Information and Remuneration Policy

As at 31 December 2010, the Group has 69 employees (2009: 58 employees) in Hong Kong and the PRC. The total staff cost is approximately RMB14,220,201 for the year ended 31 December 2010 (2009: RMB1,519,833).

We offer competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, employees are eligible to receive a discretionary bonus taking into accounts factors such as market conditions as well as corporate and individual's performance during the year.

In order to attract, retain and motivate eligible employees, including the directors of the Company, the Company has adopted a share option scheme. The scheme enables eligible persons to obtain an ownership interest in the Company and thus motivates them to optimise their continuing contributions to the Group. As at 31 December 2010, there are 75,340,000 share options remained outstanding.

We are confident that our employees will continue to provide a firm foundation for the success of the Group and will maintain high standard of service to our clients.

Change of Company Name

The Company is planning to diversify its business in the PRC. In order to better reflect the business and to improve the Company's corporate image and identity, the name of the Company has been changed from "ZZNode Technologies Company Limited" ("直真科技有限公司" adopted for identification purpose only) to "China Oriental Culture Group Limited 中國東方文化集團有限公司" with effect from 12 November 2010.

Biographical Details of Directors and Senior Management

Executive Directors

Ms. CHAN Shui Sheung Ivy ("Ms. Chan"), aged 46, is an executive director of the Company ("Director") since January 2008. She is also a member of the nomination committee and the remuneration committee of the Company. Ms. Chan graduated from The University of South Australia with a Master of Business Administration degree. Ms. Chan has over 16 years of experience in investment and is currently the director of certain subsidiaries of the Company. She is also a director of Channel Enterprises (Int'l) Limited, and an executive director of PME Group Limited (Stock Code: 379), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and China Railway Logistics Limited (Stock Code: 8089), a company listed on the Growth Enterprise Market of the Stock Exchange.

Ms. SO Wai Lam ("Ms. So"), aged 30, is an executive Director since January 2008. Ms. So holds a bachelor degree of Science with double majors in Mathematics and Statistics from the University of British Columbia in Canada. She has over 7 years experience in the corporate finance industry. Ms. So was also appointed as an independent non-executive director of Morning Star Resources Limited (Stock Code: 542), a company listed on the Main Board of the Stock Exchange, on 7 October 2010.

Mr. LIU Yong Fei ("Mr. Liu"), aged 46, is an executive Director since June 2008. Mr. Liu graduated from Beijing Institute of Business (now known as Beijing Technology and Business University) and the First Senior Refreshment Session of Business Management Talent Program for the Cultural Industry launched by Peking University and Time Warner. Mr. Liu has over 20 years experience in the industry of cultural and entertainment media, covering movie investment, teleplay, musical play and drama production, as well as management of entertainment agencies and entertainment media investment company. He is currently the director of certain subsidiaries of the Company.

Mr. TIN Ka Pak ("Mr. Tin"), aged 34, is an executive Director since June 2008. Mr. Tin holds a Bachelor degree of Business Administration from Oxford Brookes University. Mr. Tin has been working in companies listed in the Stock Exchange to assist the chairman and CEO in group management, strategic planning, sales and marketing development, investment evaluation and investor relationship. Mr. Tin is currently an executive director of PME Group Limited (Stock Code: 379), a company listed on the Main Board of the Stock Exchange and China Bio-Med Regeneration Technology Limited (Stock Code: 8158), a company listed on the Growth Enterprise Market of the Stock Exchange. He is currently a director of a subsidiary and an associated company of the Company.

Mr. CHEN Fu Ju ("Mr. Chen"), aged 42, is an executive Director since July 2009. Mr. Chen graduated from International Economic and Trade College. He was engaged in the advertising, TV, broadcasting, outdoor broadcasting and media & entertainment sectors for more than 10 years. He held the positions of general manager and deputy general manager in various sizable media institutions and cultural, media & entertainment companies in China. He has over 10 years of management experience. Mr. Chen is primarily responsible for the management of overall operations and advertising operations of the media & entertainment companies, including media platform construction, team building, advertising operations, program content collection, media agency, customer comprehensive agency as well as planning and organization of large-scale activities. He is currently the director of certain subsidiaries of the Company.

Biographical Details of Directors and Senior Management

Mr. LI Qing ("Mr. Li"), aged 41, is an executive Director since 20 September 2010. Mr. Li graduated from 北京職業大學機電學院 (now integrated into Beijing Union University). Mr. Li has over 18 years experience in computer banking system planning, design, implementation, integration and management in China and worked in several sizable enterprises in China, including China Construction Bank. He has been the marketing director of Visioncom Ltd. (北京華際信息系統有限公司) and vice general manager of Blue D Tech Ltd. (蘭迪科諾科技發展有限公司). Currently, Mr. Li is the general manager of ChuangZhi LiDe (Beijing) Technology Development Company Limited, an indirect non-wholly-owned subsidiary of the Company. Mr. Li is also a shareholder of one of a non-wholly-owned subsidiary of the Company.

Independent Non-executive Directors

Mr. CHOW Shiu Ki ("Mr. Chow"), aged 43, is an independent non-executive Director since January 2008. He is also the chairman of the nomination committee and a member of the audit committee of the Company. Mr. Chow has accumulated over 20 years of experience in auditing, accounting and corporate finance areas. Mr. Chow is a fellow member of The Association of Chartered Certified Accountants and holds a master's degree in professional accounting. Mr. Chow is the chief financial officer of Best Miracle International Limited ("Best Miracle", Stock Code: 8272) and was an independent non-executive Director of Pan Asia Mining Limited ("Pan Asia", Stock Code: 8173) during the period from 3 November 2006 to 19 August 2008, both Best Miracle and Pan Asia are listed on the Growth Enterprise Market of the Stock Exchange.

Mr. WU Xian ("Mr. Wu"), aged 42, is an independent non-executive Director since October 2009. He is also a member of the audit committee of the Company. Mr. Wu obtained his bachelor degree in Economics at Dongbei University of Finance and Economics and Master of Business Administration at China Europe International Business School. Mr. Wu has over 16 years experience in advertising and media industry in China, and has held senior positions in several media enterprises. He has been the vice president of HC International Inc., the general manager of Beijing China Media Networks Company and the chief executive officer of Beijing Sheng Sheng He Run Cultural Dissemination Company. Currently, he is the general manager of Guoguang Lianhe Cultural Developing Company.

Mr. LEUNG Siu Kee ("Mr. Leung"), aged 34, is an independent non-executive Director since December 2009. He is also the chairman of the audit committee and a member of the nomination committee and remuneration committee of the Company. Mr. Leung obtained his bachelor of Business Administration of major in Accounting at the Hong Kong University of Science and Technology with first honour. He has extensive accounting knowledge for he had worked in two international accounting firms for more than 7 years, mainly to provide auditing and business assurance services. Afterwards, Mr. Leung has devoted to develop his career in corporate finance and corporate restructuring businesses. Currently, Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Beta Gamma Sigma.

Mr. ZHAO Yong ("Mr. Zhao"), aged 47, is an independent non-executive Director since 20 September 2010. He is also the chairman of the remuneration committee and a member of the audit committee and nomination committee of the Company. Mr. Zhao obtained his bachelor degree in Arts of major in Chinese Language and Literature at Beijing Union University. Mr. Zhao has over 22 years of experience in communication and media industry in China. Since graduation, Mr. Zhao has worked for Beijing Business Today (北京商報) for 14 years processing to news reporting supervisor. Afterwards, Mr. Zhao has worked for Jinghua Inc. (京華時報) since 2001 and held the posts of photography director and publishing centre supervisor. Currently, Mr. Zhao is also the general manager of Beijing InSpace Culture Media Co., Ltd. (北京象度銳思文化傳媒公司).

Biographical Details of Directors and Senior Management

Senior Management

Mr. WANG De Jie ("Mr. Wang"), aged 46, holds a bachelor degree of engineering from 中國人民解放軍國防科學技術大學電子計算器系 (the Department of Computer Science of the National University of Defense Technology of People's Liberation Army), majoring in Computer and application and a master degree of engineering from 中國科學院計算技術研究所 (Institute of Computing Technology Chinese Academy of Science), majoring in 計算機組織與系統結構 (Computer Organisation and Architecture). Mr. Wang worked for the Institute of Computing Technology Chinese Academy of Science and undertook projects such as the construction of the electronic financial system in Ningbo, 民政部農村社會養老保險管理系統 (management system for the rural pension scheme organised by the Ministry of Civil Affairs), 廣東省建行全省大聯網工程 (general network integration project of China Construction Bank in Guangdong Province, the billing system of 深圳有線電視台HFC網路 (HFC Network of Shenzhen Cable Television) and 中科院百所聯網工程 (Network connection project of academic institutes in the PRC by China Academy of Science) and obtained the qualification as an associate researcher in December 1995; he also worked for 國訊科技有限公司 (Guoxun Tec. Company Limited) as a manager of the department of system integration and was responsible for the construction of integrated billing system for the telecommunications of China at provincial level. Mr. Wang is an executive director of 上海直真節點科技開發有限公司 ("ZZNode (Shanghai)"), a subsidiary of the Company, and fully responsible for the business in Shanghai, since July 2004.

Mr. CHEN Guang An ("Mr. Chen"), aged 36, holds a bachelor degree of science from Shenyang Agricultural University, majoring in agricultural meteorology. Mr. Chen worked for the computer teaching and research section for the center of product development of 遼寧創業教學儀器有限公司 (Liaoling Chuang Ye Teaching Apparatus Company Limited) as a project manager and was responsible for the plan design, project application and after sales service of enterprise networks; he was transferred to 瀋陽創想網絡工程有限公司 (Shenyang Chuang Xiang Network Engineering Company Limited), a subsidiary of Liaoling Chuang Ye Teaching Apparatus Company Limited as a senior project manager and mainly responsible for education networks, the design of system plan of enterprise network projects, equipment installation test and adjustment, system installation and the design and construction and after-sale services related to integrated wiring systems. Mr. Chen is the general manager of ZZNode (Shanghai), a subsidiary of the Company, and responsible for the daily business in Shanghai, since July 2004.

Mr. TING Pong Ming ("Mr Ting") aged 43, graduated from The University of Hong Kong with a bachelor degree of Science. He obtained a master degree of Business Administration at the University of Strathclyde in the United Kingdom and a second bachelor degree in Law at TsingHua University in the PRC. Mr. Ting is an associate member of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants. Mr. Ting has more than 10 years of experience in accounting and finance. Mr. Ting is currently the chief financial officer and the company secretary of the Company.

Report of the Directors

The directors of the Company ("Directors") hereby present the annual report together with the audited consolidated financial statements of China Oriental Culture Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

Principal Activities and Segment Information

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 41 to the consolidated financial statements. The Group is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC. The Group's activities including the sales of self-developed software, third party software and hardware, and maintenance, training and other services, are delivered as part of a total solution services provided by the Group. The Group is also engaged in the provision of advertising services in respect of placing advertisements on the outdoor billboards and LED screens. Securities trading is derived from the gross proceed for trading of financial assets at fair value through profit and loss.

An analysis of the Group's performance for the year by business segments is set out in note 7 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on pages 29 and 30.

Dividend

The Directors did not recommend payment of final dividend for the year ended 31 December 2010.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 32 to the consolidated financial statements.

Distributable Reserves

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 32.

The Company had reserves available for distribution to shareholders amounted to RMB396,128,919 as at 31 December 2010 (2009: RMB49,661,470).

Report of the Directors

Pre-emptive Rights

There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles of Association") requiring the Company to offer new shares to its existing shareholders in proportion to their shareholdings and there is no restriction against such rights under the laws of the Cayman Islands.

Directors

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

Executive Directors

Ms. CHAN Shui Sheung Ivy	
Ms. SO Wai Lam	
Mr. LIU Yong Fei	
Mr. TIN Ka Pak	
Mr. CHEN Fu Ju	
Mr. LI Qing	(Appointed on 20 September 2010)

Independent Non-executive Directors

Mr. CHOW Shiu Ki	
Mr. WU Xian	
Mr. LEUNG Siu Kee	
Mr. ZHAO Yong	(Appointed on 20 September 2010)
Mr. LAM Raymond Shiu Cheung	(Resigned on 30 September 2010)
Mr. LAM Ka Wai Graham	(Resigned on 6 October 2010)

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considers all its independent non-executive Directors independent.

In accordance with article 86(3) of the Articles of Association, Mr. Li Qing and Mr. Zhao Yong will hold office only until the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election at the AGM.

In accordance with article 87(1) of the Articles of Association, Ms. So Wai Lam, Mr. Liu Yong Fei and Mr. Tin Ka Pak will retire from office by rotation, and except for Mr. Liu Yong Fei who will not offer himself for re-election due to the pursuit of other personal commitment, Ms. So Wai Lam and Mr. Tin Ka Pak, being eligible, will offer themselves for re-election at the AGM.

Directors' Service Contracts

Save as Mr. Liu Yong Fei, Mr. Chen Fu Ju, Mr. Li Qing, Mr. Wu Xian, Mr. Leung Siu Kee and Mr. Zhao Yong has entered a service agreement with the Company for a term of three years, none of the existing Directors has entered into any written service agreement with the Company, but they are subject to retirement by rotation and re-election in accordance with the Articles of Association.

Report of the Directors

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

Directors' Interests in Contracts

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

Share Options

Share Option Scheme

The Group operated an equity-settled share option scheme (the "Share Option Scheme") under which the Board might, at its discretion, offer any employees (whether full time or part time), executives or officers of the Company or any of its subsidiaries (including any executive Director), business consultants, agents or legal and financial advisers to the Company or its subsidiaries whom the Board considered, in its sole discretion, as having contributed to the Company or any of its subsidiaries.

The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 31 October 2004 and will remain in force until 30 October 2014. The Company may by resolution in general meeting or the Board may at any time resolve to terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The consideration for the grant of option is HK$1.00. The subscription price shall be determined by the Board in its absolute discretion but in any event shall not be less than the highest of:

(i) The nominal value of the shares;

(ii) The closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option; and

(iii) The average closing price per share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the grant of the option.

Under the Share Option Scheme, the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the Share Option Scheme (the "Scheme Limit") provided that, inter alia, the Company may seek approval of the shareholders at a general meeting to refresh the Scheme Mandate Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme may not exceed 30% of the share capital of the Company in issue from time to time.

As at the date of this report, a total of 44,000,000 share options have been granted under the Scheme Limit, which is the entire number of Scheme Limit granted by the shareholders of the Company on 23 November 2009.

Report of the Directors

The maximum number of shares issued upon exercise of the options granted to each grantee or of shares to be issued upon the exercise of outstanding options under the Share Option Scheme in any 12-month period shall not exceed 1% of the share of the Company in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Share Option Scheme.

During the year, 39,400,000 share options were granted under the Share Option Scheme. Movements of share options during the year ended 31 December 2010 under the Share Option Scheme is summarised as follows, details of which are set out in note 35 to the consolidated financial statements:

Share Option Scheme

List of Grantees	Balance as at 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2010	Exercise Price HK$	Date of Grant	Exercise Period
Directors								
Mr. LIU Yong Fei	19,520,000	–	(3,000,000)	–	16,520,000	1.27	08/10/2009	23/11/2009 – 22/11/2012
Mr. CHEN Fu Ju	19,520,000	–	–	–	19,520,000	1.27	08/10/2009	23/11/2009 – 22/11/2012
Mr. WU Xian	400,000	–	–	–	400,000	1.27	08/10/2009	23/11/2009 – 22/11/2012
	–	60,000	–	–	60,000	1.464	12/03/2010	12/03/2010 – 11/03/2013
	–	500,000	–	–	500,000	0.96	08/10/2010	08/10/2010 – 07/10/2013
Mr. LEUNG Siu Kee	–	460,000	–	–	460,000	1.464	12/03/2010	12/03/2010 – 11/03/2013
	–	500,000	–	–	500,000	0.96	08/10/2010	08/10/2010 – 07/10/2013
Mr. LI Qing	–	980,000	–	–	980,000	1.464	12/03/2010	12/03/2010 – 11/03/2013
	–	3,000,000	–	–	3,000,000	0.96	08/10/2010	08/10/2010 – 07/10/2013
Mr. ZHAO Yong	–	1,500,000	–	–	1,500,000	0.96	08/10/2010	08/10/2010 – 07/10/2013
Employees								
In aggregate	–	1,700,000	–	–	1,700,000	1.80	04/02/2010	04/02/2010 – 03/02/2013
	–	6,200,000	(500,000)	–	5,700,000	1.464	12/03/2010	12/03/2010 – 11/03/2013
	–	24,500,000	–	–	24,500,000	0.96	08/10/2010	08/10/2010 – 07/10/2013
	39,440,000	39,400,000	(3,500,000)	–	75,340,000			

Report of the Directors

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or its Associated Corporations

As at 31 December 2010, the following Directors or chief executives of the Company had held the following interests or short positions in the shares, underlying shares (as defined in the Securities and Futures Ordinance (the "SFO")) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules:

Long position in the Company:

Directors	Nature of interests	Number of issued ordinary shares held	Number of underlying shares held pursuant to share options	Aggregate interests	Approximate percentage of the issued share capital
Ms. SO Wai Lam	Beneficial owner	72,000	–	72,000	0.00%
Mr. LIU Yong Fei	Beneficial owner	3,000,000	16,520,000	19,520,000	1.24%
Mr. CHEN Fu Ju	Beneficial owner	–	19,520,000	19,520,000	1.24%
Mr. LI Qing	Beneficial owner	2,432,000	3,980,000	6,412,000	0.41%
Mr. WU Xian	Beneficial owner	–	960,000	960,000	0.06%
Mr. LEUNG Siu Kee	Beneficial owner	–	960,000	960,000	0.06%
Mr. ZHAO Yong	Beneficial owner	–	1,500,000	1,500,000	0.10%

Save as disclosed above, none of the Directors or chief executives of the Company held any interests or short positions in the shares, underlying shares (as defined in the SFO) or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code.

Report of the Directors

Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company

As at 31 December 2010, the following persons (other than Directors or chief executives of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in the Company

Name of substantial shareholders of the Company	Nature of interests	No. of ordinary shares/ underlying shares in the Company	Approximate percentage of the issued share in the Company
Ascher Group Limited *(Note 1)*	Beneficial owner	211,728,323	13.44%
Lu Xing ("Mr. Lu")	Beneficial owner	50,000,000	3.17%
	Held by controlled corporation *(Notes 1 and 2)*	211,728,323	13.44%
Rotaland Limited *(Note 3)*	Beneficial owner	476,139,306	30.22%
Ho Wai Kong ("Mr. Ho")	Held by controlled corporation *(Note 3)*	477,639,306	30.32%
	Held by spouse *(Note 3)*	50,000,000	3.17%
Perfect Will Limited	Beneficial owner	161,687,861	10.26%
Ng Siu Lai	Held by controlled corporation *(Note 4)*	161,687,861	10.26%
Charmainder Enterprises Limited	Beneficial owner	97,291,907	6.18%
Cheung Man	Held by controlled corporation *(Note 5)*	97,291,907	6.18%
Sure Choice Holdings Limited ("Sure Choice")	Beneficial owner *(Note 6)*	80,000,000	5.08%
Cheng Tze Kit Larry	Held by controlled corporation *(Note 7)*	80,000,000	5.08%

Report of the Directors

Notes:

1. These 211,728,323 shares consist of convertible loan notes which can be converted into 96,728,323 shares.

2. Ascher Group Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Lu.

3. Among the 477,639,306 shares, 476,139,306 shares are held by Rotaland Limited, which consist of convertible loan notes which can be converted into 247,939,306 shares; 1,500,000 shares are held by Similan Limited, which is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Ho. Rotaland Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Ho. 50,000,000 shares are held by Ms. Guo Binni who is the spouse of Mr. Ho.

4. Perfect Will Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Ms. Ng Siu Lai.

5. Charmainder Enterprises Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Ms. Cheung Man.

6. On 11 February 2010, an acquisition agreement has been entered among the Company, Champ Zone Limited, Day Fortune Limited and Sure Choice in relation to the acquisition of the entire issued share capital of Bold Champion International Limited ("Transaction"), a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Sure Choice as to 80%. 80,000,000 new shares will be allotted and issued to Sure Choice in partial settlement of the consideration. The Transaction was completed on 25 March 2011.

7. Sure Choice is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Cheng Tze Kit Larry.

Save as disclosed above, as at 31 December 2010, the Company had not been notified of any interest or short position being held by any substantial shareholder in the shares, underlying shares or debentures in the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Competing Interests

As at 31 December 2010, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

Major Suppliers and Customers

The percentage of purchases for the year attributable to the Group's major suppliers is as follows:

	Percentage of purchases
The largest supplier	44.6%
Five largest suppliers combined	86.5%

Report of the Directors

The percentage of sales for the year attributable to the Group's major customers is as follows:

	Percentage of sales
The largest customer	42.9%
Five largest customers combined	90.3%

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

Related Party Transactions

Related party transactions during the year are disclosed in note 33 to the consolidated financial statements.

Events after the Reporting Period

On 6 January 2011, 4,600,000 share options of the Company were granted to nine eligible participants under the share option scheme for exercise price of HK$0.85 per share. The details are set out in the announcement of the Company dated 6 January 2011.

The Company entered into a non-listed warrants ("Warrants") subscription agreement on 12 January 2011 and a supplemental agreement on 21 January 2011, pursuant to which the six subscribers ("Subscribers") have agreed to subscribe for an aggregate of 120,000,000 Warrants at the subscription price of HK$0.05 per Warrant. The Warrants entitle the Subscribers to subscribe for up to an aggregate of 120,000,000 new ordinary share(s) of HK$0.10 each in the capital of the Company ("New Share") at the exercise price of HK$0.85 per New Share for a period of 24 months commencing from the date immediately after the date of issue of the Warrants. Each Warrant carries the right to subscribe for one New Share. The subscription has been completed on 16 February 2011.

On 3 March 2011, Champ Zone Limited, a wholly owned subsidiary of the Company, entered into the fourth supplemental agreement in relation to the acquisition of entire interest in Bold Champion International Limited of which Kery Media is its subsidiary. Details are set out in the announcement made by the Company dated 3 March 2011. The acquisition has been completed on 25 March 2011.

Purchase, Redemption or Sale of the Company's Listed Securities

During the year ended 31 December 2010, the Company repurchased a total of 1,100,000 fully-paid ordinary shares of the Company at an aggregate consideration of approximately HK$1,270,000 on the Stock Exchange. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share		Aggregate purchase price
		Highest	Lowest	
		(HK$)	(HK$)	(HK$)
June 2010	1,100,000	1.21	0.86	1,270,000

Report of the Directors

900,000 shares, 108,000 shares and 92,000 shares were repurchased on 4 June 2010, 7 June 2010 and 23 June 2010 respectively. 1,008,000 shares and 92,000 shares were cancelled on 15 June 2010 and 6 July 2010 respectively.

The issued share capital of the Company was reduced by the par value thereof. The above repurchases were effected by the Directors, pursuant to the mandate from shareholders, with a view to benefit shareholders as a whole in enhancing the net assets and earnings per share of the Company. Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

Corporate Governance

Please see the "Corporate Governance Report" set out on pages 21 to 26 of this annual report for details of its compliance with the Code on Corporate Governance Practices.

Auditor

A resolution to re-appoint SHINEWING (HK) CPA Limited as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Liu Yong Fei
Executive Director

Hong Kong, 30 March 2011

Corporate Governance Report

Introduction

Maintaining high standards of business ethics and corporate governance practices have always been one of the Company's goals. This report describes its corporate governance practices, explains the applications of the principles of the Code on Corporate Governance (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the deviations, if any.

Corporate Governance Practices

During the year, the Company has complied with the provisions of the CG Code except the deviations stated in the following paragraphs. The Company believes that by achieving high standard of corporate governance, the corporate value and accountability of the Company can be enhanced and the shareholders' interests can be maximised. The directors of the Company ("Directors") acknowledge their responsibility for preparing the Company's accounts. The board of Directors (the "Board") has continued to monitor and review the Company's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Company to ensure awareness to issues regarding corporate governance practices.

During the year ended 31 December 2010 and up to the date of this annual report, there are deviations according to the CG Code as stated in paragraph headed "Chairman and Chief Executive Officer" and "Non-executive Directors".

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exactly than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard in the Model Code and its code of conduct regarding Directors' securities transactions.

The Board of Directors

As at the date of this annual report, the Board consists of ten Directors, of whom six are the executive Directors, namely Ms. Chan Shui Sheung Ivy, Ms. So Wai Lam, Mr. Liu Yong Fei, Mr. Tin Ka Pak, Mr. Chen Fu Ju and Mr. Li Qing, and four are the independent non-executive Directors, namely Mr. Chow Shiu Ki, Mr. Wu Xian, Mr. Leung Siu Kee and Mr. Zhao Yong. Their respective biographies are set out on pages 9 and 10 of this annual report. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to rules 3.13 of the Listing Rules and the Company considers all its independent non-executive Directors independent.

Corporate Governance Report

The Company has set out the respective functions and responsibilities reserved to the Board and those delegated to management. The Board delegates day-to-day operations of the Group to executive Directors and senior management while reserving certain key matters for its approval. The Board is responsible for the approval and monitoring of the Company's overall strategies and policies; approval of business plans; evaluating the performance of the Company and oversight of management. Decisions of the Board are communicated to the management through executive Directors who have attended the Board meetings.

To the best knowledge of the Company, there is no financial business, family or other material/relevant relationship among the Directors.

In the financial year ended 31 December 2010, 34 Board meetings were held. The list of Directors during the year and details of the attendance record of the Directors are as follows:

		Attendance
Executive Directors		
Ms. CHAN Shui Sheung Ivy		6/34
Ms. SO Wai Lam		7/34
Mr. LIU Yong Fei		29/34
Mr. TIN Ka Pak		7/34
Mr. CHEN Fu Ju		28/34
Mr. LI Qing	(Appointed on 20 September 2010)	4/12
Independent Non-executive Directors		
Mr. CHOW Shiu Ki		5/34
Mr. WU Xian		9/34
Mr. LEUNG Siu Kee		18/34
Mr. ZHAO Yong	(Appointed on 20 September 2010)	3/12
Mr. LAM Raymond Shiu Cheung	(Resigned on 30 September 2010)	3/23
Mr. LAM Ka Wai Graham	(Resigned on 6 October 2010)	3/24

Apart from the regular Board meetings, the Board meets on other occasions when a board-level decision on a particular matter is required. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Directors will receive details of agenda items for decision and minutes of the committee meetings in advance of each Board meeting.

Chairman and Chief Executive Officer

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

During the year ended 31 December 2010, the Company did not have a chairman or a chief executive officer. The Board will keep reviewing the current structure of the Board from time to time and should candidates with suitable knowledge, skill and experience be identified, the Company will make appointments to fill the posts as appropriate.

Corporate Governance Report

Non-executive Directors

According to the code provision A.4.1 of the CG Code, all non-executive Directors should be appointed for a specific term of service.

Except for the independent non-executive Director appointed in January 2008, namely Mr. Chow Shiu Ki, was not appointed for a specific term, the other three independent non-executive Directors namely Mr. Wu Xian, Mr. Leung Siu Kee and Mr. Zhao Yong were appointed on 1 October 2009, 22 December 2009 and 20 September 2010 respectively for a three-year term of service. All the independent non-executive Directors are appointed and subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

Remuneration Committee

The remuneration committee was established in 2005 with written terms of reference which complies with the Listing Rules. It is responsible for formulating and recommending the Board in relation to the remuneration policy, determining the remunerations of executive Directors and members of the senior management of the Company, and reviewing and making recommendations on the Company's share option scheme and other compensation-related issues. The remuneration committee consults with the Board on its proposals and recommendations.

As at the date of this annual report, the remuneration committee comprises two independent non-executive Directors, namely Mr. Leung Siu Kee and Mr. Zhao Yong, and one executive Director, namely Ms. Chan Shui Sheung Ivy. Mr. Zhao Yong is the chairman of the remuneration committee.

During the year under review, the remuneration committee of the Company held 2 meetings and significant matters discussed are summarised as follows:

– To review the remuneration package of Directors and senior management

– To recommend the remuneration package of the newly appointed Directors to the Board for approval

Details of the attendance of the Company's remuneration committee members are as follows:

Members		**Attendance**
Mr. ZHAO Yong *(Chairman)*	(Appointed as Chairman on 6 October 2010)	0/0
Ms. CHAN Shui Sheung Ivy		2/2
Mr. LEUNG Siu Kee		1/2
Mr. LAM Ka Wai Graham *(Chairman)*	(Resigned on 6 October 2010)	1/2
Mr. LAM Raymond Shiu Cheung	(Resigned on 30 September 2010)	1/2

Corporate Governance Report

Nomination Committee

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy on or, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regards to the balance of skills and experience appropriate to the Group's business.

The nomination committee of the Company was established on 20 February 2008 with written terms of reference which complies with the Listing Rules. It currently consisted of four members, including three independent non-executive Directors, namely Mr. Chow Shiu Ki, Mr. Leung Siu Kee and Mr. Zhao Yong, and one executive Director, namely Ms. Chan Shui Sheung Ivy. Mr. Chow Shiu Ki is the chairman of the nomination committee.

The nomination committee was discharged the following duties:

– review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

– identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

– assess the independence of independent non-executive Directors; and

– make recommendations to the board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer.

During the year, the nomination committee of the Company held 2 meetings and significant matters discussed are summarised as follows:

– To be involved in the assessment of the appointment of the Directors and made recommendation to the Board; and

– To review the structure, size and composition of the Board, including the balance of skills, knowledge and experience, and independence of the independent non-executive Directors and make recommendation to the Board accordingly.

Details of the attendance of the committee members are as follows:

Members		**Attendance**
Mr. CHOW Shiu Ki *(Chairman)*		2/2
Ms. CHAN Shui Sheung Ivy		2/2
Mr. LEUNG Siu Kee		0/2
Mr. ZHAO Yong	(Appointed on 20 September 2010)	0/0
Mr. LAM Ka Wai Graham	(Resigned on 6 October 2010)	1/2

Corporate Governance Report

Audit Committee

The primary duties of the audit committee of the Company include overseeing the relationship with the Company's external auditors, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted written terms of reference which complies with the Listing Rules.

As at the date of this annual report, the Company's audit committee comprises all four independent non-executive Directors, namely Mr. Leung Siu Kee, Mr. Chow Shiu Ki, Mr. Wu Xian and Mr. Zhao Yong. Mr. Leung Siu Kee is the chairman of the audit committee.

The audit committee convened 2 meetings during the year and the individual attendance of each audit committee member is as follows:

Members		**Attendance**
Mr. LEUNG Siu Kee *(Chairman)*	(Appointed as Chairman on 6 October 2010)	1/2
Mr. CHOW Shiu Ki		2/2
Mr. WU Xian		1/2
Mr. ZHAO Yong	(Appointed on 20 September 2010)	0/0
Mr. LAM Ka Wai Graham *(Chairman)*	(Resigned on 6 October 2010)	2/2
Mr. LAM Raymond Shiu Cheung	(Resigned on 30 September 2010)	2/2

The audit committee formally meets two times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditors as and when necessary, and during the year, two audit committee meetings were held to consider the external auditors' proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgemental areas, accounting principles and practice adopted by the Group; review the external auditors' management letter and management's response; and review the Group's adherence to the CG Code. The Group's unaudited interim results and audited annual results in respect of the year ended 31 December 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

Auditor's Remuneration

During the year, the remuneration in respect of audit services paid/payable to the Company's external auditor, SHINEWING (HK) CPA Limited, is amounted to HK$560,000.

Directors' Responsibility for Financial Statements

Annual Report and Financial Statements

The Directors acknowledge their responsibilities to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to the shareholders of the Company, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

Corporate Governance Report

Accounting Period

The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group had kept the accounting records, which disclose with reasonable accuracy of the financial position of the Group, and also enable the preparation of the financial statements in accordance with the applicable accounting standards.

Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal Controls

The Board is responsible for maintaining a sound and effective internal control system for the Company. The system aims at providing reasonable (but not absolute) guarantees for the prevention of material untrue statements or losses, as well as management on the interruption of the Company's management system and risks existing in the course of arriving at the Company's objectives.

The Directors have conducted an annual review of the effectiveness of the internal control system of the Company and its subsidiaries for the year ended 31 December 2010. The review covers all material controls including financial, operational and compliance controls and risk management functions. The audit committee and the Board have discussed the relevant results of review, and agreed that internal control procedures and risk management systems have been implemented in the various major operation sectors.

Investor Relations

To foster effective communications, the Company provided all necessary information to the shareholders in its annual report and interim report. The Directors host the annual general meeting each year to meet the shareholders and answer to their enquiries. Directors make efforts to attend the annual general meeting so that they may answer any questions from the Company's shareholders.

The Directors, the company secretary or other appropriate members of senior management will also respond to inquiries from shareholders and investors promptly.

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F.,The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF CHINA ORIENTAL CULTURE GROUP LIMITED
(formerly known as "ZZNODE TECHNOLOGIES COMPANY LIMITED")
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Oriental Culture Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 94, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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 Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
30 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTES	2010 RMB	2009 RMB
Continuing operations			
Turnover	*8*	**32,397,529**	31,334,168
Revenue		**15,227,973**	13,324,741
Cost of sales and services		**(48,445,781)**	(12,900,260)
Gross (loss) profit		**(33,217,808)**	424,481
Other income	*9*	**373,544**	1,002,491
Selling and marketing expenses		**(199,371)**	(25,314)
Administrative expenses		**(40,321,997)**	(38,791,833)
Finance costs	*10*	**(23,487,162)**	(16,134)
Gain on disposal of subsidiaries	*39*	**8,453**	8,508
(Loss) gain on disposal of financial assets at fair value through profit or loss		**(14,968,809)**	8,978,620
Increase in fair value of financial assets at fair value through profit or loss		**6,007,231**	17,583,331
Share of result of an associate	*21*	**90,176**	1,556,650
Loss before tax		**(105,715,743)**	(9,279,200)
Income tax expense	*11*	**–**	(1,533,466)
Loss for the year from continuing operations	*13*	**(105,715,743)**	(10,812,666)
Discontinued operations			
Profit for the year from discontinued operations	*12*	**425,106**	1,579,967
Loss for the year		**(105,290,637)**	(9,232,699)
Exchange differences arising on translation and other comprehensive income (expenses) for the year		**3,372,182**	(629,736)
Total comprehensive expenses for the year		**(101,918,455)**	(9,862,435)

Consolidated Statement of Comprehensive Income (Continued)

For the year ended 31 December 2010

	NOTE	2010 RMB	2009 RMB
Loss for the year attributable to:			
Owners of the Company			
Loss for the year from continuing operations		**(105,575,430)**	(10,812,666)
Profit for the year from discontinued operations		**425,106**	1,579,967
		(105,150,324)	(9,232,699)
Non-controlling interests			
Loss for the year from continuing operations		**(140,313)**	–
Profit for the year from discontinued operations		**–**	–
		(140,313)	–
		(105,290,637)	(9,232,699)
Total comprehensive expenses attributable to:			
Owners of the Company		**(101,778,142)**	(9,862,435)
Non-controlling interests		**(140,313)**	–
		(101,918,455)	(9,862,435)
Loss per share	*17*		
Basic and diluted (RMB cents)			
From continuing and discontinued operations		**(8.503)**	(2.240)
From continuing operations		**(8.537)**	(2.623)

Consolidated Statement of Financial Position

As at 31 December 2010

	NOTES	2010 RMB	2009 RMB
			(Restated)
Non-current Assets			
Property, plant and equipment	*18*	**9,890,927**	3,918,267
Investment properties	*19*	**–**	7,393,231
Intangible asset	*20*	**646,303,857**	–
Interest in an associate	*21*	**1,589,809**	1,556,650
Deposit paid for acquisition of investment	*22*	**–**	21,098,400
Deposit paid for acquisition of an intangible asset	*23*	**10,108,598**	–
Prepayment for a mobile media project	*24*	**5,000,000**	–
Available-for-sale investment	*25*	**1,693,800**	–
		674,586,991	33,966,548
Current Assets			
Amount due from an associate	*26*	**23,527,106**	20,259,260
Trade and other receivables	*27*	**22,888,439**	8,409,251
Financial assets at fair value through profit or loss	*28*	**21,960,286**	35,944,421
Restricted bank balances	*29*	**41,748**	10,190
Bank balances and cash	*29*	**41,657,214**	84,962,454
		110,074,793	149,585,576
Current Liabilities			
Trade and other payables	*30*	**19,583,637**	12,369,650
Amount due to a shareholder	*31*	**5,976,776**	–
Tax payable		**40,686**	1,533,466
		25,601,099	13,903,116
Net Current Assets		**84,473,694**	135,682,460
Total Assets Less Current Liabilities		**759,060,685**	169,649,008
Capital and Reserves			
Share capital	*32*	**142,125,763**	47,748,941
Reserves		**542,990,166**	121,900,067
Equity attributable to owners of the Company		**685,115,929**	169,649,008
Non-controlling interests		**815,520**	–
Total Equity		**685,931,449**	169,649,008
Non-current Liabilities			
Convertible loan notes	*34*	**73,129,236**	–
		759,060,685	169,649,008

The consolidated financial statements on pages 29 to 94 were approved and authorised for issue by the board of directors on 30 March 2011 and are signed on its behalf by:

Liu Yong Fei
Director

Chen Fu Ju
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital	Share premium	Special reserve	Translation reserve	Convertible bonds reserve	Capital redemption reserve	Share option reserve	Contribution from shareholders	Other reserve	(Accumulated losses) Retained earnings	Total	Non-controlling interests	Total
	RMB	RMB	RMB (Note a)	RMB	RMB	RMB (Note b)	RMB	RMB (Note c)	RMB (Note d)	RMB	RMB	RMB	RMB
At 1 January 2009	42,815,665	5,288,400	15,535,611	(5,974,014)	–	502,335	2,248,359	1,927,198	–	22,435,249	84,778,803	–	84,778,803
Total comprehensive expenses for the year	–	–	–	(629,736)	–	–	–	–	–	(9,232,699)	(9,862,435)	–	(9,862,435)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	19,088,834	–	–	–	19,088,834	–	19,088,834
Placing of new shares, net of expenses	4,840,300	69,622,706	–	–	–	–	–	–	–	–	74,463,006	–	74,463,006
Issue of shares upon exercise of share options	92,976	1,585,597	–	–	–	–	(497,773)	–	–	–	1,180,800	–	1,180,800
At 31 December 2009	47,748,941	76,496,703	15,535,611	(6,603,750)	–	502,335	20,839,420	1,927,198	–	13,202,550	169,649,008	–	169,649,008
Total comprehensive income (expenses) for the year	–	–	–	3,372,182	–	–	–	–	–	(105,150,324)	(101,778,142)	(140,313)	(101,918,455)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	11,380,761	–	–	–	11,380,761	–	11,380,761
Recognition of equity component of convertible loan notes	–	–	–	–	443,235,189	–	–	–	–	–	443,235,189	–	443,235,189
Issue of shares upon (net of expenses)													
– exercise of share options	296,414	5,081,332	–	–	–	–	(1,587,925)	–	–	–	3,789,821	–	3,789,821
– conversion of convertible loan notes	94,173,567	404,341,756	–	–	(338,358,180)	–	–	–	–	–	160,157,143	–	160,157,143
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	717,050	717,050
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(238,783)	–	(238,783)	238,783	–
Share repurchased and cancelled	(93,159)	–	–	–	–	93,159	–	–	–	(1,079,068)	(1,079,068)	–	(1,079,068)
At 31 December 2010	142,125,763	485,919,791	15,535,611	(3,231,568)	104,877,009	595,494	30,632,256	1,927,198	(238,783)	(93,026,842)	685,115,929	815,520	685,931,449

Notes:

(a) Special reserve represents the difference between the nominal value of the ordinary share issued by the Company and Beijing Zhizhen Node Technology Development Co., Ltd. ("ZZNode (Beijing)") and the aggregate of share capital and share premium or net assets of the subsidiaries acquired by the Company and ZZNode (Beijing) through the exchange of share.

(b) Capital redemption reserve represents a non-distributable reserve created in accordance with Section 37.4(a) of the Cayman Islands Law when the Company repurchases its own shares out of retained earnings. The reserve was created by transferring from the retained earnings an amount equivalent to the nominal value of the share repurchased to the capital redemption reserve.

(c) Contribution from shareholders represented balances advanced from shareholders in prior years for the share options granted as set out in note 35(b).

(d) Other reserve represents the difference between the consideration and the book value of the identifiable assets and liabilities attributable to the additional interest acquired in subsidiaries.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	NOTES	2010 RMB	2009 RMB
OPERATING ACTIVITIES			
Loss before tax from continuing operations		**(105,715,743)**	(9,279,200)
Profit before tax from discontinued operations	12	**425,106**	1,579,967
Loss before tax		**(105,290,637)**	(7,699,233)
Adjustments for:			
Finance costs		**23,487,162**	16,134
Interest income		**(354,965)**	(383,650)
Dividend income		**–**	(3,516)
Amortisation of intangible asset		**34,015,992**	–
Depreciation of property, plant and equipment		**1,281,963**	338,462
Gain on disposal of investment property		**–**	(407,902)
Share of result of an associate		**(90,176)**	(1,556,650)
Loss on disposal of property, plant and equipment		**12,815**	357,547
Loss (gain) on disposal of financial assets at fair value through profit or loss		**14,968,809**	(8,978,620)
Increase in fair value of financial assets at fair value through profit or loss		**(6,007,231)**	(17,583,331)
Increase in fair value of investment properties		–	(1,301,068)
Accruals for litigation claims		**18,524**	1,075,000
Share-based payment expenses		**11,380,761**	19,088,834
Impairment loss recognised in trade receivables		**1,979,610**	–
Gain on disposal of subsidiaries	39	**(479,850)**	(8,508)
Operating cash flows before movements in working capital		**(25,077,223)**	(17,046,501)
Increase in trade and other receivables		**(14,581,647)**	(36,537)
Increase in trade and other payables		**2,072,413**	468,546
Decrease (increase) in financial assets at fair value through profit or loss		**5,022,557**	(1,395,877)
NET CASH USED IN OPERATING ACTIVITIES		**(32,563,900)**	(18,010,369)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2010

	NOTES	2010 RMB	2009 RMB
INVESTING ACTIVITIES			
Net cash inflow from disposal of subsidiaries	39	**7,630,823**	3,497
Net cash inflow from acquisition of subsidiaries	38	**2,568,666**	–
Interest received		**354,965**	383,650
Proceeds from disposal of property, plant and equipment		**255,877**	2,370
Decrease in receivable in respect of a terminated transaction		**–**	44,225,000
Proceeds from disposal of investment property		**–**	3,187,274
Dividend received		**–**	3,516
Increase in restricted bank balances		**(31,558)**	(10,190)
Purchase of available-for-sale investment		**(1,693,800)**	–
Advance to an associate		**(3,267,846)**	(20,259,260)
Purchase of property, plant and equipment		**(6,049,414)**	(3,587,107)
Deposit paid for acquisition of an intangible asset		**(10,108,598)**	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(10,340,885)**	23,948,750
FINANCING ACTIVITIES			
Issue of shares upon exercise of share options		**3,789,821**	1,180,800
Issue of shares from placing		**–**	74,463,006
Loan from a related company		**–**	2,373,570
Interest paid		**(2)**	(16,134)
Repurchase of shares		**(1,079,068)**	–
Repayment of loan from a related company		**–**	(2,373,570)
NET CASH FROM FINANCING ACTIVITIES		**2,710,751**	75,627,672
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(40,194,034)**	81,566,053
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**84,962,454**	3,887,517
Effect of foreign exchange rate changes		**(3,111,206)**	(491,116)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash		**41,657,214**	84,962,454

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. General

China Oriental Culture Group Limited (the "Company") was incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report. The directors do not consider any company to be the ultimate holding company of the Company.

The functional currency and presentation currency of the Company is Hong Kong Dollar ("HK$"). The functional currencies for its certain subsidiaries are Renminbi ("RMB").

As the Group mainly operates in the People's Republic of China (the "PRC"), the directors of the Company consider that it is appropriate to present the consolidated financial statements in RMB.

The Company is an investment holding and securities trading company. The principal activities of its principal subsidiaries are set out in note 41.

Pursuant to a special resolution passed at the extraordinary general meeting held on 12 November 2010, the name of the Company was changed from ZZNode Technologies Company Limited to China Oriental Culture Group Limited and 中國東方文化集團有限公司 was adopted as new Chinese name of the Company. The certificate of incorporation on change of name certifying the change of name of the Company was issued by the Registrar of Companies in Cayman Islands and the name change took effect on 12 November 2010.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
Hong Kong Accounting Standard ("HKAS") 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendments)	Additional Exemptions from First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK-Interpretation ("Int") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC)-Int 17	Distributions of Non-Cash Assets to Owners

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. *Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")* *(Continued)*

HKFRS 3 (Revised 2008) Business Combinations

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Result of the Group in future periods, may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

Amendments to HKAS 1 Presentation of Financial Statements
(as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

In line with the amendments to HKAS 1, the Group has classified the liability component of convertible loan notes issued in the current year as non-current based on when cash settlement may be required to be made (see note 34). This amendment has had no effect on the amounts reported in prior years because the Group has not previously issued instruments of this nature. As at 31 December 2010, the liability component of the convertible loan notes with the carrying amount of approximately RMB73,129,236 has been presented as non-current liabilities.

Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations
(as part of Improvements to HKFRSs issued in 2009)

The amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations issued in 2009, as part of the Improvements to HKFRSs clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It states that disclosure requirements of other HKFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs have specific disclosure requirement in respect of such asset (or disposal groups); or the disclosures relate to the measurement of an individual asset or assets, as part of a disposal group which follows other HKFRSs and the information is not disclosed elsewhere in the financial statements.

2. *Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")* *(Continued)*

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures-Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. *Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")* *(Continued)*

- 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 Group's 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 HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors of the Company anticipate that the application of the amendments to HKAS 12 will not have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

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.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies

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

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

The principle accounting policies are set out below.

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transaction with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

Income from sales of self-developed software and sales of third party software and hardware is recognised when goods are delivered or accepted by the customers, whenever is later.

Maintenance, training and other services income is recognised when services are provided.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Intangible assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Leasing

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

The Group as lessee

Operating leases payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. *Significant Accounting Policies* *(Continued)*

Impairment loss on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Financial instruments

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

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

Financial assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL including financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

Loans and receivables

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

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

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

Impairment loss on financial assets

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. *Significant Accounting Policies* *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets *(Continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables and amount due to a shareholder are subsequently measured at amortised cost, using the effective interest rate method.

Convertible loan notes

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into 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.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible bonds reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost 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 reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Equity instruments

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

Repurchases of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. Significant Accounting Policies *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share option granted to employees under share option scheme and share incentive scheme

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

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

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

4. Key Sources of Estimation Uncertainty

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. Key Sources of Estimation Uncertainty *(Continued)*

Estimated impairment loss recognised in respect of receivables

Assessment of potential impairment in respect of receivables is made based on assessment of the recoverability of trade receivables, other receivables and amount due from an associate as at 31 December 2010. The identification of potential impairment requires management judgment and estimates, based on available facts and the consideration of the circumstances. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade receivables, other receivables and amount due from an associate and the impairment provision/written back in the period in which the estimate has been changed. At 31 December 2010, the carrying value of trade receivables was approximately RMB13,688,949 (2009: RMB6,507,243) (net of accumulated impairment loss of approximately RMB1,979,610 (2009: nil)). The carrying value of other receivables and amount due from an associate is RMB9,199,490 (2009: RMB1,902,008) and RMB23,527,106 (2009: RMB20,259,260) respectively. No impairment loss recognised for other receivables and amount due from an associate in both years.

Share-based payment expenses

The share-based payment expenses are subject to the limitations of the Black-Scholes-Merton Option Pricing Model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model.

Depreciation of property, plant and equipment and amortisation of intangible asset

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives and after taking into account their estimated residual value. Intangible asset is amortisated on a straight-line basis over their estimated useful lives. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful lives of the property, plant and equipment and intangible asset and if the expectation differs from the original estimate, such a difference may impact the depreciation and amortisation in the year and the estimate will be changed in the future period.

Estimated impairment loss recognised in respect of intangible asset

At the end of the reporting period, the Group performs testing on whether there has been impairment of intangible asset in accordance with the accounting policy as stated in note 3. The recoverable amounts of cash generating units are determined based on value-in-use calculations. The directors assess the potential impairment of intangible asset if any, by reference to the work of independent valuer who performs calculations which use estimates and assumption of the future operation of the business applicable appropriate discount rates, and other assumptions underlying the value-in-use calculations. At 31 December 2010, the carrying value of intangible assets was approximately RMB 646,303,857 and in the opinion of directors, no impairment was considered necessary.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. Key Sources of Estimation Uncertainty (Continued)

Estimated impairment loss recognised in respect of property, plant and equipment

The impairment loss for and written off of property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided for both years.

Estimated impairment loss recognised in respect of available-for-sale investment

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. No impairment was recognised for both years.

5. Capital Risk Management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes convertible loan notes as disclosed in note 34, cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserve as disclosed in note 29 and the consolidated statement of changes in equity respectively.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company considers cost of capital and the risks associated with each class of capital. Based on the recommendation of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. Financial Instruments

(a) Categories of financial instruments

	2010 RMB	2009 RMB
Financial assets		
Financial assets at FVTPL	**21,960,286**	35,944,421
Loans and receivables (including cash and cash equivalents)	**79,715,127**	113,149,147
Available-for-sale investment	**1,693,800**	–
	103,369,213	149,093,568
Financial liabilities		
At amortised cost	**98,689,649**	12,369,650

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, trade and other receivables, financial assets at fair value through profit or loss, amount due from an associate, bank balances and cash, trade and other payables, amount due to a shareholder and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to cash flows interest rate risk in relation to prevailing marketing rate on bank balances for both years (see note 29 for details).

6. *Financial Instruments* *(Continued)*

(b) *Financial risk management objectives and policies* *(Continued)*

Market risk *(Continued)*

Interest rate sensitivity analysis

The sensitively analyses below have been determined based on the exposure to interest rates for non-derivatives instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2009: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2009: 100 basis points) higher/lower and all other variable were held constant, the Group's loss for the year ended 31 December 2010 would decrease/increase by approximately RMB416,000 (2009: RMB850,000).

Foreign currency risk

Certain bank balances, financial assets at fair value through profit or loss and convertible loan notes of the Group are not denominated in RMB, the functional currency of the Group. Therefore, the Group subjects to foreign currency risk. The Group does not have a foreign currency hedging policy. However, the directors monitors foreign exchange exposure and will consider hedging the potential foreign currency exposure should the need arise.

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

	2010 **RMB**	2009 RMB
Assets	**63,617,500**	120,906,875
Liabilities	**73,129,236**	–

Sensitively analysis

The Group is mainly exposed to the currency of HK$.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. *Financial Instruments* *(Continued)*

(b) *Financial risk management objectives and policies* *(Continued)*

Market risk *(Continued)*

Foreign currency risk (Continued)

The following table details the Group's sensitivity to a reasonably possible change of 10% in exchange rate of RMB against foreign currency while all other variables are held constant. 10% (2009: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% (2009: 10%) change in foreign currency rates.

	2010 RMB	2009 RMB
Increase (decrease) in post-tax loss for the year, net of tax effect		
– if RMB weakens against foreign currencies	**(951,174)**	(12,090,687)
– if RMB strengthens against foreign currencies	**951,174**	12,090,687

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The directors manage this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange.

Other price sensitivity analysis

The sensitivity analyses below have been determined based on the Group's exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 10% (2009: 10%) higher/lower, the Group's post tax loss would decrease/increase by approximately RMB2,196,000 (2009: RMB3,594,000) as a result of the changes in the fair value of financial assets at FVTPL.

6. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets, mainly trade and other receivables and amount due from an associate, as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables, other receivables and amount due from an associate at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is reduced.

The Group's concentration of credit risk by geographical locations mainly in the PRC, which accounted for 100% (2009: 100%) of the total trade receivables as at 31 December 2010.

At the end of the reporting period, the Group has concentration of credit risk as 44% (2009: nil) and 86% (2009: 8%) of the total trade receivables were due from the Groups largest customer and the five largest customers respectively within the sales of third party software and hardware and maintenance, training and other services segments.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. *Financial Instruments* (Continued)

(b) *Financial risk management objectives and policies* (Continued)

Liquidity risk (Continued)

	Within 1 year or on demand RMB	More than 1 year but less than 2 years RMB	More than 2 years but less than 5 years RMB	Total undiscounted cash flows RMB	Carrying amounts RMB
As at 31 December 2010					
Trade and other payables	19,583,637	–	–	19,583,637	19,583,637
Amount due to a shareholder	5,976,776	–	–	5,976,776	5,976,776
Convertible loan notes	–	–	151,495,589	151,495,589	73,129,236
	25,560,413	–	151,495,589	177,056,002	98,689,649
As at 31 December 2009					
Trade and other payables	12,369,650	–	–	12,369,650	12,369,650

(c) *Fair value*

The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively.

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flows analysis.

The directors consider that the fair value of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their corresponding carrying amounts.

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

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

6. Financial Instruments *(Continued)*

(c) Fair value *(Continued)*

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are based on observable market data (unobservable inputs).

	31/12/2010			
	Level 1 RMB	**Level 2 RMB**	**Level 3 RMB**	**Total RMB**
Financial assets at FVTPL	**21,960,286**	**–**	**–**	**21,960,286**

	31/12/2009			
	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Financial assets at FVTPL	35,944,421	–	–	35,944,421

7. Segment Information

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

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1. Sales of self-developed software – provision of self-developed operational supporting system (OSS) software.

2. Sales of third party software and hardware – provision of third party operational supporting system (OSS) software and hardware.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. Segment Information *(Continued)*

3. Maintenance, training and other services – provision of mobile communication network optimisation services.

4. Advertising media – provision of advertising services in respect of placing advertisements on the outdoor billboards and LED screens of the Group to advertisers and advertising agencies.

5. Securities trading – trading of financial assets at fair value through profit or loss.

An operating segment regarding the properties investments was discontinued in the current year. For the year ended 31 December 2010, there is a new reportable segment regarding advertising media after acquisition of a subsidiary. The segment information reported on the next pages does not include any amounts for these discontinued operations, which are disclosed in more details is note 12.

Segment turnover and results

The following is an analysis of the Group's turnover and results from continuing operations by reportable segment.

For the year ended 31 December 2010

Continuing operations

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	Maintenance, training and other services RMB	Advertising media RMB	Securities trading RMB	Total RMB
TURNOVER						
External sales	–	13,800,082	1,427,891	–	17,169,556	32,397,529
Segment profit (loss)	–	249,485	548,699	(39,694,432)	(8,961,578)	(47,857,826)
Unallocated corporate expenses						(34,842,928)
Unallocated other income						381,997
Share of result of an associate						90,176
Finance costs						(23,487,162)
Loss before tax (continuing operations)						(105,715,743)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. Segment Information *(Continued)*

Segment turnover and results *(Continued)*

For the year ended 31 December 2009

Continuing operations

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	Maintenance, training and other services RMB	Advertising media RMB	Securities trading RMB	Total RMB
TURNOVER						
External sales	–	2,669,491	10,655,250	–	18,009,427	31,334,168
Segment profit	–	210,440	374,096	–	26,561,951	27,146,487
Unallocated corporate expenses						(38,817,147)
Unallocated other income						850,944
Share of result of an associate						1,556,650
Finance costs						(16,134)
Loss before tax (continuing operations)						(9,279,200)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit/loss represents the profit earned by/loss from each segment without allocation of central administration costs, directors' emolument, value-added tax refunded income, interest income, share of result of an associate, finance costs and loss/gain on disposal of subsidiaries, loss on disposal of property, plant and equipment and depreciation of certain property, plant and equipment. This is the measure reported to the chief operating decision maker, board of directors of the Company, for the purpose of resources allocation and performance assessment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. Segment Information (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2010 **RMB**	2009 RMB
Segment assets		
Continuing operations		
Sales of self-developed software	**–**	–
Sales of third party software and hardware	**11,247,575**	–
Maintenance, training and other services	**2,441,374**	6,507,243
Advertising media	**666,805,603**	–
Securities trading	**21,960,286**	35,944,421
Total segment assets	**702,454,838**	42,451,664
Assets relating to discontinued operation	**–**	7,393,231
Unallocated corporate assets	**81,711,946**	133,707,229
Consolidated assets	**784,166,784**	183,552,124
Segment liabilities		
Continuing operations		
Sales of self-developed software	**–**	–
Sales of third party software and hardware	**6,081,883**	–
Maintenance, training and other services	**–**	4,744,924
Advertising media	**–**	–
Securities trading	**–**	–
Total segment liabilities	**6,081,883**	4,744,924
Unallocated corporate liabilities	**92,648,452**	9,158,192
Consolidated liabilities	**98,730,335**	13,903,116

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

- All assets are allocated to reportable segments other than certain property, plant and equipment, interest in an associate, deposit paid for acquisition of investment, amount due from an associate, prepayments, deposits and other receivables and bank balances and cash; and

- All liabilities are allocated to reportable segments other than accrued charges and other payables, amount due to a shareholder, tax payable and convertible loan notes.

7. Segment Information *(Continued)*

Other segment information

For the year ended 31 December 2010

Continuing operations

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	Maintenance, training and other services RMB	Advertising media RMB	Securities trading RMB	Unallocated RMB	Consolidated RMB
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non current assets	–	–	–	701,292,749	–	–	701,292,749
Depreciation and amortisation	–	–	–	34,485,002	–	–	34,485,002
Impairment loss recognised in trade receivables	–	–	1,979,610	–	–	–	1,979,610
Loss on disposal of financial assets at fair value through profit or loss	–	–	–	–	14,968,809	–	14,968,809
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Additions to non current assets	–	–	–	–	–	185,112	185,112
Interest in an associate	–	–	–	–	1,589,809	–	1,589,809
Share of result of an associate	–	–	–	–	90,176	–	90,176
Depreciation	–	–	–	–	–	808,013	808,013
Interest income	–	–	–	–	–	354,965	354,965
Interest expense	–	–	–	–	–	23,487,162	23,487,162
Loss on disposal of property, plant and equipment	–	–	–	–	–	12,815	12,815
Gain on disposal of subsidiaries	–	–	–	–	–	8,453	8,453

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For the year ended 31 December 2010

7. *Segment Information* *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2009

Continuing operations

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	Maintenance, training and other services RMB	Advertising media RMB	Securities trading RMB	Unallocated RMB	Consolidated RMB
Amounts included in the measure of segment profit or loss or segment assets:							
Gain on disposal of financial assets at fair value through profit or loss	–	–	–	–	(8,978,620)	–	(8,978,620)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Additions to non current assets	–	–	–	–	–	3,587,107	3,587,107
Interest in an associate	–	–	–	–	1,556,650	–	1,556,650
Share of result of an associate	–	–	–	–	1,556,650	–	1,556,650
Depreciation	–	–	–	–	–	329,671	329,671
Interest income	–	–	–	–	–	383,650	383,650
Interest expense	–	–	–	–	–	16,134	16,134
Dividend income	–	–	–	–	3,516	–	3,516
Loss on disposal of property, plant and equipment	–	–	–	–	–	357,547	357,547
Gain on disposal of subsidiaries	–	–	–	–	–	8,508	8,508

7. Segment Information *(Continued)*

Geographical information

The Group's operations are located in Hong Kong and the PRC.

The Group's turnover from continuing operations from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Non-current assets		Turnover from external customers	
	31/12/2010 RMB	31/12/2009 RMB	**31/12/2010 RMB**	31/12/2009 RMB
Hong Kong	**4,497,780**	11,027,953	**17,169,556**	18,009,427
PRC	**666,805,602**	283,545	**15,227,973**	13,324,741
	671,303,382	11,311,498	**32,397,529**	31,334,168

Note: Non-current assets excluded those relating to discontinued operations and excluded interest in an associate, deposit paid for acquisition of investment and available-for-sale investment.

Information about major customers

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

	2010 RMB	2009 RMB
Customer A[1]	**6,536,386**	N/A[2]
Customer B[1]	**3,668,376**	N/A[2]
Customer C[1]	**2,474,817**	N/A[2]

[1] Revenue from sales of third party software and hardware.

[2] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. Turnover

An analysis of the Group's turnover for the year from continuing operations is as follows:

	2010 RMB	2009 RMB
Sales of third party software and hardware	**13,800,082**	2,669,491
Maintenance, training and other services	**1,427,891**	10,655,250
Gross proceeds from trading of financial assets at fair value through profit or loss	**17,169,556**	18,009,427
	32,397,529	31,334,168

9. Other Income

	2010 RMB	2009 RMB
Continuing operations		
Value-added tax refund income *(Note)*	**–**	160,055
Dividend income	**–**	3,516
Interest income	**354,965**	383,650
Others	**18,579**	455,270
	373,544	1,002,491

Note: In accordance with the Notice on Certain Issues of Tax Policies to Encourage the Development of Software and Integrated Circuits Industries(關於鼓勵軟件生產和集成電路產業發展有關稅收政策問題的通知)jointly issued by the Ministry of Finance, the State of General Administration of Taxation and the State of General Administration of Customs, an ordinary taxpayer shall be refunded, after subscribing 17% value-added tax on the income from sales of self-developed software products, an amount of 14% value-added tax on such income for the period from 24 June 2000 to 31 December 2010. On 20 February 2002, the Shanghai Information Office issued a Software Enterprise Verification Certificate(軟件企業認定證書)to 上海直真節點科技開發有限公司 ("ZZNode (Shanghai)"). ZZNode (Shanghai) were therefore entitled to receive refund of 14% of value-added tax paid from sales of self-developed software products after the tax refund notice(稅收收入退款書)has been approved. This tax refund was recognised as other income in the period upon the relevant conditions were fulfilled. No value-added tax refund income was generated for the year ended 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

10. Finance Costs

	2010 RMB	2009 RMB
Continuing operations:		
Interest on:		
Bank overdrafts	**2**	7
Loan from a related company (note 33)	**–**	16,127
Effective interest expenses on convertible loan notes (note 34)	**23,487,160**	–
	23,487,162	16,134

11. Income Tax Expense

	2010 RMB	2009 RMB
Continuing operations		
Taxation comprises:		
Hong Kong Profits Tax	**–**	1,533,466

The statutory tax rate for ZZNode (Shanghai) is 22% (2009: 20%). However, it received preferential tax treatment as explained below:

ZZNode (Shanghai) is recognised as an advanced technology and software enterprise according to the Shanghai State Tax Notices 滬國稅浦政 [2002] No. 70 of (Circular of the Ministry of Finance, the State Administration of Taxation and General Administration of Customs on the Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries)《關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知》approved by the State Tax Bureau and Local Tax Bureau of Pudong New District of Shanghai Municipality.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. The Group's certain subsidiaries in the PRC was reduced from 33% to 25% progressively from 1 January 2008.

For entities still subject to the entitlement of summarised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the summarised tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards. The relevant tax rates for the Group's other subsidiaries in the PRC is 25%.

No provision for PRC Enterprise Income Tax was made for in the consolidated financial statements for year ended 31 December 2010 as there was no estimated assessable profit derived from the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11. Income Tax Expense *(Continued)*

No PRC Enterprise Income Tax is payable on the profit for the year ended 31 December 2009 since assessable profit is wholly absorbed by tax losses brought forward. Tax losses carried forward amount to approximately RMB4,597,887 (2009: RMB7,288,507).

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2009. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2010 as the Group does not have any assessable profit subject to Hong Kong Profits Tax for the year.

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

	2010 **RMB**	2009 RMB
Loss before tax (from continuing operations)	**(105,715,743)**	(9,279,200)
Tax at the domestic income tax rate of 22% (2009: 20%) *(Note)*	**(23,257,463)**	(1,855,840)
Tax effect of share of result of an associate	**(19,839)**	(311,330)
Tax effect of expenses not deductible for tax purpose	**11,684,892**	3,440,899
Tax effect of income not taxable for tax purpose	**(78,092)**	(95,893)
Tax effect of tax losses not recognised	**8,208,556**	149,610
Tax effect of deductible temporary differences not recognised	**46,902**	10,964
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,415,044**	254,306
Utilisation of tax losses previously not recognised	**–**	(59,250)
Income tax expense for the year (from continuing operations)	**–**	1,533,466

Note: Being the statutory tax rate of ZZNode (Shanghai).

As at 31 December 2010, the Group has approximately RMB94,599,845 unused tax losses and RMB1,261,960 deductible temporary difference (2009: RMB57,288,227 and RMB1,048,769) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB4,597,887 (2009: RMB7,228,507) that will expire in 2012. Other losses may be carried forward indefinitely.

12. Discontinued Operations

On 25 June 2010 and 24 September 2010, the Group entered into sale and purchase and supplemental sale and purchase agreements to dispose of its subsidiaries, Watson China Limited ("Watson') and Alpaco Company Limited ("Alpaco"), which carried out all of the Group's property investment operations. The disposal was effected in order to generate cash flows for the expansion of the Company's other businesses. The disposal was completed on 17 August 2010 and 19 October 2010 respectively, on which dates control of Watson and Alpaco respectively passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed in note 39.

Analysis of profit for the year from discontinued operations

The results of the property investment operations for the period from 1 January 2010 to 17 August 2010 and 19 October 2010 respectively, which have been included in the consolidated statement of comprehensive income, were as follows:

	Period ended 19/10/2010 RMB	Year ended 31/12/2009 RMB
Revenue	**–**	–
Other income	**–**	407,902
Administrative expenses	**(46,291)**	(129,003)
Increase in fair value of investment properties	**–**	1,301,068
(Loss) profit before tax	**(46,291)**	1,579,967
Income tax expense	**–**	–
(Loss) profit for the year from discontinued operations	**(46,291)**	1,579,967

The profit for the year from the discontinued operation is analysed as follows:

	2010 RMB	2009 RMB
(Loss) profit of property investment operations for the year	**(46,291)**	1,579,967
Gain on disposal of property investment operation (see note 39)	**471,397**	–
	425,106	1,579,967

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For the year ended 31 December 2010

12. Discontinued Operations *(Continued)*

Analysis of profit for the year from discontinued operations (Continued)

Loss for the year from discontinued operations including the following:

	Period ended 2010 RMB	Year ended 2009 RMB
Depreciation of property, plant and equipment	**4,940**	8,791

No charge or credit arose on profit on discontinuance of the operations.

The subsidiaries disposed during the years ended 31 December 2010 and 2009 had no significant impact on the cash flows of the Group.

The carrying amounts of the assets and liabilities of Watson and Alpaco are disclosed in note 39.

13. Loss for the Year

Loss for the year has been arrived at after charging:

	2010 RMB	2009 RMB
Continuing operations		
Directors' emoluments (note 14)	**5,503,471**	22,054,892
Other staff costs	**4,569,811**	1,196,157
Share based payment expenses	**9,399,611**	–
Retirement benefits scheme contributions excluding directors' emoluments	**250,779**	323,676
Total staff costs	**19,723,672**	23,574,725
Depreciation of property, plant and equipment	**1,277,023**	329,671
Amortisation of intangible asset	**34,015,992**	–
Total depreciation and amortisation	**35,293,015**	329,671
Auditor's remuneration	**474,264**	379,771
Cost of inventories recognised as an expense	**13,550,596**	2,459,051
Impairment loss recognised in trade receivables	**1,979,610**	–
Loss on disposal of property, plant and equipment		
– included in administrative expense	**12,815**	350,178
– included in costs of sales and services	**–**	7,369
Net foreign exchange losses	**459,995**	47,907
Operating lease rentals in respect of rented premises	**3,987,968**	2,322,255
Accruals for litigation claims	**18,524**	1,075,000

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For the year ended 31 December 2010

14. Directors' Emoluments

The emoluments paid or payable to each of the 12 (2009:10) directors were as follows:

For the year ended 31 December 2010

		Other emoluments			
	Fees RMB	Salaries and other benefits RMB	Retirement benefits scheme contributions RMB	Share-based payment expenses RMB	Total emoluments RMB
Executive directors:					
Liu Yong Fei	–	1,101,009	10,163	–	1,111,172
Chan Shui Sheung Ivy	–	381,105	15,668	–	396,773
So Wai Lam	–	220,202	10,163	–	230,365
Tin Ka Pak	–	254,079	10,163	–	264,242
Chen Fu Ju	–	660,605	10,163	–	670,768
Li Qing *(Note 1)*	–	154,516	3,317	1,135,253	1,293,086
Independent non-executive directors:					
Chow Shui Ki	152,447	–	–	–	152,447
Lam Raymond Shiu Cheung *(Note 2)*	152,447	–	–	–	152,447
Lam Ka Wai Graham *(Note 3)*	154,496	–	–	–	154,496
Wu Xian	101,632	–	–	154,326	255,958
Zhao Yong *(Note 1)*	28,514	–	–	402,215	430,729
Leung Siu Kee	101,632	–	–	289,356	390,988
Total	691,168	2,771,516	59,637	1,981,150	5,503,471

Notes:

(1) Appointed on 20 September 2010.

(2) Resigned on 30 September 2010.

(3) Resigned on 6 October 2010.

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14. *Directors' Emoluments* *(Continued)*

For the year ended 31 December 2009

		Other emoluments			
	Fees RMB	Salaries and other benefits RMB	Retirement benefits scheme contributions RMB	Share-based payment expenses RMB	Total emoluments RMB
Executive directors:					
Liu Yong Fei	–	1,142,830	10,549	9,201,255	10,354,634
Chan Shui Sheung Ivy	–	395,595	16,263	141,413	553,271
So Wai Lam	–	263,730	10,549	141,413	415,692
Tin Ka Pak	–	263,730	10,549	141,413	415,692
Chen Fu Ju *(Note 4)*	–	343,066	5,274	9,201,255	9,549,595
Independent non-executive directors:					
Chow Shui Ki	158,238	–	–	24,512	182,750
Lam Raymond Shiu Cheung	158,238	–	–	24,512	182,750
Lam Ka Wai Graham	158,238	–	–	24,512	182,750
Wu Xian *(Note 5)*	26,373	–	–	188,549	214,922
Leung Siu Kee *(Note 6)*	2,836	–	–	–	2,836
Total	503,923	2,408,951	53,184	19,088,834	22,054,892

Notes:

(4) Appointed on 1 July 2009.

(5) Appointed on 1 October 2009.

(6) Appointed on 22 December 2009.

None of the directors waived or agreed to waive any emoluments paid by the Group during the two years ended 31 December 2010 and 2009.

15. Employee's Emoluments

Of the five individuals with the highest emoluments in the Group, four (2009: four) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining one (2009: one) individual were as follows:

	2010 **RMB**	2009 RMB
Salaries and other benefits	**748,004**	666,355
Retirement benefits scheme contributions	**10,163**	10,549
	758,167	676,904

The emolument was within the following band:

	Number of employees	
	2010	2009
Nil to HK$1,000,000 (equivalent to RMB 846,900)	**1**	1

During the two years ended 31 December 2010 and 2009, no emolument was paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

16. Dividend

No dividend was paid or proposed during 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

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17. Loss Per Share

For continuing and discontinued operations

The calculation of the basic loss per share attributable to the owners of the Company is based on the follow data:

	2010 **RMB**	2009 RMB
Loss		
Loss for the year attributable to owners of the Company	**(105,150,324)**	(9,232,699)

Number of shares	**2010**	2009
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,236,674,605**	412,176,406

From continuing operations

The calculation of the basic loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	2010 **RMB**	2009 RMB
Loss figures are calculated as follows:		
Loss for the year attributable to the owners of the Company	**(105,150,324)**	(9,232,699)
Less: profit for the year from discontinued operations	**425,106**	1,579,967
Loss for the purposes of basic loss per share from continuing operations	**(105,575,430)**	(10,812,666)

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For the year ended 31 December 2010

17. Loss Per Share *(Continued)*

From discontinued operations

Earnings per share for the discontinued operations is RMB0.034 cent per share (2009: RMB0.383 cent per share), based on the profit for the year attributable to owners of the Company from discontinued operations of RMB425,106 (2009: RMB1,579,967) and the denominators detailed above for basic earnings per share.

For the year ended 31 December 2010, the basic and diluted loss per share are the same as the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in a decrease in loss/earnings per share from continuing and discontinued operations.

For the year ended 31 December 2009, the basic and diluted loss per share are the same as computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market prices for shares.

18. Property, Plant and Equipment

	Leasehold improvements RMB	Furniture and fixtures RMB	Computers and equipment RMB	Motor vehicles RMB	Construction in progress RMB	Total RMB
COST						
At 1 January 2009	–	625,779	1,428,210	–	–	2,053,989
Additions	–	40,697	30,010	3,516,400	–	3,587,107
Disposals	–	(492,230)	(336,855)	–	–	(829,085)
Exchange alignment	–	(3,342)	(1,617)	–	–	(4,959)
At 31 December 2009	–	170,904	1,119,748	3,516,400	–	4,807,052
Additions	3,356,408	163,678	1,350,885	1,176,872	1,571	6,049,414
Acquired on acquisition of assets through acquisition of a subsidiary (note 38)	–	–	44,841	–	1,585,506	1,630,347
Disposals	–	(119,248)	(941,193)	–	–	(1,060,441)
Disposal of subsidiaries (note 39)	–	(42,347)	–	–	–	(42,347)
Exchange alignment	–	(1,891)	(6,723)	(128,820)	–	(137,434)
At 31 December 2010	3,356,408	171,096	1,567,558	4,564,452	1,587,077	11,246,591
DEPRECIATION						
At 1 January 2009	–	133,486	886,955	–	–	1,020,441
Provided for the year	–	133,057	183,428	21,977	–	338,462
Eliminated on disposals	–	(222,589)	(246,579)	–	–	(469,168)
Exchange alignment	–	(775)	(175)	–	–	(950)
At 31 December 2009	–	43,179	823,629	21,977	–	888,785
Provided for the year	637,550	32,341	124,296	487,776	–	1,281,963
Eliminated on disposals	–	(26,011)	(765,738)	–	–	(791,749)
Eliminated on disposals of subsidiaries (note 39)	–	(19,056)	–	–	–	(19,056)
Exchange alignment	–	(630)	(2,834)	(815)	–	(4,279)
At 31 December 2010	637,550	29,823	179,353	508,938	–	1,355,664
CARRYING VALUES						
At 31 December 2010	2,718,858	141,273	1,388,205	4,055,514	1,587,077	9,890,927
At 31 December 2009	–	127,725	296,119	3,494,423	–	3,918,267

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18. Property, Plant and Equipment *(Continued)*

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

Leasehold improvements	Over the term of the leases
Furniture and fixtures	20%
Computers and equipment	20%
Motor vehicles	12.5%

19. Investment Properties

	RMB
FAIR VALUES	
At 1 January 2009	8,871,535
Increase in fair value recognised in the consolidated statement of comprehensive income	1,301,068
Disposals	(2,779,372)
At 31 December 2009	7,393,231
Exchange alignment	(270,550)
Disposal of subsidiaries (note 39)	(7,122,681)
At 31 December 2010	–

The Group's investment properties are situated in Hong Kong and are held under long-term leases. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31 December 2009 have been arrived at on the basis of a valuation carried out on that date by Jointgoal Surveyors Limited, independent qualified professional valuers not connected with the Group. Jointgoal Surveyors Limited are members of the Institute of Valuers and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Standards on Properties, was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

No property rental income was earned during the years ended 31 December 2010 and 2009.

The above investment properties were disposed of upon the disposal of certain subsidiaries during the year ended 31 December 2010.

20. Intangible Asset

	RMB
COST	
At 1 January 2009 and 31 December 2009	–
Acquired on acquisition of assets through acquisition of a subsidiary (note 38)	680,319,849
At 31 December 2010	680,319,849
AMORTISATION	
At 1 January 2009 and 31 December 2009	–
Provided for the year	34,015,992
At 31 December 2010	34,015,992
CARRYING VALUES	
At 31 December 2010	646,303,857
At 31 December 2009	–

The intangible asset represented the exclusive right to operate outdoor advertising light-emitting diode displays business in the PRC. The exclusive right was acquired through acquisition of the entire issued share capital of Precious Luck Enterprises Limited ("Precious Luck") during the year ended 31 December 2010. Details of which are set out in note 38.

The intangible asset is amortised on a straight-line basis over its estimated useful lives of 20 years.

At 31 December 2010, the management reviewed the recoverable amount of the intangible asset with reference to the valuation issued by an independent professional valuer not connected with the Group.

The recoverable amount of the intangible asset is determined from the discounted cash flows value-in-use approach as extracted from the valuer's valuation report for the recoverable amount as at 31 December 2010. The Group prepared cash flows forecasts derived from the most recent budgets approved by management and extrapolated over 20 years. The key assumptions for the discounted cash flows forecast were those regarding discount rates and anticipated future sales, as follows:

– Projected cash flows are based on sales and business plans derived from the advertising media business plans which is prepared by directors based on their best knowledge and current situation of the industry.

– Management used a discount rate which is derived as the Company's cost of capital, representing the expected return on the Company's capital, and assigned a discount rate of 22%.

– The cash flows beyond the 20-year period are extrapolated using a steady 4% growth rate. The growth rate is based on the relevant industry growth rate and does not exceed the average long-term growth rate of the relevant industry.

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21. Interest in an Associate

	2010 RMB	2009 RMB
Unlisted equity interest		
Share of post-acquisition profit and other comprehensive income	**1,589,809**	1,556,650

On 5 July 2009, the Group disposed of 51% equity interests in Apex One Enterprises Limited ("Apex One") to independent third parties at a consideration of RMB 3,497. Thereafter, Apex One became an associate of the Group.

As at 31 December 2010 and 2009, the Group had interests in the following associate:

Name of entity	Form of entity	Place of incorporation and operation	Class of shares held	Proportion nominal value of issued capital by the Group	Principal activity
Apex One Enterprises Ltd	Incorporated	BVI and Hong Kong	Ordinary	49%	Securities trading

The summarised financial information extracted from the audited financial statements in respect of the Group's associate is set out below:

	2010 RMB	2009 RMB
Total assets	**26,940,993**	23,611,915
Total liabilities	**(23,696,485)**	(20,435,079)
Net assets	**3,244,508**	3,176,836
Group's share of net assets of the associate	**1,589,809**	1,556,650
Turnover	**10,907,235**	18,979,411
Cost of sales and services	**(13,939,866)**	(16,813,064)
Gross (loss) profit	**(3,032,631)**	2,166,347
Other income	**3,364,754**	1,062,800
Administrative expenses	**(148,090)**	(51,415)
Profit before tax	**184,033**	3,177,732
Income tax expense	**–**	–
Profit for the year	**184,033**	3,177,732
Other comprehensive income	**–**	–
Group's share of profit and other comprehensive income of the associate for the year	**90,176**	1,556,650

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22. Deposit Paid for Acquisition of Investment

The balance represented HK$24,000,000 (approximately RMB20,929,000) (2009: approximately RMB21,098,400 with exchange loss of RMB169,400) paid as a deposit for the acquisition of Precious Luck from independent third parties. The acquisition was completed on 2 January 2010. Details of the acquisition of subsidiaries are set out in note 38.

23. Deposit Paid for Acquisition of An Intangible Asset

On 18 August 2010, the Group had entered into an agreement with 中廣國際廣告公司, an independent third party in relation to operating rights for advertising billboards located on highways in Hebei Province, the PRC. Details are set out in the announcement dated 18 August 2010.

As at 31 December 2010, the Group had paid HK$11,936,000 (approximately RMB10,108,598). Cost directly related to promoting the entering into of such agreement. Such costs is recorded as deposit paid for acquisition of intangible asset at 31 December 2010 and will be transferred to intangible asset upon the corresponding operating rights coming into effect on 1 January 2011.

24. Prepayment for a Mobile Media Project

The prepayment for a mobile media project was acquired through the acquisition of the entire issued share capital of Precious Luck during the year ended 31 December 2010, details of which are set out in note 38. On 31 May 2008, Chungzhi Lide (Beijing) Technology Development Company Limited ("Chungzhi Lide"), a wholly owned subsidiary of Precious Luck had entered into a co-operation agreement with Xinhua Media Centre, an independent third party for developing a mobile media project. Chungzhi Lide had paid RMB5,000,000 related to such agreement. The project still not commenced for the year ended 31 December 2010.

Based on the latest business plan of the Group, the directors considered that the business will be launched in the year ending 31 December 2011 and the relevant project is commercially profitable.

25. Available-for-sale Investment

As at 31st December 2010 and 2009, the investment is as follow:

	2010 RMB'000	2009 RMB'000
Unlisted equity securities, at cost	**1,693,800**	–

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25. Available-for-sale Investment *(Continued)*

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in Hong Kong. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

26. Amount Due from an Associate

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

27. Trade and Other Receivables

	2010 RMB	2009 RMB
Trade receivables	**15,668,559**	6,507,243
Less: accumulated impairment loss	**(1,979,610)**	–
	13,688,949	6,507,243
Deposits and prepayments	**8,441,640**	1,330,952
Other receivables	**757,850**	571,056
	22,888,439	8,409,251

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables net of accumulated impairment loss presented based on the invoice date at the end of reporting period:

	2010 RMB	2009 RMB
Within 90 days	**11,376,274**	5,977,643
91-180 days	**2,312,675**	529,600
	13,688,949	6,507,243

27. Trade and Other Receivables *(Continued)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and define credit limits for that customer. The credit limits granted to customers are reviewed periodically and when necessary. Over 83% of the trade receivables were neither past due nor impaired at 31 December 2010 (2009: 92%). These trade receivables comprise principally receivables from strategic partners and infrastructural telecommunications service providers with a reputable credit standing. The Group does not hold any collateral over these balances.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB433,334 which were past due at 31 December 2010 (2009: RMB69,600) with age between 91 to 180 days for which the Group has not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables at 31 December 2010 is approximately 105 days (2009: 145 days).

Movements of accumulated impairment losses on trade receivables are set out as follows:

	2010 **RMB**	2009 RMB
Balance at 1 January	**–**	–
Recognised during the year	**1,979,610**	–
Balance at 31 December	**1,979,610**	–

Included in the accumulated impairment loss of trade receivable are individually impaired trade receivables with an aggregate balance of HK$1,979,610 (2009: Nil). The individually impaired receivables are recognised based on the credit history of its customer, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss is recognised. The Group does not hold any collateral over these receivables.

28. Financial Assets At Fair Value Through Profit Or Loss

	2010 **RMB**	2009 RMB
Hong Kong listed equity securities held for trading, at fair value	**21,960,286**	35,944,421

All financial assets at fair value through profit and loss are denominated in HK$.

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29. Restricted Bank Balances/Bank Balances and Cash

Bank balances carry interest at market rates which range from 0.001% to 0.36% per annum (2009: 0.001% to 0.36% per annum). Bank balances of RMB36,042,870 (2009: RMB84,939,793) are denominated in HK$.

The restricted bank balance amounting to RMB41,748 (2009: RMB10,190) represented bank balance has been restricted by Shanghai No.1 Intermediate People's Court for repayment of provision of litigation claim (note 30).

30. Trade Payables and Other Payables

	2010 **RMB**	2009 RMB
Trade payables	**6,081,883**	4,744,924
Accrued charges and other payables	**13,501,754**	7,624,726
	19,583,637	12,369,650

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

	2010 **RMB**	2009 RMB
Within 90 days	**3,900,519**	4,744,924
91-180 days	**2,181,364**	–
	6,081,883	4,744,924

The average credit period on purchases of goods ranged from 90 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

As at 31 December 2010, included in other payables with the amount of RMB1,093,524 (2009: RMB1,075,000) was litigation claims arising from dispute of technology transfer agreement with customer. The court case has been finalised and the litigation claims will be settled in the year ending 31 December 2011.

31. Amount Due to a Shareholder

The amount due to a shareholder is unsecured, interest-free and repayable on demand.

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32. Share Capital

	Number of shares		Share capital		Equivalent nominal value of ordinary shares	
	2010	2009	**2010 HK$**	2009 HK$	**2010 RMB**	2009 RMB
Ordinary shares of HK$0.1 each						
Authorised:						
At beginning of the year	**10,000,000,000**	1,000,000,000	**1,000,000,000**	100,000,000	**879,100,000**	106,000,000
Increased during the year (a)	–	9,000,000,000	**–**	900,000,000	**–**	773,100,000
At end of the year	**10,000,000,000**	10,000,000,000	**1,000,000,000**	1,000,000,000	**879,100,000**	879,100,000
Issued:						
At beginning of the year	**461,056,000**	405,000,000	**46,105,600**	40,500,000	**47,748,941**	42,815,665
Placing of new shares (b)	**–**	55,000,000	**–**	5,500,000	**–**	4,840,300
Issue of shares upon exercise of share options (c) & (d)	**3,500,000**	1,056,000	**350,000**	105,600	**296,414**	92,976
Issue of share upon conversion of convertible loan notes (e)	**1,111,979,768**	–	**111,197,977**	–	**94,173,567**	–
Share repurchased and cancelled (f)	**(1,100,000)**	–	**(110,000)**	–	**(93,159)**	–
At end of the year	**1,575,435,768**	461,056,000	**157,543,577**	46,105,600	**142,125,763**	47,748,941

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's shares during the two years ended 31 December 2010 and 2009.

(a) On 16 November 2009, the authorised share capital of the Company was increased from HK$100,000,000 to HK$1,000,000,000 by the creation of an additional 9,000,000,000 shares of HK$ 0.1 each; and

(b) On 2 November 2009 and 8 December 2009, arrangements were made for private placement to independent private investors of 35,000,000 and 20,000,000 shares respectively of HK$0.10 each in the Company, at a price of HK$1.4 and HK$2 per share respectively representing a discount of approximately 17.16% and 5.66% respectively to the closing market price of the Company's shares on the respective dates.

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32. Share Capital *(Continued)*

(c) For the year ended 31 December 2009, the share options holder exercised 1,056,000 share options at HK$ 1.27 per share.

(d) For the year ended 31 December 2010, the share options holder exercise 3,000,000 share options and 500,000 share options at HK$1.27 and HK$1.464, respectively.

(e) For the year ended 31 December 2010, the convertible loan notes holders converted the converted loan notes with an aggregate principal amount of HK$577,117,500 into ordinary shares of HK0.1 in the Company at a conversion price of HK$0.519 per share.

(f) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Movement of repurchase

	No of ordinary shares of HK$ 0.1 each	Price per share Highest (HK$)	Price per share Lowest (HK$)	Aggregate consideration paid (RMB)
June 2010 (4/6/2010)	900,000	1.22	1.08	899,747
June 2010 (7/6/2010)	108,000	1.19	1.15	107,218
June 2010 (23/6/2010)	92,000	0.98	0.84	72,103

The above shares were cancelled upon repurchase.

All new shares issued during the years ended 31 December 2010 and 2009 rank pari passu in all respects with the existing shares in issue.

33. Related Party Transactions

During the years, the Group entered into the following transactions with related parties.

	2010 RMB	2009 RMB
Interest expenses paid to Fameway Finance Ltd ("Fameway")	–	16,127

Note: Ms. Chan Shui Sheung Ivy has indirect interest in Fameway. The loan was unsecured, interest bore at 8% per annum and repayable on demand.

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33. Related Party Transactions *(Continued)*

The following balances were outstanding at the end of the reporting period:

	2010 **RMB**	2009 RMB
Amount due from an associate	**23,527,106**	20,259,260
Amount due to a shareholder	**5,976,776**	–

Compensation of key management personnel

The remuneration of directors and other members of key management during the two years ended 31 December 2010 and 2009 was disclosed in notes 14 and 15 respectively.

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

34. Convertible Loan Notes

During the year ended 31 December 2010, pursuant to the acquisition of the entire issued share capital of Precious Luck, the Company issued zero-coupon convertible loan notes as partial settlement of the acquisition consideration. The convertible loan notes have an aggregate principal amount of HK$756,000,000 (equivalent to RMB659,262,000) and are denominated in HK$. The notes entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date on 1 January 2015 at a conversion price of HK$0.519 (subject to adjustments) per convertible loan notes. If the notes have not been converted, they will be redeemed on 1 January 2015 at par.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading ("convertible bonds reserve"). The effective interest rate of the liability component is 25% per annum.

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

	2010 **RMB**	2009 RMB
Carrying amount at the beginning of the year	**–**	–
Issue of convertible loan notes	**216,026,811**	–
Effective interest expenses (note 10)	**23,487,160**	–
Conversion during the year	**(160,157,143)**	–
Exchange alignment	**(6,227,592)**	–
Carrying amount at the end of the year	**73,129,236**	–

Convertible loan notes are denominated in HK$.

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35. Share-based Payments

Equity-settled share options schemes:

(a) Share Option Scheme

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company on 31 October 2004 (the "Share Option Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries who meet the relevant criteria set out in the Share Option Scheme (the "Participants") as incentives and rewards for their contributions to the Group, to subscribe for shares in the Company with a payment of HK$1.00 upon each grant of options offered and the options granted must be taken up within 30 days from the date of grant. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant of the options, the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant and the nominal value of the shares.

The share options are exercisable at any time during a year of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme and any conditions of grant as may be stipulated by the board of the directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue as at the date of approval of the Share Option Scheme unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full would result in such person's maximum entitlement exceeding 1% of the number of shares of the Company in issue.

For the year ended 31 December 2010, options were granted on 4 February 2010, 12 March 2010 and 8 October 2010. For the year ended 31 December 2009, options were granted on 8 October 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

35. Share-based Payments *(Continued)*

(a) Share Option Scheme *(Continued)*

Movements of the share options issued under the Share Option Scheme held by participants during the year ended 31 December 2010 were:

For the year ended 31 December 2010

	Number of share options				
Option category	**At 1/1/2010**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**At 31/12/2010**
2009 Directors	**39,440,000**	**–**	**(3,000,000)**	**–**	**36,440,000**
2010 Senior management	**–**	**1,700,000**	**–**	**–**	**1,700,000**
2010 Directors and senior management	**–**	**7,700,000**	**(500,000)**	**–**	**7,200,000**
2010 Directors and senior management	**–**	**30,000,000**	**–**	**–**	**30,000,000**
	39,440,000	**39,400,000**	**(3,500,000)**	**–**	**75,340,000**
Exercisable at the end of the year					**75,340,000**
Weighted average exercise price	**1.27**	**1.08**	**1.30**	**–**	**1.23**

Details of specific categories of option are as follows:

Category	**Date of grant**	**Exercise period**	**Exercise price**
2010 Senior management	4/2/2010	4/2/2010 – 3/2/2013	HK$1.8
2010 Directors and senior management	12/3/2010	12/3/2010 – 11/3/2013	HK$1.464
2010 Directors and senior management	8/10/2010	8/10/2010 – 7/10/2013	HK$0.96

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35. Share-based Payments *(Continued)*

(a) Share Option Scheme *(Continued)*

Movements of the share options issued under the Share Option Scheme held by participants during the year ended 31 December 2009 were:

For the year ended 31 December 2009

	Number of share options				
Option category	At 1/1/2009	Granted during the year	Exercised during the year	Cancelled during the year	At 31/12/2009
2009 Directors	–	40,496,000	(1,056,000)	–	39,440,000
Exercisable at the end of the year					39,440,000
Weighted average exercise price	–	1.27	1.27	–	1.27

Details of specific categories of option are as follows:

Category	Date of grant	Exercise period	Exercise price
2009 Directors	8/10/2009	23/11/2009 – 22/11/2012	HK$1.27

The estimated fair value of the share option granted on 4 February 2010, 12 March 2010 and 8 October 2010 was HK$0.5120, HK$0.3986 and HK$0.3166 respectively. The share option granted in 2010 are fully vested at grant date.

The estimated fair value of the share option granted on 8 October 2009 was HK$0.59. The share option granted in 2009 are vested on 23 November 2009. The fair value of the options issued under the Share Option Scheme was calculated using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	Date of grant 8/10/2009	Date of grant 4/2/2010	Date of grant 12/3/2010	Date of grant 8/10/2010
Share price	HK$1.27	HK$1.75	HK$1.45	HK$0.96
Exercise price	HK$1.27	HK$1.8	HK1.46	HK$0.96
Expected volatility	96.76%	63.17%	58.52%	70.48%
Expected life (year)	1.626	1.5	1.5	1.5
Risk-free rate	0.393%	0.438%	0.448%	0.453%
Expected dividend yield	0%	0%	0%	0%

35. *Share-based Payments* *(Continued)*

(a) *Share Option Scheme* *(Continued)*

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

In respect of the share option exercised during the year, the weighted average share price at the date of exercise is HK$1.75 (2009: HK$2.14).

The Group recognised the total expense of RMB11,380,761 for the year ended 31 December 2010 (2009: RMB19,088,834) in relation to the above share options granted by the Company.

The Black-Scholes-Merton Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

(b) *Share Incentive Scheme*

The share incentive scheme was established by three shareholders of the Company, representing 18,000,000 shares and 4.5% of the enlarged issued share capital of the Company after the listing of the Company ("Share Incentive Scheme"). The purpose of the Share Incentive Scheme is to issue options to selected employees, officers, consultants, agents and advisers of the Group who meet the relevant eligibility criteria set out in the Share Incentive Scheme (the "Eligible Participants"). The employee participants must have been employed by a member of the Group prior to the listing of the Company in November 2004.

The Share Incentive Scheme shall remain in full force and effect for so long as is necessary to give effect to the issue and exercise of options granted in accordance with its terms.

The exercise price per share under the Share Incentive Scheme is HK$0.20 and each tranche of option has a term of five years from the first exercise date, after which any unexercised portion of an option shall lapse.

Each option will be exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 20% each year, reaching 100%.

During the two years ended 31 December 2010 and 2009, no options were granted and outstanding of options under the Share Incentive Scheme.

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36. Operating Lease Commitments

The Group as lessee

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

	2010 **RMB**	2009 RMB
Within one year	**4,260,249**	1,472,225
In the second to fifth year inclusive	**5,347,732**	–
	9,607,981	1,472,225

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 3 years and rentals are fixed for an average of 3 years.

37. Retirement Benefits Scheme

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year ended 31 December 2010, the total amount contributed by the Group to the scheme and charged to the consolidated statement of comprehensive income was RMB158,033 (2009: RMB88,366) and no contributions were forfeited.

The Group's subsidiaries in the PRC participate in the retirement benefits scheme established by the government for the qualifying employees in the PRC. The assets of the scheme are held separately from the assets of the Group. Under the scheme, contributions made by the Group are calculated on the basis of 19% to 20% of the enrolled employees' salaries. Apart from the above, the Group has no further obligations under the retirement benefits scheme. The amount of such contributions charged to the consolidated statement of comprehensive income was RMB152,383 (2009: RMB288,494).

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38. Acquisition of Assets through Acquisition of a Subsidiary

On 2 January 2010, the Group acquired the entire issued share capital of Precious Luck from an independent third party for a total consideration of HK$780,000,000 (approximately RMB680,191,000) satisfied by cash and issue of convertible loan notes. At the time of acquisition, Precious Luck was an inactive company and its major asset was an exclusive right to operate outdoor advertising light-emitting diode displays business in the PRC. According, the transaction has been accounted for as the acquisition of an intangible asset through acquisition of a subsidiary.

Net assets acquired in the transaction as follows:

	RMB
Intangible asset	680,319,849
Property, plant and equipment	1,630,347
Prepayment for a mobile media project	5,000,000
Prepayment, deposits and other receivables	1,040,184
Bank balances and cash	2,568,666
Accrued charges and other payables	(3,630,270)
Amount due to a shareholder	(6,020,726)
Non-controlling interests	(717,050)
Net assets acquired	680,191,000
Total consideration satisfied by:	
Issue of convertible loan notes	659,262,000
Deposit paid for acquisition of subsidiaries	20,929,000
	680,191,000
Net cash inflow arising on acquisition:	
cash and cash equivalent balances acquired	2,568,666

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39. Disposal of Subsidiaries

(a) As set out in note 12, on 17 August 2010 and 19 October 2010, the Group discontinued its property investment operations at the time of disposal of its 100% interest in subsidiaries, Watson and Alpaco to an independent third party at a consideration of HK$9,000,000 (approximately RMB7,622,370). The net assets of Watson and Alpaco at the date of disposal were as follows:

Analysis of assets and liabilities over which control was lost:

	Watson RMB	**Alpaco** RMB	**Total** RMB
Property, plant and equipment	23,291	–	23,291
Investment properties	3,303,027	3,819,654	7,122,681
Prepayments, deposits and other receivables	1,779	3,222	5,001
Amount due to an immediate holding company	(3,354,386)	(4,297,271)	(7,651,657)
	(26,289)	(474,395)	(500,684)
Assignment of debt	3,354,386	4,297,271	7,651,657
	3,328,097	3,822,876	7,150,973
Gain on disposal	229,009	242,388	471,397
Total consideration	3,557,106	4,065,264	7,622,370
Satisfied by:			
Cash	3,557,106	4,065,264	7,622,370
Net cash inflow arising on disposal:			
Cash consideration	3,557,106	4,065,264	7,622,370

The impact of Watson and Alpaco on the Group's results in the current and prior periods is disclosed in note 12.

39. *Disposal of Subsidiaries* *(Continued)*

(b) On 25 August 2010, the Group disposed of its 100% interests in Successcomm Limited ("Successcomm") to an independent third party, at a consideration of HK$10,000 (approximately RMB8,453). The net liabilities of Successcomm at the date of disposal were as follows:

Analysis of assets and liabilities over which control was lost:

	Successcomm
	RMB
Amount due to an immediate holding company	(7)
Assignment of debt	7
	–
Gain on disposal	8,453
Total consideration	8,453
Satisfied by:	
Cash	8,453
Net cash inflow arising on disposal:	
Cash consideration	8,453

The disposal of Successcomm has no material impact on the Group's results and cash flows in the current and prior periods.

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39. Disposal of Subsidiaries *(Continued)*

(c) On 5 July 2009, the Group disposed of its 51% interest in a subsidiary, Apex One, to independent third parties at a consideration of RMB3,497. After completion of disposal, Apex One became an associate of the Group. Details refer to note 21. The net liabilities of Apex One at the date of disposal were as follow:

	RMB
Net liabilities disposed of:	
Amount due from immediate holding company	6,839
Amount due to ultimate holding company	(7,736)
Amount due to a fellow subsidiary	(4,114)
	(5,011)
Gain on disposal	8,508
Total consideration	3,497
Satisfied by:	
Cash	3,497
Net cash inflow arising on the disposal	
Cash consideration	3,497

The disposal of Apex One has no material impact on the Group's results and cash flows in the current and prior periods.

40. Event after the Reporting Period

On 6 January 2011, 4,600,000 share options of the Company were granted to nine eligible participants under the share option scheme for exercise price of HK$0.85 per share. The details are set out in the announcement of the Company dated 6 January 2011.

On 12 January 2011, the Company entered into a warrant subscription agreement with certain subscribers pursuant to which the subscribers agreed to subscribe for an aggregate of 120,000,000 warrants at the subscription price of HK$0.05 per warrant which entitle its hold to subscribe for one ordinary share of the Company at a subscription price of HK$0.85 per share. The details are set out in the announcements of the Company dated 12 and 21 January 2011.

On 3 March 2011, Champ Zone Limited, a wholly owned subsidiary of the Company, entered into fourth supplemental agreement in relation to the acquisition of entire interest in Bold Champion International Limited of which Kery Media is its subsidiary. Details are set out in the announcement made by the Company dated 3 March 2011. The acquisition has been completed on 25 March 2011.

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41. Particulars of Principal Subsidiaries of the Company

Details of the Company's principal subsidiaries are as follows:

Name of company	Place of incorporation/ establishment	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion of ownership interest/ voting rights held by the Company Indirectly %		Principal activities
				2010	2009	
Best Earning Development Limited	Hong Kong	Ordinary	HK$1	**100**	100	Investment holding
ZZNode (Shanghai) 上海直真節點科技開發有限公司	The PRC	Ordinary	RMB5,000,000	**98**	98	Provision of telecommunication OSS products and solutions
Chungzhi Lide 創智利德(北京)科技發展有限公司	The PRC	Ordinary	RMB45,965,860	**97.82**	–	Not yet commence business
Precious Luck	The British Virgin Islands ("BVI")	Ordinary	US$100	**100**	–	Not yet commence business
Watson *(Note)*	Hong Kong	Ordinary	HK$1	**–**	100	Investment property holding
Alpaco *(Note)*	BVI	Ordinary	US$1	**–**	100	Investment property holding

Note: The Group ceased to hold any equity interest in these companies upon the completion of the disposal of Watson and Alpaco on 17 August 2010 and 19 October 2010 respectively as detailed in note 39.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the year ended 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42. Comparative Information

The comparative figures of the consolidated statement of financial position as at 31 December 2009 were restated due to the reclassification of restricted bank balances of RMB10,190 from bank balances and cash. The amounts of the reclassification for each consolidated financial statements line affected are presented below.

Effect of the reclassification on the Group's consolidated statement of financial position at 31 December 2009 are as follows:

	As previously reported	**Reclassification**	**As restated**
	RMB	RMB	RMB
Restricted bank balances	–	10,190	10,190
Bank balances and cash	84,972,644	(10,190)	84,962,454