CHINA PUBLIC PROCUREMENT LIMITED
中 國 公 共 採 購 有 限 公 司

(incorporated in Bermuda with limited liability)

(Stock code: 1094)

Annual Report

2011

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. Cheng Yuanzhong *(Chairman)*
Mr. Ho Wai Kong *(Honorary Chairman)*
Mr. Wang Dingbo
(Chief Executive Officer & Chief Operating Officer)
Mr. Wu Xiaodong *(Chief Financial Officer)*
Mr. Peng Ru Chuan
Mr. Lu Xing
Ms. Liu Jie

Non-executive Directors
Ms. Cheng Zhuo
Mr. Wang Ning

Independent Non-executive Directors
Mr. Wu Fred Fong
Mr. Chan Tze See, Kevin
Mr. Chen Bojie
Mr. Xu Haigen

Audit Committee and Remuneration Committee
Mr. Wu Fred Fong *(Chairman)*
Mr. Chan Tze See, Kevin
Mr. Chen Bojie
Mr. Xu Haigen

Nomination Committee
Mr. Cheng Yuanzhong *(Chairman)*
Mr. Ho Wai Kong
Mr. Wu Fred Fong
Mr. Chan Tze See, Kevin
Mr. Chen Bojie
Mr. Xu Haigen

COMPANY SECRETARY

Ms. Ma Wai Sze, Aceya

SHARE REGISTRARS

Bermuda
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road, Pembroke
Bermuda

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 2805-2810, 28/F
Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong

AUDITORS

Morison Heng
Certified Public Accountants

LEGAL ADVISORS

As to Hong Kong law
Chiu & Partners

As to Bermuda law
Conyers Dill & Pearman

PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong & Shanghai Banking Corporation Limited
China Construction Bank Corporation Hong Kong branch

STOCK CODE

1094

CHAIRMAN'S STATEMENT

To our shareholders,

On behalf of the board of directors (the "Directors") (the "Board") of China Public Procurement Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2011 to you.

For the year ended 31 December 2011, the Group focused on the development of the public procurement business and energy management contracting service.

Energy management contracting ("EMC") is a government public service outsourcing model developed in the market-economy countries in recent years, under which the government outsources the investment, upgrade, management, operation and maintenance of urban public lighting to professional energy saving service providers in order to save energy and reduce emission. The reduced shared energy expenses are then used to pay the energy saving costs of the contracted service providers and manage operating efficiency. In 2011, the Group completed the preparatory works for EMC service business and substantiated its development plan. Thus, the EMC service business became the major stream of income of the Group for the year ended 31 December 2011.

Since the successful acquisition of the public procurement business in the People's Republic of China (the "PRC") in 2009, the Group has strived to promote its business of electronic government procurement service in the PRC. For the year ended 31 December 2011, the business grew swiftly. The Group entered into a framework agreement with its PRC partner in Guanggu (Wuhan), the PRC, pursuant to which a global public procurement services centre will be established in Wuhan to provide electronic public procurement services and other third party services around the world. The Group has obtained the approval and authorization in respect of the Project and the establishment of the national electronic government procurement platform granted by the relevant PRC government departments. The Project represents a great opportunity for the Group to expand its domestic and global public procurement business.

Looking forward, we are fully confident in our electronic public procurement transaction service and EMC service business. In the future, we will continue to focus on the development of both businesses, and grasp the huge opportunities arising from the economic mechanism change in the PRC as well as the establishment of a low-carbon society, thus striving for maximizing the return for the shareholders.

Last but not least, on behalf of the Board, I would like to take this opportunity to thank you for your continuous support to the Group. I would also like to express my gratitude to all the staff for their endeavors and enthusiasm towards the operation and progression of the Group.

Yours faithfully,

For and on behalf of the Board

Cheng Yuanzhong
Chairman

Hong Kong, 27 April 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the 12 months ended 31 December 2011, the turnover of the Company decreased from profit of HK$194.612 million to loss of HK$24.305 million, representing a decrease of 112% over last year. The decrease was mainly due to the drop of income of the Group for this year.

During the year, losses attributable to shareholders of the Group was HK$0.71 cents per share (2010: profits attributable to shareholders was HK$5.97 cents per share). In order to ensure the adequate capital for expanding the Group's business, the Board recommends that no dividend will be paid for the year ended 31 December 2011.

During the year, the major income of the Group came from Energy Management Contracting ("EMC") business. To grasp significant business opportunities brought with Energy Conservation and Emission Reduction policy promoted by Chinese government, the Group actively developed the relevant businesses in 2011. However, the marketing period for this business is quite long, as well as the Company is now adjusting its operation model, therefore, the results for the year ended 31 December 2011 were lower than that in last year. For 12 months ended 31 December 2011, income from EMC business amounted to HK$21.6 million.

During the year, the Group continually focused on expanding the electronic public procurement service. Meanwhile, the Group entered into Framework Agreement with the Administrative Committee of the Wuhan East Lake Hi-tech Development Zone ("WEHDZ Committee") on 3 November 2011, pursuant to which, a global public procurement services centre would be established in Wuhan.

PROSPECTS

The Board believes the electronic public procurement platform and EMC service have huge potential. Therefore, the Group will continue to introduce resources for their development.

As for electronic public procurement platform, the Group plan to launch the platform in Wuhan and position it as central hub, then extend it to Qinghai, Shenyang, Shandong and Chongqing etc., in order to build a network that unifies the electronic public procurement platforms across the county. At last, a large unified procurement market will be established, centering on Wuhan and developing local procurement market through platform on provincial level. After the global financial crisis, many countries have launched a number of incentives to increase public expenditure, resulting in a significant increase of public procurement in the market. It is an inevitable trend across the world that the public procurement has been used by the state as an important policy instrument for macro-control and become a major part to form macro-economic policy.

As for EMC service, the Group will continue to develop this business and review the current model, so as to find a model more suitable for the Group's development. It is specified in the "12th Five-Year Plan" issued by the Chinese government that the energy consumption should be reduced by 16%, carbon emissions should be reduced by 17% and the proportion of non-fossil power should be increased to 11.4% in the next five years. As indicated in this plan, during the Five-Year Plan period, EMC will end its promotion phase at present, and step into rapid development phase.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group maintained cash, fixed deposits and bank balances of HK$97.033 million (31 December 2010: approximately HK$49 million) without any bank borrowings (31 December 2010: nil). As at 31 December 2011, the Group's working capital (net current (liabilities)/assets) and current ratio were net current liabilities of HK$5,053.158 million (31 December 2010: net current assets of approximately HK$338 million) and 0.07x (31 December 2010: 3.25x) respectively. The record of net current liabilities was due to the Company adjusted & included the consideration payable of HK$5,369,545,000 as at the end of the year (details were set out in note 19 to the financial report of the Company). In April 2012, the Company had completed the exercise of issuing corresponding preferred shares, which had cleared up the debt effects of this consideration payable. When the consideration payable is excluded, the existing available cash and bank balances are considered sufficient for the Group's operating requirements.

GEARING RATIOS

As at 31 December 2011, the Group's gearing ratios, calculated as total liabilities divided by total assets was 94.04% (31 December 2010: 29.10%). Due to the consideration payable set out in note 19 to the financial report, the gearing ratios of the Company increased significantly as compared with 2010. Thus, the Company issued 8,053,914,537 Preferred Shares in April 2012 to settle this consideration payable. As a result, the gearing ratios will be improved significantly.

PLEDGE OF ASSETS

As at 31 December 2011, there were no assets pledged by the Company (31 December 2010: HK$7,062,000).

CONTINGENT LIABILITIES

As at 31 December 2011, the Company had no contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

The Group has limited exposure to fluctuation in foreign currencies as most of its transactions are denominated in Hong Kong dollars, US dollars and Renminbi. Exchange rates among those currencies were relatively stable during the year under review. The Group has not entered into any foreign currency forward exchange contract for the purpose of hedging against foreign exchange risks involved in the Group's operations.

STAFF AND REMUNERATION POLICY

The Group determines staff remuneration in accordance with market terms and individual qualifications and performance. Staff recruitment and promotion is based on individuals' merit and their development potential for the positions offered. As at 31 December 2011, the Group employed approximately 70 employees and the total remuneration of the employees (including Directors) was approximately HK$15,789,000. The Company maintains a share option scheme, pursuant to which share options are granted to selected Directors or employees of the Group, with a view to attracting and retaining quality personnel and providing them with incentive to contribute to the business and operation of the Group.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Cheng Yuanzhong, aged 54, is an executive Director, chairman of the Board and chairman of the nomination committee of the Company. He holds a bachelor degree in philosophy from Wuhan University.

He commenced his career at the Development Research Centre of the State Council (國務院發展研究中心) (the "DRC"), the People's Republic of China (the "PRC") where he was engaged in various research activities in macroeconomics, international economics and foreign trade policy with particular emphasis on the issues related to the General Agreement on Tariffs and Trade ("GATT").

He has made extensive efforts on the research of public management as well as e-government and its application. In 2002, he liaised with United Nations Economic and Social Council (ECOSOC) and other organisations to hold an international conference in Beijing in relation to e-government and public administration.

Since 2006, Mr. Cheng has been the chief researcher of the Oriental Comprehensive Research Institute of Public Administration (東方公共管理綜合研究所) of the DRC and the chief coordinator of the Government Procurement Management Reformation Research Team (政府採購管理體制改革研究課題組) of the DRC. With the support from various PRC government offices, he implemented and arranged the public e-procurement pilot programme in China.

Prior to joining the Company, Mr. Cheng was the section head of the Government Office Administration of the State Council, the PRC (中國國務院機關事務管理局), the deputy officer of the Service Centre (機關服務中心) of the DRC and the deputy managing director of the Oriental Comprehensive Research Institute of Public Administration of the DRC. Mr. Cheng has also published several writings on the issues between GATT and the PRC and he was the chief editor of The Guideline for Small and Medium Enterprises in the PRC to List Overseas (《中國中小企業海外上市指南》).

He is currently a director and the chairman of the board of directors of the EJV. He is also the vice president of the China Federation of Logistics and Purchasing. Certain preferred shares to be issued and allotted by the Company were transferred to companies wholly and beneficially owned by Mr. Cheng subject to the approval by the independent shareholders of the Company, details of which are set out in the announcement of the Company dated 15 September 2011 in relation to such transfer.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Wai Kong, aged 56, is an executive Director, honorary chairman of the Board and a member of the nomination committee of the Company. He is an entrepreneur who for the last 30 years has been actively involved in China/Hong Kong cross boarder business development and affairs. Mr. Ho was raised and educated in the PRC, has a good understanding of the intricacies of business and government cultures and practices. He has maintained good relationship in these circles. Since 1980's, he was engaged in business ventures involving several industries including construction, property investments and the hospitality business. His extensive experience, network and business acumen will be invaluable for the Company to develop business in the PRC. Mr. Ho is a director of several subsidiaries of the Company.

Mr. Wang Dingbo, aged 49, is an executive Director, chief executive officer and chief operating officer of the Company. He graduated with a bachelor degree in Economics from Beijing Technology and Business University (北京工商大學) in 1983. In 1985, he was employed by China National Offshore Oil Corporation (中國海洋石油總公司) engaging in financial work. In 1989, he served as the general manager of the financial department of China Ocean Oilfields Services (Hong Kong) Limited (中國近海石油(香港)有限公司). Mr. Wang possesses significant experience in investment, market operation and promotion. In 1992, he was the general manager of Bestat Investments Limited, which has assisted Compaq Computer Corporation in its entry to the market of the People's Republic of China ("PRC") and has invested in the pharmaceutical industry and the property market in the PRC since 1994. Since 2008, he has served as an executive director of Favor Mind Holdings Limited ("Favor Mind").

Mr. Wu Xiaodong, aged 43, is an executive Director and chief financial officer of the Company. Mr. Wu obtained his Master Degree in Accounting from Capital University of Economics and Business and has more than 15 years experiences in auditing, accounting and finance. He is a member of the Chinese Institute of Certified Public Accountants and had previously been the chief financial officer of Sound Environmental Resources Co., Ltd., a company listed on Shenzhen Stock Exchange. Mr. Wu is a director of several subsidiaries of the Company.

Mr. Peng Ru Chuan, aged 63, is an executive Director of the Company. He currently serves as a director of Brescia International Ltd., Brescia International (Hong Kong) Ltd. and Artemis International Group Ltd. Mr. Peng had been a non-executive director of China Resources and Transportation Group Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 269)) from November 2010 to December 2010 and an independent non-executive director of China Coal Energy Company Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 1898)) from August 2006 to December 2010 and the independent non-executive director of China Galaxy Asset Management Co., Ltd.. He has a Master of Arts degree in statistics and a Master of Science degree in biostatistics from the University of California, the United States. He served as a senior adviser of the Nomura International (Hong Kong), a director of The Stock Exchange of Hong Kong (China), a senior vice president of the China and International Development Department of the Stock Exchange, and has engaged in investment and research work in entities such as China National Aviation Corporation in China and the Los Amigos Research and Education Institute in the United States.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lu Xing, aged 43, is an executive Director. He graduated from the certification program in Economics Information Management, The Central Communist Party School. Since graduation, Mr. Lu worked for the China Construction Bank in Beijing for 19 years progressing to branch Vice-President. During his tenure, Mr. Lu was involved in financial management, project financing, risk assessment and control, and has received a number of awards including The Outstanding Achiever of the branch. Mr. Lu is an experienced financial/banking executive having accumulated extensive experience in various industries. In particular, he was involved with financing numerous enterprises including those in the television station, information technology, military, real estate and construction sectors. Mr. Lu was an executive director of VODone Limited, a company listed on the main board of the Stock Exchange (Stock code: 00082) from 8 December 2006 to 31 January 2008. Mr. Lu is a director of several subsidiaries of the Company.

Ms. Liu Jie, aged 25, is an executive Director of the Company. She graduated with a bachelor degree in Computer Science from PLA University of Science and Technology (中國人民解放軍理工大學) in 2008 and obtained a Master of Science degree in International Marketing from University of Newcastle upon Tyne in 2011. After graduation, she has served as the chairman's assistant and the vice president of 上海無戒空間信息技術有限公司 (Shanghai Blackspace Information Technology Co., Ltd.*), where she developed a good understanding of the next-generation software platform and application environment which integrate personal computer, network and wireless mobile technologies. Ms. Liu also has substantial experience in investment and project management. In late 2009, Ms. Liu acted as the chairman of 阿拉善盟三江創業投資有限責任公司 (Alashan League Sanjiang Venture Capital Limited*), where she was principally engaged in the provision of investment services, investment advisory services and consultancy service for small and medium enterprises, agencies and individuals. Since November 2011, Ms. Liu has served as the vice president of the organising committee of 中國物流與採購聯合會公共採購專業委員會 (Public Procurement Professional Committee of the China Federation of Logistics & Purchasing*). She has also participated in the research activities of the task group on the application of e-receipt in e-business under 中央財經領導小組辦公室 (Office of the Central Leading Group on Financial and Economic Affairs*) as a member of the task group.

Non-executive Directors

Ms. Cheng Zhuo, aged 44, is a non-executive Director of the Company. She obtained her Master and Doctoral degree in Communication in Communication University of China. She is one of the few pioneers in the PRC venture capital market and has become an experienced venture capitalist that she is often invited to give speeches in domestic and international conferences and advice to senior executives of high-tech companies, government organizations, and management of securities companies on issues such as fund raising, IPO, etc. She has also published a series of books about venture capital in the PRC and took part in translation of "Deals of Century" to help develop the venture capital market in the PRC. From 2007 to 2010, she has been the chief operating officer of China Venture Capital Limited.

Ms. Cheng is also highly devoted to charitable and community welfare businesses. She is the founder and the director of the "China Aged Care Fund", targeting at the enhancement of caring for the elderly, and "Siyuan Torch of Love Fund", supporting the impoverished women to improve their living. She has also held positions as Honorary Vice-chairperson of China Aged Development Foundation, standing committee member of All-China Youth Federation and Deputy Chief of Venture Capital Committee of the Science, Technology and Finance Promotion Association of China.

* *for identification purpose only*

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Cheng has earned remarkable reputation in the PRC and worldwide. She has won the World Summit of Young Entrepreneurs Award in 2000, "Outstanding people of the Year" of PRC in 2004 and "Women of Merit" by All-China Women's Federation in 2006. She is also the 11th National Committee of the Chinese People's Political Consultative Conference Beijing Member and the independent supervisor of Guangdong Nan Yue Logistics Company Limited, a company listed on the main board of the Stock Exchange (Stock code: 3399).

Mr. Wang Ning, aged 56, is a non-executive Director of the Company. He obtained his bachelor degree in political economics from the First Branch College of the Renmin University of China* (中國人民大學第一分校).

Mr. Wang has substantial experience in the field of electronics information industry and has a deep understanding of sales, marketing, network, conferences and exhibitions and the development of consumer electronics. He was formerly the deputy director of the Office of the Bureau of Sales of the Ministry of Electronics Industry (電子工業部銷售局辦公室) of the PRC and the Director of the Management Division of the National Household Appliances Repair & Management Centre (全國家電維修管理中心). He is currently a senior economist.

Since 1993, Mr. Wang has been the vice president and secretary general of China Electronics Chambers of Commerce (中國電子商會). He is currently an independent director of Jilin Sino-Microelectronics Co., Ltd. (SSE Stock Code: 600360), a Shanghai listed company and a member of the supervisory board of Vtion Wireless Technology AG (Stock Code: V33), a Frankfurt listed company. He is also the president of the Consumer Electronics Magazine (《消費電子》).

Independent Non-executive Directors

Mr. Wu Fred Fong, aged 64, is an independent non-executive Director, chairman of the audit committee and remuneration committee of the Company and a member of the nomination committee of the Company. He has considerable experience in auditing, corporate planning, corporate finance, investment, consulting and administration with listed companies in Canada and Hong Kong. Mr. Wu holds a master degree in business administration in the Schulich School of Business, York University, Canada. Mr. Wu is a Chartered Accountant qualified in Canada and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Wu was an executive director of VODone Limited, a company listed on the Main Board of the Stock Exchange (Stock code: 00082) from 29 November 2000 to 31 January 2008. Mr. Wu is currently an independent non-executive director of Minth Group Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00425).

Mr. Chan Tze See, Kevin, aged 54, is an independent non-executive Director and is also a member of the audit committee, remuneration committee and nomination committee of the Company. He graduated with a Bachelor degree of Science in Computer Science and a MBA degree from the University of Illinois, USA., and has over 30 years of technical and management experience in the IT industry in Hong Kong, USA, and China. Mr. Chan is a director of Beijing Jolon Digital Media Broadcasting Co., Limited since 2005 till present. Before that, he was Greater-China regional director of Commerce One Inc, USA.

* *for identification purpose only*

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Bojie, aged 43, is an independent non-executive Director and is also a member of the audit committee, remuneration committee and nomination committee of the Company. He obtained his Bachelor degree in Dongbei University of Finance & Economics with major in Investment and Economic Management, and has extensive experience in the field of finance and management. Mr. Chen had been the senior management of several state-owned and private enterprises where he had been the assistant general manager and group financial director of China Aviation Construction Corporation, the chief investment officer and deputy general manager of Beijing China Media Networks Company. Currently, Mr. Chen is an executive Director of a technology company in the PRC.

Mr. Xu Haigen, aged 63, is an independent non-executive Director and is also a member of the audit committee, remuneration committee and nomination committee of the Company. He graduated with a bachelor degree in Economics from Shanghai University of Finance and Economics (上海財經大學) and obtained a master degree in Economics from Shanghai University of Finance and Economics and a doctoral degree in Economics from Graduate School, the Chinese Academy of Social Sciences (中國社會科學院研究生院). Mr. Xu is currently a registered accountant at 上海宏大東亞會計師事務所 (Shanghai Hongda Certified Public Accountants Co., Ltd.*) and a part-time postgraduate tutor at Shanghai University of Finance and Economics. Prior to joining the Company, he has been an associate professor at Shanghai University of Finance and Economics, a part-time registered accountant at 上海長信會計師事務所 (Shanghai Changxin Certified Public Accountants Co., Ltd.*), a part-time Shanghai agent of 中國經濟技術諮詢公司 (China Economic and Technical Consulting Co., Ltd.*), the director of 上海中創會計師事務所 (Shanghai Zhongchuang CPA Co., Ltd.*), the general manager of 上海中申投資管理諮詢有限公司 (Shanghai Zhongshen Investment Management Consulting Co., Ltd.*), the vice president of Banco Delta Asia S.A.R.L. (澳門匯業銀行) of Delta Asia Financial Group (匯業財經集團), an independent director (part-time) of China Television Media Ltd. (中視傳媒股份有限公司), the deputy director of the Shanghai representative office of China Cinda Asset Management Corporation (中國信達資產管理公司), the director and the general manager of the Beijing branch of Deloitte Consulting (Shanghai) Co., Ltd. (德勤諮詢（上海）有限公司) and the general manager (Shanghai) of the China market division of Ernst & Young (安永會計師事務所).

SENIOR MANAGEMENT

Company Secretary/Head of Legal

Ms. Ma Wai Sze, Aceya, aged 46, is the Head of Legal of the Company. She joined the Company in 2005 and has almost 20 years of legal experiences. Ms. Ma graduated from The University of Hong Kong and obtained the Bachelor Degree of Laws in 1989 and Master Degree of Laws in 1993. She obtained her Second Degree in China Law from Tsinghua University in 2007. She was admitted as a solicitor in Hong Kong in 1992 and the United Kingdom in 1997. She is a member of the Law Society of Hong Kong and a practicing solicitor in Hong Kong. Ms. Ma was a solicitor in private practice in Hong Kong for more than 10 years and with more than 6 years working experiences as in-house legal counsel in two companies listed on the Main Board of the Stock Exchange. She is responsible for legal affairs of the Group and some associated companies and the compliance with the Listing Rules. Before joining the Company, she was in-house legal counsel of another company listed on the Main Board of the Stock Exchange. Prior to that, she was solicitor of Messrs. Gallant Y. T. Ho & Co. and Messrs. Deacons and senior solicitor of Messrs. CMS Cameron McKenna.

*   *for identification purpose only*

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the information technology business including the provision of system integration services, facility management services and information technology related business in the PRC and Hong Kong.

SEGMENT INFORMATION

An analysis of the Group's results, assets and liabilities by segment for the year is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 39.

DIVIDEND

The Directors do not recommend the payment of dividend for the year ended 31 December 2011.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 94.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 20 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year are set out in note 22 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws (the "Bye-laws") or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem any of its shares during the year and neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme pursuant to the ordinary resolution passed by the shareholders of the Company on 12 June 2002.

The purpose of the Share Option Scheme is to attract and retain quality personnel and provide them with incentive to contribute to the business and operation of the Group.

Participants under the Share Option Scheme include Directors and employees of the Group.

DIRECTORS' REPORT

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

The Share Option Scheme was adopted for a period of 10 years commencing from 12 June 2002 and will remain in force until 11 June 2012. The Company may, by ordinary resolution in general meeting or, such date as the Board shall determine, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

Options may be granted without any initial payment for the options. The subscription price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher 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 five 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 "General Scheme Limit") provided that, inter alia, the Company may seek approval of the shareholders at a general meeting to refresh the General Scheme 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, subject to shareholders' approval, 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 118,400,000 share options have been granted under the General Scheme Limit and the outstanding number of options available for issued under the aforesaid 10% limit of the Share Option Scheme is 69,100,000, representing approximately 2.08% of the issued share capital of the Company.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Share Option Scheme (including both exercised and outstanding options) 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 approval by its shareholders in accordance with the Share Option Scheme.

As the Share Option Scheme is due to expire on 11 June 2012, the Company proposed to terminate the existing Share Option Scheme and adopt a new scheme. An ordinary resolution will be proposed at the forthcoming annual general meeting of the Company to approve the termination of the existing Share Option Scheme and the adoption of the new scheme.

DIRECTORS' REPORT

Details of the share options movements during the year under the Share Option Scheme are as follows:

		Number of share options								
Name of category	Date of grant of share options	Outstanding as at 01.01.2011	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31.12.2011	Vesting period	Validity period of share options	Exercise price (HK$)
Directors										
Ho Wai Kong	26.03.2009	23,000,000	–	–	–	–	23,000,000	–	26.03.2009 to 25.03.2012	0.50
Wu Xiaodong	26.03.2009	5,000,000	–	–	–	–	5,000,000	–	26.03.2009 to 25.03.2012	0.50
Lu Xing	26.03.2009	35,000,000	–	–	–	–	35,000,000	–	26.03.2009 to 25.03.2012	0.50
Cheng Zhuo	14.08.2009	3,000,000	–	–	–	–	3,000,000	(Note 1)	14.08.2009 to 13.08.2012	1.00
Wu Fred Fong	14.08.2009	2,000,000	–	–	–	–	2,000,000	(Note 1)	14.08.2009 to 13.08.2012	1.00
Chan Tze See, Kevin	05.01.2010	1,000,000	–	–	–	–	1,000,000	–	05.01.2010 to 04.01.2013	0.78
Chen Bojie	05.01.2010	1,000,000	–	–	–	–	1,000,000	–	05.01.2010 to 04.01.2013	0.78
Song Lianzhong (resigned on 1 September 2011)	09.02.2010 (Note 4)	30,000,000	–	–	–	–	30,000,000	–	09.02.2010 to 08.02.2013	1.07
Jiang Haoye (resigned on 1 September 2011)	09.02.2010 (Note 5)	15,000,000	–	–	–	–	15,000,000	–	09.02.2010 to 08.02.2013	1.07
Zhang Guisheng (retired on 17 June 2011)	09.02.2010 (Note 6)	15,000,000	–	–	–	–	15,000,000	–	09.02.2010 to 08.02.2013	1.07
Subtotal		130,000,000	–	–	–	–	130,000,000			

DIRECTORS' REPORT

Name of category	Date of grant of share options	Number of share options: Outstanding as at 01.01.2011	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31.12.2011	Vesting period	Validity period of share options	Exercise price (HK$)
Other Employees	14.08.2009	400,000	–	–	–	–	400,000	(Note 1)	14.08.2009 to 13.08.2012	1.00
	09.11.2009	10,600,000	–	–	(10,500,000)	–	100,000	(Note 2)	09.11.2009 to 08.11.2012 (Note 5)	0.77
	05.01.2010	1,600,000	–	–	–	–	1,600,000	–	05.01.2010 to 04.01.2013	0.78
	04.05.2010	30,000,000	–	–	(30,000,000)	–	–	–	04.05.2010 to 03.05.2013	1.11
Subtotal		42,600,000	–	–	40,500,000	–	2,100,000			
Total		172,600,000	–	–	40,500,000	–	132,100,000			

Notes:

1. Of an aggregate 10,600,000 share options granted on 14 August 2009, 5,600,000 share options granted vested on 14 August 2009, i.e. the date of share options granted; 3,000,000 share options granted vested on the first anniversary of 14 August 2009; and 2,000,000 share options granted vested on the second anniversary of 14 August 2009.

2. As to the share options granted on 9 November 2009, 5,600,000 share options granted vested on 9 November 2009; 3,000,000 share options granted vested on 1 October 2010; and 2,500,000 share options granted vested on 1 October 2011.

3. As to the share options granted on 9 November 2009, the validity period for the 5,500,000 share options granted started from 9 November 2009 to 31 October 2011 and for the 5,600,000 share options granted stated from 9 November 2009 to 8 November 2012.

4. Mr. Song Lianzhong, who was an executive director of the Company, resigned on 1 September 2011, but continued to be a director of a subsidiary of the Company, therefore, the share options are still valid.

5. Mr. Jiang Haoye, who was an executive director of the Company, resigned on 1 September 2011, but continued to be a director of a subsidiary of the Company, therefore, the share options are still valid.

6. Mr. Zhang Guisheng, who was an executive director of the Company, retired on 17 June 2011, but continued to be a consultant of a subsidiary of the Company, therefore, the share options are still valid.

DIRECTORS' REPORT

Information on the accounting policy for share options granted and the weighted average value per share is provided in note 21 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Cheng Yuanzhong *(Chairman)*	(Appointed as vice Chairman and chief executive officer of the Company on 15 September 2011, re-designated as Chairman on 30 December 2011 and resigned as chief executive officer of the Company on 11 April 2012)
Mr. Ho Wai Kong *(Honorary Chairman)*	(Re-designated as Honorary Chairman on 30 December 2011)
Mr. Wang Dingbo *(Chief Executive Officer and Chief Operating Officer)*	(Appointed as chief operating officer of the Company on 30 December 2011 and chief executive officer of the Company on 11 April 2012)
Mr. Wu Xiaodong *(Chief Financial Officer)*	
Mr. Peng Ru Chuan	(Appointed on 30 December 2011)
Mr. Lu Xing	
Ms. Liu Jie	(Appointed on 30 December 2011)
Mr. Li Junjie	(Resigned as executive Director and chief operating officer of the Company on 22 December 2011)
Mr. Song Lianzhong *(Deputy Chairman)*	(Resigned on 1 September 2011)
Mr. Jiang Haoye	(Resigned on 1 September 2011)
Mr. Zhang Guisheng *(Chief Executive Officer)*	(Retired on 17 June 2011)

Non-executive Directors

Ms. Cheng Zhuo	
Mr. Wang Ning	(Appointed on 15 September 2011)

Independent Non-executive Directors

Mr. Wu Fred Fong	
Mr. Chan Tze See, Kevin	
Mr. Chen Bojie	
Mr. Xu Haigen	(Appointed on 30 December 2011)

DIRECTORS' REPORT

Pursuant to Bye-law 86(2) of the Bye-laws, any Director appointed to fill a causal vacancy on the Board shall hold office only until the next following general meeting of the Company, and any director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company. Such Directors shall then be eligible for re-election at the next following general meeting or annual general meeting.

In accordance with Bye-law 86(2) of the Bye-laws, Mr. Cheng Yuanzhong, Mr. Wang Dingbo, Mr. Peng Ru Chuan and Ms. Liu Jie shall retire from their offices, being eligible, offer themselves for re-election as executive Directors and Mr. Wang Ning shall retire from his office, being eligible, offer himself for re-election as non-executive Director and Mr. Xu Haigen shall retire from his office, being eligible, offer himself for re-election as independent non-executive Director. At the annual general meeting, ordinary resolutions will be proposed to re-elect the abovementioned directors as executive Directors, non-executive Director and independent non-executive Director respectively.

Further, pursuant to Bye-law 87 of the Bye-laws, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation at every annual general meeting provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring director shall be eligible for re-election.

In accordance with Bye-law 87 of the Bye-laws, Mr. Wu Xiaodong and Mr. Lu Xing will retire from their offices by rotation, and will not offer themselves for re-election.

The term of office of the non-executive Director and each independent non-executive Director is 3 years and subject to retirement by rotation in accordance with the Bye-laws.

The Company has received from each of the independent non-executive Directors an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors are independent to the Company.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting have a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries and fellow 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.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN THE SHARE CAPITAL

As at 31 December 2011, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in ordinary shares of HK$0.01 each of the Company

Name of Directors	Capacity	Number of issued ordinary shares held	Number of underlying shares held	Percentage of the issued share capital as at 31 December 2011
Cheng Yuanzhong	Corporate interest	–	2,954,280,000 (Note 1)	89.08%
Ho Wai Kong	Corporate interest	237,388,901 (Note 2)	1,954,284,725 (Note 2)	66.09%
	Beneficial interest	14,800,000	23,000,000 (Note 3)	1.14%
	Spousal interest	29,348,000 (Note 4)	–	0.88%
Wang Dingbo	Corporate interest	–	801,118,210 (Note 5)	24.16%
	Beneficial interest	1,000,000	–	0.03%
	Spousal interest	1,100,000 (Note 6)	–	0.03%
Wu Xiaodong	Beneficial interest	5,000,000	5,000,000 (Note 3)	0.30%
Lu Xing	Corporate interest	68,806,980 (Note 7)	592,370,828 (Note 7)	19.94%
	Beneficial interest	10,296,000	35,000,000 (Note 3)	1.37%
Cheng Zhuo	Beneficial Interest	–	3,000,000 (Note 3)	0.09%
Wu Fred Fong	Beneficial interest	–	2,000,000 (Note 3)	0.06%
Chan Tze See, Kevin	Beneficial interest	1,000,000	–	0.03%
	Spousal interest	352,000 (Note 8)	–	0.01%
Chen Bojie	Beneficial interest	–	1,000,000 (Note 3)	0.03%

DIRECTORS' REPORT

Notes:

1. Mr. Cheng Yuanzhong is interested in 2,954,280,000 preferred shares of the Company (the "Preferred Shares"), according to the sale and purchase agreement signed on 31 August 2008 if the public procurement business achieves net profit of not less than HK$200,000,000 for the year ended 31 December 2009 or 2010. However, the vendors agreed with the Company that the new preferred shares would only be issued if at least HK$200 million of profit after tax and extraordinary expenses would be ascertained to be settled in cash. According to the announcement of the Company dated 5 April 2012, the Company has ascertained over HK$200 million (i.e. approximately HK$265 million) of profit after tax and extraordinary expenses settled in cash, therefore, 8,053,914,537 Preferred Shares will be allotted and issued by the Company. Under controlled corporation, of which 1,200,000,000 shares are held by Metro Factor Limited and 1,754,280,000 shares are held by Top Blast Limited. Both companies are wholly and beneficially owned by Capital Excel Holdings Limited, which is wholly and beneficially owned by Mr. Cheng Yuanzhong.

2. Mr. Ho Wai Kong is interested in 2,191,673,626 shares under controlled corporation, of which 2,191,173,626 shares are held by Master Top Investments Limited, an associated corporate of the Company, and 500,000 shares are held by Similan Limited. Both companies are beneficially owned by Mr. Ho Wai Kong. Master Top Investments Limited is also entitled to a maximum of 1,954,284,725 Preferred Shares.

3. These options were granted by the Company under the Share Option Scheme.

4. Mr. Ho Wai Kong is the spouse of Ms. Guo Binni and is therefore deemed to be interested in 29,348,000 shares held by Ms. Guo Binni under the SFO.

DIRECTORS' REPORT

5. Mr. Wang Dingbo is interested in 801,118,210 Preferred Shares under controlled corporation, Favor Mind Holdings Limited, which is wholly and beneficially owned by Mr. Wang Dingbo.

6. Mr. Wang Dingbo is the spouse of Ms. Cheung Leng Chau and is therefore deemed to be interested in 1,100,000 shares held by Ms. Cheung Leng Chau under the SFO.

7. Mr. Lu Xing is interested in 661,177,808 shares under controlled corporation, of which 629,177,808 shares are held by Mega Step Investments Limited and 32,000,000 shares are held by Ascher Group Limited. Both companies are beneficially owned by Mr. Lu Xing. Mega Step Investments Limited is also entitled to maximum of 592,370,828 Preferred Shares.

8. Mr. Chan Tze See, Kevin is the spouse of Ms. Lam Lai Chong and is therefore deemed to be interested in the 352,000 shares held by Ms. Lam Lai Chong under the SFO.

Save as disclosed above, as at 31 December 2011, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, according to the register of interests required to be kept by the Company under Section 336 of the SFO, the following persons, other than the Directors or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Capacity	Number of Preferred Shares interested	Number of shares interested	Percentage of the issued share capital as at 31 December 2011
Capital Excel Holdings Limited ("Capital Excel") (Note 1)	Corporate Interest	2,954,280,000	–	89.08%
Top Blast Limited ("Top Blast") (Note 1)	Beneficial interest	1,754,280,000	–	52.90%
Metro Factor Limited ("Metro Factor") (Note 1)	Beneficial interest	1,200,000,000	–	36.18%
Luo Jianjun (Note 2)	Spousal interest	2,954,280,000	–	89.08%
Chen Min	Beneficial interest	310,000,000	–	9.35%
Gao Yongzhi (Note 3)	Corporate interest	350,000,000	–	10.55%
Smart Chant Limited ("Smart Chant") (Note 3)	Corporate interest	350,000,000	–	10.55%
King Lion Group Limited ("King Lion") (Note 3)	Beneficial interest	350,000,000	–	10.55%
Siu Fung (Note 4)	Corporate interest	262,715,687	–	7.92%
Top Access Overseas Limited ("Top Access") (Note 4)	Corporate interest	262,715,687	–	7.92%
Magical Power Investments Limited ("Magical Power") (Note 4)	Beneficial interest	262,715,687	–	7.92%
Liu Rose (Note 5)	Corporate interest	592,360,000	–	17.86%
Global Vector Limited ("Global Vector") (Note 5)	Beneficial interest	592,360,000	–	17.86%
Chen Jack (Note 6)	Spousal interest	592,360,000	–	17.86%
Tan Keng Sin Patrick (Note 7)	Corporate interest	–	194,288,000	5.86%
Tern Yuh Sheng Joseph (Note 7)	Corporate interest	–	194,288,000	5.86%
Havenport Asset Management Pte. Ltd. ("Havenport Asset") (Note 7)	Investment manager	–	194,288,000	5.86%
Favor Mind Holdings Limited ("Favor Mind") (Note 8)	Beneficial interest	801,118,210	–	24.16%
Guo Binni	Beneficial interest	29,348,000	–	0.88%
(Note 9)	Spousal interest	1,954,284,725	275,188,901	67.23%
Master Top Investments Limited ("Master Top") (Note 10)	Beneficial interest	2,191,173,626	–	66.07%
Mega Step Investments Limited ("Mega Step") (Note 11)	Beneficial interest	592,370,828	36,806,980	18.97%
Legg Mason, Inc. (Note 12)	Investment manager	–	182,500,000	5.50%
Song Lianzhong (Note 13)	Beneficial interest	–	180,000,000	5.43%

DIRECTORS' REPORT

Notes:

1. Both Top Blast and Metro Factor are directly, wholly and beneficially owned by Capital Excel and Capital Excel is directly, wholly and beneficially owned by Mr. Cheng Yuanzhong. Therefore, both Top Blast and Metro Factor are indirectly, wholly and beneficially owned by Mr. Cheng Yuanzhong.

2. Ms. Luo Jianjun is the spouse of Mr. Cheng Yuanzhong and is therefore deemed to be interested in 2,954,280,000 Preferred Shares held by Mr. Cheng Yuanzhong under the SFO.

3. King Lion is directly, wholly and beneficially owned by Smart Chant and Smart Chant is directly, wholly and beneficially owned by Mr. Gao Yongzhi. Therefore, King Lion is indirectly, wholly and beneficially owned by Mr. Gao Yongzhi.

4. Magical Power is directly, wholly and beneficially owned by Top Access and Top Access is directly, wholly and beneficially owned by Ms. Siu Fung. Therefore, Magical Power is indirectly, wholly and beneficially owned by Ms. Siu Fung.

5. Global Vector is directly, wholly and beneficially owned by Ms. Liu Rose.

6. Mr. Chen Jack is the spouse of Ms. Liu Rose and is therefore deemed to be interested in 592,360,000 shares held by Ms. Liu Rose under the SFO.

7. Mr. Tan Keng Sin Patrick and Mr. Tern Yu Sheng Joseph each beneficially own 50% of Havenport Asset.

8. Favor Mind is directly, wholly and beneficially owned by Mr. Wang Dingbo.

9. Ms. Guo Binni is the spouse of Mr. Ho Wai Kong and is therefore deemed to be interested in 1,954,284,725 Preferred Shares, 252,188,901 shares and 23,000,000 options held by Mr. Ho Wai Kong under SFO.

10. Master Top is directly, wholly and beneficially owned by Mr. Ho Wai Kong.

11. Mega Step is directly, wholly and beneficially owned by Mr. Lu Xing.

12. These 182,500,000 shares are wholly and beneficially owned by Legg Mason Asset Management Singapore Pte. Limited, a company directly, wholly and beneficially owned by LM International Holding LP, which is directly, wholly and beneficially owned by Legg Mason International Holdings, which is directly, wholly and beneficially owned by Legg Mason, Inc.. Therefore Legg Mason, Inc. is deemed to be interested in these 182,500,000 shares.

13. Mr. Song Lianzhong is interested in 150,000,000 shares of the Company and 30,000,000 options granted by the Company under the Share Option Scheme.

DIRECTORS' REPORT

Save as disclosed above, the Company had not been notified of any other person (other than a Director or chief executive of the Company) who had an interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO as at 31 December 2011.

COMPETING INTERESTS

As at 31 December 2011, 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 CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 100% of the total sales for the year, in which sales to the largest customer represented approximately 100% of the total sales for the year.

Purchases from the Group's five largest suppliers amounted to approximately 100% of the total purchases for the year while total purchases from the largest supplier represented approximately 100% of the total purchases for the year.

None of the Directors, their associates or any substantial shareholder had an interest in the major suppliers or customers noted above.

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 for the year ended 31 December 2011 and up to the date of this report.

CONNECTED TRANSACTION

(1) On 21 December 2010, Public Procurement Limited (the "Subsidiary") and the transferee, an independent third party, entered into the disposal agreement in relation to the transfer of the ownership of the right and obligations under certain energy performance contracting projects（合同能源管理項目）that 國采科技股份有限公司 (Guocai Science & Technology Company Limited*) (the "PRC Partner") entered into with government entities in certain provinces in the PRC (the "EMC Projects") (the "Disposal Agreement"), pursuant to which the transferee should pay HK$400 million to the Subsidiary by installments provided that such amount should be fully paid by 31 December 2011.

As at 29 December 2011, it was announced that HK$120 million had been received in aggregate from the transferee and on 29 December 2011, the Subsidiary and the transferee entered into a supplemental agreement to the Disposal Agreement (the "Disposal Supplemental Agreement"), agreeing that the remaining balance of the total consideration of HK$280 million shall be settled as to HK$240 million by 22 January 2012 and as to HK$40 million by 30 June 2012.

* *for identification purpose only*

DIRECTORS' REPORT

As at 26 January 2012, it was announced that, on 30 December 2011, HK$20 million out of the remaining balance of the total consideration were received in aggregate from the transferee and as at 26 January 2012, HK$140 million in aggregate had been received from the transferee. On 20 January 2012, the Subsidiary and the transferee entered into another supplemental agreement to the Disposal Agreement, pursuant to which the remaining balance of the HK$220 million to be settled by 22 January 2012 pursuant to the Disposal Supplemental Agreement should be settled by 31 March 2012 and HK$40 million by 30 June 2012. Pursuant to such supplemental agreement, the transferee also agreed to pay to the Subsidiary, starting from 23 January 2012, interest at the rate of 5% per annum which shall be calculated on a daily basis in respect of the outstanding balance of the HK$220 million payable to the Subsidiary until such amount was settled in full. Pursuant to such supplemental agreement, the aggregate amount of such interest shall be fully paid on or before 31 March 2012.

On 2 April 2012, it was announced that HK$220 million of the remaining balance of the total consideration and approximately HK$2,049,315 (being interest in respect of the outstanding balance of the HK$220 million payable to the Subsidiary) were received from the transferee. As at 2 April 2012, HK$360 million in aggregate of the total consideration had been received from the transferee.

Details of the above transaction are published in the Company's announcement dated 29 December 2011, 26 January 2012 and 2 April 2012.

(2) The PRC Partner, 國采(北京)技術有限公司 (Guocai (Beijing) Technology Company Limited*) (the "EJV") and the Subsidiary, on 23 December 2010, entered into a tri-party cooperation agreement pursuant to which the PRC Partner agreed to transfer the ownership of the EMC Projects to the EJV which shall simultaneously transfer such ownership to the Subsidiary (the "Tri-Party Cooperation Agreement"). Pursuant to the Tri-Party Cooperation Agreement, the Subsidiary agreed that it would pay a service fee to the PRC Partner, being 10% of the disposal consideration when it transferred ownership of the EMC Projects to another party. As the ownership of the EMC Projects was transferred to a third party pursuant to the Disposal Agreement, the Subsidiary would pay HK$40 million (being 10% of the disposal consideration of HK$400 million as set out in the Disposal Agreement) to the PRC Partner as service fee (the "Transaction").

The PRC Partner is a connected person of the Company under Rule 14A.11(1) of the Listing Rules by virtue of the fact that it is a substantial shareholder of the EJV, an indirect non-wholly-owned subsidiary of the Company. Accordingly, the Transaction constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

(3) China Public Procurement (Hong Kong) Technology Co., Ltd. (the "PRC Partner Subsidiary"), the Subsidiary and the transferee, which is an independent third party, on 15 June 2011, entered into the project agreement in relation to the transfer of the rights and obligations under an energy performance contracting project (合同能源管理項目) in Wuhan (the "Project Agreement") the PRC Partner had entered into with the government entity in Wuhan, the PRC. Pursuant to the Project Agreement, certain amount of the consideration to be paid by the transferee would be received by the PRC Partner Subsidiary and in turn be paid to the Subsidiary (the "Wuhan Transaction").

* *for identification purpose only*

DIRECTORS' REPORT

In accordance with the Project Agreement, the consideration should be paid in two installments. The first installment, comprising 60% of the consideration of a total amount of HK$18 million, including HK$6 million as consultancy fee and HK$12 million as the consideration, should be paid by the transferee to a consultancy company and the PRC Partner Subsidiary or any account it may direct respectively on or before 25 July 2011. The second installment, comprising 40% of the consideration of a total amount of HK$12 million, should be paid by the transferee to the PRC Partner Subsidiary or any account it may direct, within one month upon completion of the implementation of the EMC Project and relevant testing on the trial section of the highway in Wuhan, the PRC.

As at 29 December 2011, the first installment had been settled by the transferee. Since the implementation of the EMC Project and relevant testing on the trial section of the highway in Wuhan, the PRC was completed on 20 December 2011, the second installment should be settled by the transferee by 20 January 2012 in accordance with the Project Agreement. As the transferee had a need to reallocate its financial resources in the end of its financial year, the transferee expects that more time would be required by it to arrange for settlement of the second installment. Therefore, on 29 December 2011, the PRC Partner Subsidiary, the Subsidiary and the transferee entered into a supplemental agreement to the Project Agreement and agreed that the second installment of an amount of HK$12 million, should be settled by the transferee on or before 31 March 2012 notwithstanding that the implementation of the Wuhan EMC Project and relevant statistical testing on the trail section of the highway in Wuhan, the PRC had been completed.

The PRC Partner Subsidiary, being an associate of the PRC Partner, is a connected person of the Company under Rule 14A.11(1) of the Listing Rules by virtue of the fact that the PRC Partner is a substantial shareholder of the EJV, an indirect non-wholly-owned subsidiary of the Company. Accordingly, the Wuhan Transaction constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

Details of the above transactions are published in the Company's announcements dated 25 November 2010, 9 March 2011, 28 April 2011, 16 June 2011, 25 July 2011, 28 July 2011, 12 September 2011, 29 December 2011 and 4 January 2012 and the Company's circular dated 24 August 2011 and 7 October 2011.

DIRECTORS' REPORT

(4) Transfer of Preferred Shares

On 15 September 2011, three purchasers (Metro Factor, Top Blast and Global Vector) (collectively, the "Purchasers"), four vendors (Master Top, Mega Step, Favor Mind and Magical Power) (collectively, the "CT Vendors") and four guarantors (Mr. Ho Wai Kong, Mr. Lu Xing, Mr. Wang Dingbo and Ms. Siu Fung) (collectively, the "Guarantors") entered into the deed, pursuant to which the CT Vendors conditionally agreed to transfer an aggregate of 3,546,640,000 preferred shares (the "Subject Preferred Shares") to be allotted and issued by the Company to the CT Vendors as part of the consideration pursuant to the very substantial acquisition in relation to the acquisition of Hero Joy International Limited ("Hero Joy"), a wholly-owned subsidiary of the Company by the Group (the "2008 VSA") to the Purchasers.

Each of the Purchasers, being an associate of Mr. Cheng Yuanzhong ("Mr. Cheng"), is a connected person of the Company under Rule 14A.11(1) of the Listing Rules by virtue of the fact that each of the them are wholly and beneficially owned by Mr. Cheng and Mr. Cheng is an executive Director and a director of the EJV, an indirect non-wholly-owned subsidiary of the Company. Accordingly, the allotment and issue of the ordinary shares upon conversion of the Subject Preferred Shares would constitute a connected transaction for the Company under Chapter 14A of the Listing Rules.

On 5 April 2012, it was announced that the audited financial statements of the Hero Joy, its subsidiary and the EJV, for the year ended 31 December 2010 prepared by auditors appointed by the Positive Rise Holdings Limited ("Positive Rise"), a wholly owned subsidiary of the Company, based on the generally accepted accounting principles in Hong Kong and other relevant principles (the "2010 Audited Accounts") showed that the net profit (after tax and extraordinary expenses) as shown in the 2010 Audited Accounts was approximately HK$265 million. The earn-out amounts to approximately HK$5,370 million and 8,053,914,537 preferred shares would be allotted and issued by the Company at HK$0.6667 for settlement of the Earn-out for the 2008 VSA.

The Preferred Shares to be allotted and issued by the Company will be held by the holders of the Preferred Shares in the following manner: (i) 1,954,284,725 preferred shares for Master Top; (ii) 592,370,828 preferred shares for Mega Step; (iii) 801,118,210 preferred shares for Favor Mind; (iv) 922,715,687 preferred shares for Magical Power; (v) 236,785,087 preferred shares for Huge Ally Group Limited; (vi) 1,200,000,000 preferred shares for Metro Factor; (vii) 1,754,280,000 preferred shares for Top Blast and (viii) 592,360,000 preferred shares for Global Vector.

Details for the above transactions are published in the Company's announcement dated 15 September 2011, 25 October 2011, 5 April 2012 and the Company's circular dated 7 October 2011.

DIRECTORS' REPORT

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF SHENZHEN ZHONGCAI INFORMATION TECHNOLOGY COMPANY LIMITED

On 11 April 2012, Victory Group Ltd (the "Purchaser"), an investment holding company and a wholly-owned subsidiary of the Company, entered into the acquisition agreement (the "Acquisition Agreement") with three PRC individuals, two of whom being the vendors, pursuant to which the Purchaser had conditionally agreed to acquire, and the vendors had conditionally agreed to sell, 69% of the equity interest in 深圳市中采信息技術有限公司 (Shenzhen Zhongcai Information Technology Company Limited*) ("Shenzhen Zhongcai") held by the one of the vendors and 1% of the equity interest in Shenzhen Zhongcai held by another vendors respectively, being in aggregate 70% of the equity interest of Shenzhen Zhongcai at a consideration of RMB30 million (equivalent to approximately HK$37 million), with a PRC individual being the ultimate controller of the Target.

Details of the above transaction are published in the Company's announcement dated 11 April 2012.

DELAY IN PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT

Reference was made to the Company's announcement dated 14 March 2012 regarding the delay in publication of the annual results announcement. Pursuant to Rule 13.49(1) of the Listing Rules, the Company is required to publish the annual results no later than three months after the date upon which its financial year ended, that is, on or before 31 March 2012. The delay in the publication of the Annual Results constitutes a breach of Rule 13.49(1) of the Listing Rules.

AUDITOR

The financial statements of the Group for the years ended 31 December 2009, 2010 and 2011 were also audited by Morison Heng. Morison Heng, Certified Public Accountants will retire at the forthcoming annual general meeting.

On behalf of the Board

Cheng Yuanzhong
Chairman

Hong Kong, 27 April 2012

* *for identification purpose only*

CORPORATE GOVERNANCE REPORT

The Company recognizes that good corporate governance standards maintained throughout the Group serve as an effective risk management for the Company. The Board is committed to leading the Group growing in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standard. The Directors acknowledge their responsibility for preparing the Company's accounts.

(1) CORPORATE GOVERNANCE PRACTICES

The Stock Exchange issued the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, which provides the Code Provisions and recommended best practices for corporate governance practices by listed companies. The Company considered that its prevailing structures and systems satisfied the requirements of the Code Provisions. The Company will continuously enhance the corporate governance standards throughout the Group and ensure further standards to be put in place by reference to the recommended best practices whenever suitable and appropriate. The Company has complied throughout the year with the CG Code except for the deviations from the Code Provisions A.2.1 and C.2.2 as disclosed in the following paragraphs. The Board updated the Company's corporate governance on 29 March 2012 to bring it in closer alignment with the amendments to the CG Code as set out in Appendix 14 of the Listing Rules that has taken effect from 1 April 2012.

(2) CORPORATE MANAGEMENT

i. Board of Directors

The Board reviews and approves corporate matters such as business strategies and investments, mergers and acquisitions, as well as the general administrative and management of the Group.

During the year and as at the date of this report, the Board consists of 7 executive Directors, 2 non-executive Directors and 4 independent non-executive Directors:

Executive Directors

Mr. Cheng Yuanzhong *(Chairman)*	(Appointed as Vice Chairman and chief executive officer of the Company on 15 September 2011, re-designated as Chairman on 30 December 2011 and resigned as chief executive officer of the Company on 11 April 2012)
Mr. Ho Wai Kong *(Honorary Chairman)*	(Re-designated as Honorary Chairman on 30 December 2011)
Mr. Wang Dingbo *(Chief Executive Officer and Chief Operating Officer)*	(Appointed as chief operating officer of the Company on 30 December 2011 and chief executive officer of the Company on 11 April 2012)
Mr. Wu Xiaodong *(Chief Financial Officer)*	
Mr. Peng Ru Chuan	(Appointed on 30 December 2011)
Mr. Lu Xing	
Ms. Liu Jie	(Appointed on 30 December 2011)
Mr. Li Junjie	(Resigned as executive Director and chief operating officer of the Company on 22 December 2011)
Mr. Song Lianzhong *(Deputy Chairman)*	(Resigned on 1 September 2011)
Mr. Jiang Haoye	(Resigned on 1 September 2011)
Mr. Zhang Guisheng *(Chief Executive Officer)*	(Retired on 17 June 2011)

CORPORATE GOVERNANCE REPORT

Non-executive Directors

Ms. Cheng Zhuo	
Mr. Wang Ning	(Appointed on 15 September 2011)

Independent Non-executive Directors

Mr. Wu Fred Fong	
Mr. Chan Tze See, Kevin	
Mr. Chen Bojie	
Mr. Xu Haigen	(Appointed on 30 December 2011)

The number of existing independent non-executive Directors approximately equal to one-third of the Board membership. The Board membership is covered by professionally qualified and widely experienced personnel so as to bring in valuable contribution and different professional advices and consultancy for the development of the Company. More than one-half of the Board members have recognised professional legal, securities, tax or accounting qualifications.

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") of the Company may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

Chairman and Chief Executive Officer

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate 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 2011 and up to the date of this report, the roles of Chairman and chief executive officer of the Company ("CEO") are segregated and separately performed by different Directors at most of time as follows:

Time periods	**Chairman**	**CEO**
1 January 2011 – 16 June 2011	Mr. Ho Wai Kong	Mr. Zhang Guisheng
17 June 2011 – 14 September 2011	Mr. Ho Wai Kong	Vacant
15 September 2011 – 29 December 2011	Mr. Ho Wai Kong	Mr. Cheng Yuanzhong
30 December 2011 – 10 April 2012	Mr. Cheng Yuanzhong	Mr. Cheng Yuanzhong
11 April 2012 to date of this report	Mr. Cheng Yuanzhong	Mr. Wang Dingbo

From 17 June 2011 to 14 September 2011, the role of CEO was vacant and from 30 December 2011 to 10 April 2012, the roles of Chairman and CEO were also performed by Mr. Cheng Yuanzhong, which was a deviation from the Code Provision A.2.1. Mr. Wang Dingbo has been appointed as the new CEO in place of Mr. Cheng Yuanzhong with effect from 11 April 2012, so as to allow the segregation of the roles of chairman and chief executive of the Company in accordance with the CG Code. This segregation ensures a clear distinction between the Chairman's and the CEO's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

CORPORATE GOVERNANCE REPORT

Save as disclosed in the section of "Biography of Directors and Senior Management", there is no financial, business, family or other material/relevant relationship between the Chairman and the CEO and among the members of the Board.

Appointment, Re-election and Removal of Directors

According to the recommended best practice A.5.1 of the CG code, the listed issuers are recommended to set up a nomination committee with a majority of members thereof being independent non-executive directors. During the year ended 31 December 2011, the Company does not have a nomination committee as the role and function of such a committee are performed by the Board. During the year, the Board is responsible for the formulation of nomination policies, making recommendations to the shareholders of the Company on Directors standing for re-election, providing sufficient biographical details of Directors to enable the shareholders to make an informed decision on the re-election, and where necessary, nominating Directors to fill casual vacancies.

The Chairman may in conjunction with the other Directors from time to time review the composition of the Board in particular to ensure there are appropriate numbers of Directors on the Board. The Board also may identify and nominate qualified individuals for appointment as new Directors. During the year, 4 meetings were held by the Board for nomination of new Director.

In order to comply with the Code Provision A.5.1 effective on 1 April 2012, the Company has established the nomination committee on 29 March 2012, the members of which consists of two executive Directors, namely Mr. Cheng Yuanzhong (Chairman of the Nomination Committee) and Mr. Ho Wai Kong and four independent non-executive Directors, namely Mr. Wu Fred Fong, Mr. Chan Tze See, Kevin, Mr. Chen Bojie and Mr. Xu Haigen.

According to the Bye-laws, every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.

According to the Code Provision A.4.1 of the CG Code, non-executive Directors should be appointed for a specific term of service. Each of the non-executive Director and independent non-executive Directors has entered into a service contract with the Company and for a fixed term of 3 years and is subject to retirement by rotation and offers himself/herself for re-election in accordance with Bye-laws.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2011, 34 Board meetings have been held. Details of the attendance of the Directors are as follows:

	Number of Board meetings attended/ Number of Board meetings held		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Cheng Yuanzhong (Appointed on 15 September 2011)	9/13	–	–
Mr. Ho Wai Kong	31/34	–	–
Mr. Wang Dingbo (Appointed on 30 December 2011)	0/0	–	–
Mr. Wu Xiaodong	30/34	–	–
Mr. Peng Ru Chuan (Appointed on 30 December 2011)	0/0	–	–
Mr. Lu Xing	20/34	–	–
Ms. Liu Jie (Appointed on 30 December 2011)	0/0	–	–
Mr. Li Junjie (Resigned on 22 December 2011)	8/11	–	–
Mr. Song Lianzhong (Resigned on 1 September 2011)	13/21	–	–
Mr. Jiang Haoye (Resigned on 1 September 2011)	18/21	–	–
Mr. Zhang Guisheng (Resigned on 1 September 2011)	7/13	–	–
Non-executive Directors			
Ms. Cheng Zhuo	12/34	–	–
Mr. Wang Ning (Appointed on 15 September 2011)	1/14	–	–
Independent Non-executive Directors			
Mr. Wu Fred Fong	30/34	3/3	4/4
Mr. Chan Tze See, Kevin	28/34	3/3	4/4
Mr. Chen Bojie	26/34	3/3	4/4
Mr. Xu Haigen (Appointed on 30 December 2011)	0/0	–	–

CORPORATE GOVERNANCE REPORT

ii. Other Committees

There are three committees established under the Board, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

(a) Audit Committee

The Audit Committee comprises four members, namely Mr. Wu Fred Fong (Chairman of the Audit Committee), Mr. Chan Tze See, Kevin, Mr. Chen Bojie and Mr. Xu Haigen, all are independent non-executive Directors, two of whom possesses recognized professional qualification in accounting and has proven experience in audit and accounting. The Audit Committee is chaired by the chairman of the Audit Committee, who is an independent non-executive Director.

The functions of the Audit Committee includes but not limited to the following:

- Considering and reviewing the appointment, resignation and removal of external auditors and their fees
- Reviewing the interim and annual results of the Group
- Discussing with the external auditors problems and issues of significance during the annual audit of the Group

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting those set out in the Code Provisions.

The Audit Committee met three times for the year ended 31 December 2011, the works included:

- Reviewed the 2011 interim results and 2010 annual results of the Group
- Discussed with the management of the Company over the completeness, fairness, adequacy and compliance of accounting standards and policies of the Group in the preparation of the 2011 interim and 2010 annual financial statements
- Reviewed and discussed with the external auditors over the financial reporting of the Company
- Recommended to the Board, for the approval by shareholders, of the re-appointment of the auditor

Each committee meeting was supplied with the necessary financial information of the Group for the members to consider, review and assess matters of significance arising from the work conducted.

CORPORATE GOVERNANCE REPORT

The audited consolidated financial statements for the year ended 31 December 2011 have been reviewed by the Audit Committee.

(b) Remuneration Committee

The Remuneration Committee comprises four members, namely Mr. Wu Fred Fong (Chairman of the Remuneration Committee), Mr. Chan Tze See, Kevin, Mr. Chen Bojie and Mr. Xu Haigen, all are independent non-executive Directors. The Remuneration Committee is chaired by the chairman of the Remuneration Committee, who is an independent non-executive Director.

The terms of reference of the Remuneration Committee follow with the Code Provisions. The Remuneration Committee meets at least once a year.

The Remuneration Committee is to consider and approve the remuneration plans and policies for all executive Directors and senior management of the Group by reference to the prevailing rate with companies listed on the Main Board of the Stock Exchange in Hong Kong.

The Remuneration Committee met four times for the year ended 31 December 2011 to review and approve the current remuneration policy of the Group and to review the remuneration package of the board members and senior management and make recommendation to the Board. The meeting was supplied with the necessary information on specific remuneration package of Directors and senior management of the Group for the members to consider, review and make recommendation to the Board on the remuneration policy.

Remuneration Policy for Directors and Senior Management

The remuneration policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of Director is entitled to the remuneration subject to review by the Remuneration Committee annually.

The Company has adopted the Share Option Scheme for the purpose of attracting and retaining quality personnel and providing them with incentive to contribute to the business and operation of the Group.

(c) Nomination Committee

The Nomination Committee was established on 29 March 2012 and comprises six members, namely Mr. Cheng Yuanzhong (Chairman of the Nomination Committee), Mr. Ho Wai Kong and four independent non-executive Directors, Mr. Wu Fred Fong, Mr. Chan Tze See, Kevin, Mr. Chen Bojie and Mr. Xu Haigen. The Nomination Committee is chaired by the chairman of the Nomination Committee, who is the chairman of the Board.

The terms of reference of the Nomination Committee follow with the Code Provisions.

The Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board and senior management of the Company.

CORPORATE GOVERNANCE REPORT

(3) CORPORATE COMMUNICATION

The Company channels corporate information of the Group to the shareholders in a timely and accurate manner. The Company communicated with the shareholders by convening annual general meeting and special general meeting, providing the comprehensive information on the Group's financial and business performance and activities in the annual report and interim report. The Directors and senior executives make their best efforts to attend the annual general meeting and the general meeting of the Company to address to shareholders queries.

(4) CORPORATE CONTROL

The Board has overall responsibility in monitoring the process of corporate reporting and control system throughout the Group. The corporate reporting standards are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, SFO and other applicable regulations are delegated to the company secretarial department. The management of the Company reviews and briefs the reporting systems with the executive Directors regularly and the Audit Committee and the Remuneration Committee annually.

Every newly appointed Director was provided with a comprehensive handout detailing the responsibilities and duties of being a Director, in particular highlighting the respective applicable rules and regulation, including the Listing Rules, which a Director should be aware of and be informed on the first occasion of his appointment with the Company.

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by Directors and employees of the Group. All the Directors have confirmed that they have complied with the required standards set out in the Model Code. The Company has engaged external professional parties to review and update its code of conduct with a view to upholding the high standard of corporate governance of the Company.

(5) INTERNAL CONTROL

The Board is responsible for ensuring that an adequate system of internal control is maintained within the Group, and for reviewing its effectiveness through the Audit Committee. The internal control system is to help to safeguard the Group's assets, to ensure the maintenance of accounting records and to ensure the compliance with the relevant legislations and regulations.

CORPORATE GOVERNANCE REPORT

According to the Code Provision C.2.2 of the CG Code, the board's annual review should, in particular, consider the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting and financial reporting function. However, the Board did not perform annual review which considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function, and this was regarded as a deviation from the Code Provision C.2.2. The Board is aware of such deviation and will comply with such Code Provision in the coming year, by performing annual review considering the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board has engaged an independent professional consultant on 16 May 2011 to establish an internal control system for the Company.

The Board has also engaged an independent professional consultant on 21 September 2011 to perform an annual internal control review for the year ended 31 December 2011 which is target to be completed by mid-2012.

(6) FINANCIAL REPORTING

The Directors acknowledged that they are responsible for the preparation of the financial statements for the accounting period that are truly and fairly reflect the business, property and cash flows of the Company for that period.

The statement of the auditor regarding their reporting responsibility for the financial statements is set out in the Independent Auditor's Report on pages 36 to 38.

(7) AUDITOR'S REMUNERATION

Remuneration paid to the Group's external auditor for audit services provided for the year ended 31 December 2011 was HK$800,000. No non-audit services were engaged for the year ended 31 December 2011.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
CHINA PUBLIC PROCUREMENT LIMITED
中國公共採購有限公司
(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of China Public Procurement Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 93, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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 as to whether the consolidated financial statements are free from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION

(a) Scope limitation on the recoverability of goodwill

Included in the consolidated statement of financial position as at 31 December 2011 were goodwill with carrying amount of approximately HK$5.3 billion in relation to the acquisition of the entire issued share capital of Hero Joy International Limited and its subsidiaries ("Hero Joy Group"), which are engaged in the provision of public procurement service in PRC ("Public Procurement Business"). As detailed in note 19 to the consolidated financial statements, the Group is required to pay the contingent consideration by issue and allotment of new convertible non-redeemable preference shares of the Company to the vendor in view of the net profit after tax and extraordinary expenses of Hero Joy Group was in excess of HK$200 million for the year ended 31 December 2010. Accordingly, an additional goodwill of approximately HK$5.3 billion was arisen upon the adjustment to final consideration payable.

As disclosed in note 14 to the consolidated financial statements, an impairment review of the Group's cash-generating unit of Public Procurement Business has been performed by the directors of the Company and no impairment is considered to be necessary. However, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the valuation assumptions adopted by the directors of the Company in their valuation were appropriate. There were no other alternative audit procedures that we could carry out to satisfy ourselves as to whether any impairment loss should be recognized and the carrying amount of the goodwill stated in the consolidated statement of financial position are free from material misstatement as at 31 December 2011.

(b) Scope limitation on the recoverability of trade and other receivables

Included in the consolidated statement of financial position as at 31 December 2011 was trade and other receivables with carrying amount of approximately HK$301 million, in which HK$270.8 million being fee receivable for transfer of Energy Management Contracting ("EMC") framework agreements. As detailed in note 16 to the consolidated financial statements, HK$220 million of the fee receivable at 31 December 2011 was settled up to the date of this report. However, we were unable to obtain sufficient reliable evidence to ascertain whether the remaining outstanding balance of HK$50.8 million could be recovered in full. Accordingly, we were unable to satisfy ourselves as to whether the carrying amount of trade and other receivables was fairly stated in the consolidated statement of financial position and free from material misstatement as at 31 December 2011.

Any adjustments found to be necessary in respect of the matters set out above would have a significant and consequential effect on the consolidated financial position of the Group as at 31 December 2011, the results and cash flows for the year then end and the related disclosures thereof in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Morison Heng
Certified Public Accountants

Hong Kong: 27 April 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	5	5,353	24,901
Cost of sales		(5,106)	(24,038)
Gross profit		247	863
Other income	6	23,728	400,781
Gain on disposal of property, plant and equipment		–	926
Impairment of trade and other receivables		–	(14,628)
Administrative expenses		(32,981)	(75,053)
Other operating expenses		(11,857)	(51,754)
Finance costs	7	–	(90)
(Loss)/Profit before tax		(20,863)	261,045
Income tax expense	8	(3,442)	(66,433)
(Loss)/Profit for the year	9	(24,305)	194,612
Attributable to:			
Owners of the Company		(23,438)	196,450
Non-controlling interests		(867)	(1,838)
		(24,305)	194,612
(Loss)/Earnings per share	12		
– Basic		(HK 0.71 cents)	HK 5.97 cents
– Diluted		(HK 0.71 cents)	HK 5.91 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	HK$'000	HK$'000
(Loss)/Profit for the year	(24,305)	194,612
Other comprehensive income		
Exchange differences on translating foreign operations	1,768	1,524
Other comprehensive income for the year	1,768	1,524
Total comprehensive (expenses)/income for the year	(22,537)	196,136
Attributable to:		
Owners of the Company	(21,822)	197,848
Non-controlling interests	(715)	(1,712)
	(22,537)	196,136

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	13	10,954	8,875
Goodwill	14	5,369,898	353
Intangible assets	15	18,426	17,729
		5,399,278	26,957
Current assets			
Trade and other receivables	16	301,394	428,413
Amount due from a non-controlling interest of a subsidiary	28	9,774	3,610
Pledged bank deposits	17	–	7,062
Bank balances and cash	17	97,033	48,771
		408,201	487,856
Current liabilities			
Trade and other payables	18	26,302	24,187
Bills payable		–	7,062
Receipt in advance		–	534
Consideration payable	19	5,369,545	–
Amount due to a non-controlling interest of a subsidiary	28	52,135	40,000
Amount due to a related company	28	2,724	11,429
Tax payable		10,653	66,609
		5,461,359	149,821
Net current (liabilities)/assets		(5,053,158)	338,035
Net assets		346,120	364,992
Capital and reserves			
Share capital	20	33,163	33,163
Reserves	22	305,728	327,550
Equity attributable to owners of the Company		338,891	360,713
Non-controlling interests		7,229	4,279
Total equity		346,120	364,992

Approved and authorised for issued by the Board of Directors on 27 April 2012.

Cheng Yuanzhong	**Ho Wai Kong**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company			
	Share capital	Reserves	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	32,196	20,278	2,556	55,030
Issue of equity–linked debt instruments	–	2,005	–	2,005
Issue of shares upon conversion of equity–linked debt instruments	428	35,872	–	36,300
Transaction cost attributable to equity–linked debt instruments	–	(94)	–	(94)
Exercise of share options	539	27,434	–	27,973
Equity–settled share–based payment expenses	–	44,207	–	44,207
Contribution from a non–controlling interest of a subsidiary	–	–	3,435	3,435
Total comprehensive income for the year	–	197,848	(1,712)	196,136
At 31 December 2010	33,163	327,550	4,279	364,992
Contribution from a non–controlling interest of a subsidiary	–	–	3,665	3,665
Total comprehensive expenses for the year	–	(21,822)	(715)	(22,537)
At 31 December 2011	33,163	305,728	7,229	346,120

Details of reserves are set out in note 22 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011	2010
	HK$'000	HK$'000
Cash flows from operating activities		
(Loss)/Profit for the year	(24,305)	194,612
Adjustments for:		
Income tax expense	3,442	66,433
Finance costs	–	90
Depreciation	4,097	2,936
Amortisation	10	8
Impairment of trade and other receivables	–	14,628
Reversal of impairment of other receivables for previous year	(2,036)	–
Interest income	(31)	(46)
Gain on disposal of property, plant and equipment	–	(926)
Equity-settled share-based payment expenses	–	44,207
Operating cash flows before movements in working capital	(18,823)	321,942
Decrease/(Increase) in trade and other receivables	129,055	(418,763)
Increase in amount due from a non-controlling interest of a subsidiary	(6,164)	(3,610)
Increase in trade and other payables	2,115	303
(Decrease)/Increase in bills payable	(7,062)	7,062
Decrease in receipt in advance	(534)	(1,966)
Increase in amount due to a non-controlling interest of a subsidiary	12,135	40,000
Cash from/(used in) operations	110,722	(55,032)
Income tax paid	(59,398)	(19)
Net cash from/(used in) operating activities	51,324	(55,051)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from investing activities			
Purchases of property, plant and equipment		(5,989)	(2,791)
Purchases of intangible assets		(31)	–
Proceeds from disposal of property, plant and equipment		–	2,500
Acquisition of subsidiaries, net of cash acquired	25	–	(344)
Decrease/(Increase) in pledged bank deposits		7,062	(3,462)
Interest received		31	46
Net cash from/(used in) investing activities		1,073	(4,051)
Cash flows from financing activities			
Loan from a related company		–	29,755
Repayment of loan from a related company		(8,705)	(18,326)
Net proceeds from issue of equity-linked debt instruments		–	38,121
Contribution from a non-controlling interest of a subsidiary		3,665	3,435
Net proceeds from issue of share capital		–	27,973
Net cash (used in)/from financing activities		(5,040)	80,958
Net increase in cash and cash equivalents		47,357	21,856
Cash and cash equivalents at the beginning of year		48,771	25,970
Effect of foreign exchange rate changes		905	945
Cash and cash equivalents at the end of year		97,033	48,771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL

The Company is a limited liability company incorporated in Bermuda 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 Company acts as an investment holding company as well as provision of procurement services. The principal activities of its subsidiaries are set out in note 29.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Group recorded net current liabilities of approximately HK$5,053,000 at the end of the reporting period, which includes a consideration payable of approximately HK$5,369,000. As details in note 19, the consideration payable will be satisfied by issue and allotment of new convertible non-redeemable preference shares of the Company. In the opinion of the directors, the liquidity and going concern of the Group can be maintained in the coming year and the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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 ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[6]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

The directors anticipate that the application of these new and revised HKFRSs 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 2011

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal 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.

Income and expenses of subsidiaries acquired or disposal of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income and expense of subsidiaries is attributed to the owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 in full on consolidation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Business combinations that took place on or after 1 January 2010

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place on or after 1 January 2010 (Continued)

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess was recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place prior to 1 January 2010 (Continued)

The non-controlling interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill combination is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

Revenue from service income is recognised when the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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 lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of the 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 at 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 on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefits costs

Payments to retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements

Share-based payment transactions of the Company

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options 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 original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

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 income statement because of items of income or expense that are taxable or deductible in other years and 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 the 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 bases 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 realised, based on tax rates (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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised 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

Financial assets are classified as "loans and receivables". 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 and points 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amount due from a non-controlling interest of a subsidiary, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 investment have been affected.

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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.

For financial assets carried at amortised cost, 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, discounted at the financial asset's 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 receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an equity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liability (including trade and other payables, bills payable, amount due to a non-controlling interest of a subsidiary and a related company) are subsequently measured at amortised cost using the effective interest method.

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, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirely, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

On derecognition of a financial asset other than in its entirely, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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 in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of impairment testing on goodwill are set out in note 14.

Estimated Impairment of trade and other receivables

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor, Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable by the Group from the sale of goods and services rendered to outside customers, net of discounts, returns and sales related taxes, during the year.

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 focused on the two main operations of the Group which are identified in accordance with the business nature and the size of the operations. This basis is also consistent with the basis of organisation in the Group, where management has organised the Group around these two operations.

Specifically, the Group's reportable and operating segments under HKFRS 8 are (i) public procurement operation and (ii) energy trading operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

	Segment revenue		Segment result	
	2011	**2010**	**2011**	**2010**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Public procurement	–	7,980	(18,151)	(12,492)
Energy trading	5,353	16,921	216	(17,568)
	5,353	24,901	(17,935)	(30,060)
Gain on disposal of property, plant and equipment			–	926
Unallocated corporate income			23,728	400,781
Impairment of trade and other receivables			–	(14,628)
Unallocated corporate expenses			(26,656)	(95,884)
Finance costs			–	(90)
(Loss)/Profit before tax			(20,863)	261,045

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2010: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

For the year ended 31 December 2011

	Public procurement	Energy trading	Total
	HK$'000	HK$'000	HK$'000
Assets:			
Segment assets	5,510,771	5,923	5,516,694
Unallocated corporate assets			
– Property, plant and equipment			6,330
– Trade and other receivables			274,651
– Bank balances and cash			9,804
Consolidated assets			5,807,479
Liabilities			
Segment liabilities	5,383,889	2,803	5,386,692
Unallocated corporate liabilities			
– Trade and other payables			24,014
– Amount due to a non-controlling interest of a subsidiary			40,000
– Tax payables			10,653
Consolidated liabilities			5,461,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities (Continued)

For the year ended 31 December 2010

	Public procurement	Energy trading	Total
	HK$'000	HK$'000	HK$'000
Assets:			
Segment assets	41,267	14,791	56,058
Unallocated corporate assets			
– Property, plant and equipment			3,261
– Goodwill			353
– Trade and other receivables			405,004
– Pledged bank deposits			7,062
– Bank balances and cash			43,075
Consolidated assets			514,813
Liabilities:			
Segment liabilities	81	12,032	12,113
Unallocated corporate liabilities			
– Trade and other payables			24,037
– Bills payable			7,062
– Amount due to a non-controlling interest of a subsidiary			40,000
– Tax payables			66,609
Consolidated liabilities			149,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. REVENUE AND SEGMENT INFORMATION (Continued)

(c) Other segment information

For the year ended 31 December 2011

	Public procurement	Energy trading	Unallocated	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Additions to non-current assets	573	–	5,447	6,020
Depreciation and amortisation	1,767	1	2,339	4,107

For the year ended 31 December 2010

	Public procurement	Energy trading	Unallocated	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Additions to non-current assets	2,761	4	26	2,791
Depreciation and amortisation	1,565	–	1,379	2,944

(d) Geographical information

The Group operates in two principal geographical areas – the People's Republic of China (the "PRC") and Hong Kong.

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

	Revenue from external customer		Carrying amounts of non-current assets	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
PRC	5,353	16,921	5,392,947	23,702
Hong Kong	–	7,980	6,331	3,255
	5,353	24,901	5,399,278	26,957

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. REVENUE AND SEGMENT INFORMATION (Continued)

(e) Information about major customers

For the year ended 31 December 2011, revenue from a customer amounting to HK$5,353,000 had individually accounted for over 10% of the Group's total revenue.

For the year ended 31 December 2010, revenue from three of the Group's customers amounting to HK$24,901,000 had individually accounted for over 10% of the Group's total revenue.

6. OTHER INCOME

	2011	2010
	HK$'000	HK$'000
Fee receivable for transfer of EMC framework agreements (note 16)	21,600	400,000
Reversal of impairment of other receivables for previous year	2,036	–
Rental income	–	91
Interest income	31	46
Sundry income	61	644
	23,728	400,781

7. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
Interest on equity-linked debt instrument	–	90

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. INCOME TAX EXPENSE

	2011	2010
	HK$'000	HK$'000
Current tax:		
Hong Kong	3,442	59,400
PRC Enterprise Income Tax	–	7,033
	3,442	66,433

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

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%.

The tax charge for the year can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	2011	2010
	HK$'000	HK$'000
(Loss)/Profit before tax	(20,863)	261,045
Tax at the applicable income tax rate	(4,473)	48,344
Tax effect of expenses not deductible for tax purpose	5,128	9,299
Tax effect of income not taxable for tax purpose	(1)	(154)
Tax effect of losses not recognised	2,788	5,861
Tax losses carried forward	–	3,083
Income tax expense for the year	3,442	66,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. (LOSS)/PROFIT FOR THE YEAR

(Loss)/Profit for the year has been arrived at after charging (crediting):

	2011	2010
	HK$'000	HK$'000
Total depreciation and amortisation		
– Depreciation of properties, plant and equipment	4,097	2,936
– Amortisation of intangible assets	10	8
	4,107	2,944
Staff costs including directors' remuneration (note 10)		
– Salaries and allowances	15,218	16,293
– Retirement scheme contributions	571	606
– Equity-settled share-based payment expenses	–	44,212
	15,789	61,111
Auditor's remuneration	800	800
Cost of inventories recognised as expense	5,106	24,038
Exchange loss	–	102
Operating lease rentals – office premises	8,117	5,563
Research and development costs	–	2,331
Gross rental income less outgoings expenses of HK$Nil (2010: HK$34)	–	(57)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. DIRECTORS' EMOLUMENTS

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

For the year ended 31 December 2011

	Fee	Salaries and allowances	Retirement scheme contributions	Share-based payments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Mr. Cheng Yuan Zhong[1]	–	529	–	–	529
Mr. Ho Wai Kong	–	2,772	12	–	2,784
Mr. Jiang Haoye[2]	–	400	–	–	400
Mr. Li Junjie[3]	–	353	–	–	353
Ms. Liu Jie[4]	–	–	–	–	–
Mr. Lu Xing	–	1,572	12	–	1,584
Mr. Peng Ru Chuan[4]	–	8	–	–	8
Mr. Song Lianzhong[2]	–	1,200	–	–	1,200
Mr. Wang Dingbo[4]	–	–	–	–	–
Mr. Wu Xiaodong	–	789	10	–	799
Mr. Zhang Guisheng[5]	–	389	–	–	389
	–	8,012	34	–	8,046
Non-executive director					
Ms. Cheng Zhuo	360	–	–	–	360
Mr. Wang Ning[1]	176	–	–	–	176
	536	–	–	–	536
Independent non-executive directors					
Mr. Chan Tze See, Kevin	120	–	–	–	120
Mr. Chen Bojie	120	–	–	–	120
Mr. Wu Fred Fong	240	–	–	–	240
Mr. Xu Haigen[4]	1	–	–	–	1
	481	–	–	–	481
	1,017	8,012	34	–	9,063

1 Appointed on 15 September 2011
2 Resigned on 1 September 2011
3 Appointed on 15 September 2011 and resigned on 22 December 2011
4 Appointed on 30 December 2011
5 Retired on 17 June 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. DIRECTORS' EMOLUMENTS (Continued)

For the year ended 31 December 2010

	Fee	Salaries and allowances	Retirement scheme contributions	Share-based payments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Mr. Cheng Yuan Zhong[1]	–	167	–	–	167
Mr. Ho Wai Kong[2]	–	2,760	12	–	2,772
Mr. Lu Xing[2]	–	1,560	9	–	1,569
Mr. Liu Bo[3]	–	280	4	–	284
Mr. Wu Xiaodong	–	720	8	–	728
Mr. Jiang Haoye[4]	–	500	–	–	500
Mr. Song Lianzhong[4]	–	1,500	–	–	1,500
Mr. Zhang Guisheng[5]	–	562	–	–	562
	–	8,049	33	–	8,082
Non-executive director					
Ms. Cheng Zhuo	360	–	–	–	360
Independent non-executive directors					
Mr. Chan Tze See, Kevin	123	–	–	263	386
Mr. Chen Bojie	–	–	–	263	263
Mr. Wu Fred Fong	240	–	–	–	240
	363	–	–	526	889
	723	8,049	33	526	9,331

1 Resigned on 8 February 2010
2 Appointed on 11 January 2010
3 Resigned on 30 April 2010
4 Appointed on 1 March 2010
5 Appointed on 30 April 2010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2010: three) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The aggregate of the emoluments in respect of the other one (2010: two) individual is as follows:

	2011	2010
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	944	–
Retirement scheme contributions	12	–
Share-based payments	–	9,216
	956	9,216

The emoluments of the one (2010: two) individual with the highest emoluments are within the following bands:

	2011	2010
HK$Nil – HK$1,000,000	1	–
HK$4,000,001 – HK$5,000,000	–	2

12. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share for the year attributable to the owners of the Company is based on the following data:

Earnings

	2011	2010
	HK$'000	HK$'000
(Loss)/Earnings for the purpose of basic and diluted (loss)/earnings per share	(23,438)	196,450

Number of shares

	2011	2010
	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	3,323,020	3,289,428
Effect of dilutive potential ordinary shares: – Share options issued by the Company	–	33,592
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	3,323,020	3,323,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

13. PROPERTY, PLANT AND EQUIPMENT

	Equipment and furniture	Motor vehicles	Leasehold improvements	Total
	HK$'000	HK$'000	HK$'000	HK$'000
COST				
At 1 January 2010	3,014	5,680	4,086	12,780
Additions	2,029	762	–	2,791
Disposals	–	(1,889)	–	(1,889)
Exchange adjustments	133	21	72	226
At 31 December 2010	5,176	4,574	4,158	13,908
Additions	108	5,881	–	5,989
Exchange adjustments	167	29	96	292
At 31 December 2011	5,451	10,484	4,254	20,189
ACCUMULATED DEPRECIATION				
At 1 January 2010	182	1,706	478	2,366
Charge for the year	888	806	1,242	2,936
Eliminated on disposals	–	(315)	–	(315)
Exchange adjustments	23	1	22	46
At 31 December 2010	1,093	2,198	1,742	5,033
Charge for the year	1,019	1,795	1,283	4,097
Exchange adjustments	44	4	57	105
At 31 December 2011	2,156	3,997	3,082	9,235
CARRYING AMOUNTS				
At 31 December 2011	3,295	6,487	1,172	10,954
At 31 December 2010	4,083	2,376	2,416	8,875

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

Equipment and furniture	20%
Motor vehicles	20%
Leasehold improvement	Over the term of the lease or 25%, whichever is the shorter

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. GOODWILL

	HK$'000
COST	
At 1 January 2010	744,475
Acquisition of a subsidiary (Note 25)	353
At 31 December 2010	744,828
Adjustment (Note)	5,369,545
At 31 December 2011	6,114,373
IMPAIRMENT LOSSES	
At 1 January 2010, 31 December 2010 and 31 December 2011	744,475
CARRYING AMOUNTS	
At 31 December 2011	5,369,898
At 31 December 2010	353

Note: It represents the adjustment to the final considerations payable in respect of acquisitions of subsidiaries in prior years with details set out in note 19.

For the purpose of impairment testing, goodwill set out above has been allocated to one individual cash generating unit, the public procurement business. The directors of the Company are of the opinion that the recoverable amount of the public procurement business exceeds its carrying amount in the consolidated statement of financial position and therefore, no impairment loss is necessary.

The recoverable amount of the cash generating unit is determined from the value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 8.6% per annum. The cash flows beyond the 5-year period are extrapolated using an annual growth of 5%. Other key assumptions for the value-in-use calculations relate to the estimation of cash flows which include budgeted sales and gross margin, and such estimations are based on management's expectations of the market development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. INTANGIBLE ASSETS

	Computer software	Online platform promotion right	Online platform development and technical support right	Total
	HK$'000	HK$'000	HK$'000	HK$'000
COST				
At 1 January 2010	83	9,100	7,963	17,146
Exchange adjustments	3	315	276	594
At 31 December 2010	86	9,415	8,239	17,740
Additions	31	–	–	31
Exchange adjustments	3	359	314	676
At 31 December 2011	120	9,774	8,553	18,447
ACCUMULATED AMORTISATION				
At 1 January 2010	3	–	–	3
Amortise for the year	8	–	–	8
At 31 December 2010	11	–	–	11
Amortise for the year	10	–	–	10
At 31 December 2011	21	–	–	21
CARRYING AMOUNTS				
At 31 December 2011	99	9,774	8,553	18,426
At 31 December 2010	75	9,415	8,239	17,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	HK$'000
Trade receivables	2,584	1,007
Allowance for doubtful debts	–	–
	2,584	1,007
Other receivables	2,196	4,265
Fee receivable for transfer of EMC framework agreements (Note)	270,800	400,000
Prepayments and deposits	25,814	23,141
	301,394	428,413

Note: During the year ended 31 December 2010, Public Procurement Limited, a wholly owned subsidiary of the Company, has transferred EMC framework agreements to Win News Technology Limited, an independent third party, at a consideration of HK$400 million. Up to the date of this report, HK$360 million of the balance was received. The repayment period of outstanding balance of HK$40 million is extended to 30 June 2012.

Regarding the fee receivable of HK$21.6 million arose during the year ended 31 December 2011, HK$10.8 million of the balance was received up to the date of this report. The repayment period of outstanding balance of HK$10.8 million is extended to 31 May 2012.

The following is an aged analysis of the Group's trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	HK$'000
181 – 365 days	1,565	–
Over 365 days	1,019	1,007
	2,584	1,007

At the end of the reporting period, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$2,584,000 (2010: HK$1,007,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. BANK BALANCE AND CASH/PLEDGED BANK DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Included in cash at banks is an amount of approximately HK$10,367,000 (2010: HK$9,692,000), representing deposits placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

During the year ended 31 December 2010, pledged bank deposits represents deposits pledged to banks to secure a banking facility granted to the Group. Deposits amounting to HK$7,062,000 have been pledged to secure a banking facility granted by a bank and will be released upon the expiry of the banking facility within twelve months from the end of the reporting period and are therefore classified as current assets.

18. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	HK$'000
Trade payables	–	64
Accruals and other payables	26,302	24,123
	26,302	24,187

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	HK$'000
Over 90 days	–	64

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. CONSIDERATION PAYABLE

On 15 April 2009, the Group acquired the entire issued share capital of Hero Joy International Limited and its subsidiaries, Public Procurement Limited and Guocai (Beijing) Technology Company Limited (hereinafter collectively referred to as "Hero Joy Group"), from independent third parties ("Vendors"). The acquired business of Hero Joy Group is engaged in the provision of public procurement service in PRC ("Public Procurement Business").

Pursuant to the agreement dated 31 August 2008, the Group is required to pay an additional consideration shares ("Earn-out") to Vendors if the net profit after tax and extraordinary expenses of Hero Joy Group was in excess of HK$200 million for the year ended 31 December 2009 or 2010. The contingent consideration will be satisfied by issue and allotment of new convertible non-redeemable preferred shares of the Company at an issue price of HK$0.6667 per share.

Contingent consideration = {2009 or 2010 NPAT times 30} less basic consideration***

* NPAT represents net profit after tax and extraordinary expenses

** Basic consideration was settled by 945,635,485 ordinary shares of HK$0.01 each of the Company at an issue price of HK$0.6667 in 2009

The aggregate consideration for the acquisition should not be more than HK$6,000 million.

As mentioned in the year 2010 financial statements, the net profit after tax and extraordinary expenses of Hero Joy Group was in excess of HK$200 million for the year ended 31 December 2010. The Group, however, has subsequently obtained a written consent from the Vendors that the payment of contingent consideration would be further subject to cash receipt of an amount not less than HK$200 million in respect of above-mentioned profit. Contingent liabilities were disclosed as at 31 December 2010 as fulfillment of this condition was uncertain at that date of report.

As at 31 March 2012, the condition was fulfilled with cash receipt of aggregated amount of more than HK$200 million and accordingly, the Group has recognised a consideration payable amounted to approximately HK$5,370 million based on the formulas calculated above, with 8,053,914,537 preferred shares will be allotted and issued by Company at the preferred shares issue price of HK$0.6667 for settlement of the acquisition. Details of the issue of preferred shares were disclosed in the Company's announcement on 5 April 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. SHARE CAPITAL

	Number of shares		Share Capital	
	2011	2010	2011	2010
	'000	'000	HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	10,000,000	10,000,000	100,000	100,000
Convertible non-redeemable preference shares of HK$0.01 each	10,000,000	10,000,000	100,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At beginning of year	3,316,332	3,219,582	33,163	32,196
Issue of shares upon exercise of share options (Note i)	–	53,940	–	539
Issue of shares upon exercise of equity-linked debt instrument (Note ii)	–	42,810	–	428
At end of year	3,316,332	3,316,332	33,163	33,163

(i) During the year ended 31 December 2010, share options were exercised to subscribe for 53,940,000 ordinary shares in the Company at a consideration of HK$27,973,000 of which HK$539,000 was credited to share capital and the balance of HK$27,434,000 was credited to the share premium account. HK$8,125,000 has been transferred from the share-based compensation reserve to the share premium account.

(ii) During the year ended 31 December 2010, equity-linked debt instrument with the aggregate principal amount of HK$40 million were exercised to subscribe for 42,810,000 ordinary shares in the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company had adopted a share option scheme on 12 June 2002 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company. The options are exercisable immediately (or a later date as determined by the directors of the Company) from the date on which the options are granted for a period up to ten years or 11 June 2012, whichever is earlier. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

Option Type	**Number of instruments**	**Vesting conditions**	**Contractual life of options**
	'000		
Options granted to directors:			
– on 26 March 2009	40,000	Immediately from the date of grant	3 years
– on 14 August 2009 A	3,000	One year from the date of grant	3 years
– on 14 August 2009 B	2,000	Two year from the date of grant	3 years
– on 1 January 2010	2,000	Immediately from the date of grant	3 years
Options granted to employees:			
– on 26 March 2009	132,200	Immediately from the date of grant	3 years
– on 14 August 2009	5,600	Immediately from the date of grant	3 years
– on 9 November 2009 A	5,600	Immediately from the date of grant	3 years
– on 9 November 2009 B	3,000	Vested on 1 October 2010	1.98 years
– on 9 November 2009 C	2,500	Vested on 1 October 2011	1.98 years
– on 5 January 2010	4,700	Immediately from the date of grant	3 years
– on 9 February 2010	60,000	Immediately from the date of grant	3 years
– on 4 May 2010	30,000	Immediately from the date of grant	3 years
Total share options	290,600		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

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

	2011 Weighted average exercise price	2011 Number of option	2010 Weighted average exercise price	2010 Number of option
		'000		'000
Outstanding at the beginning of the year	HK$0.840	172,600	HK$0.548	171,840
Granted during the year	–	–	HK$1.059	96,700
Forfeited during the year	HK$1.014	(40,500)	HK$0.519	(42,000)
Exercised during the year	–	–	HK$0.560	(53,940)
Outstanding at the end of the year	HK$0.787	132,100	HK$0.840	172,600

During the year ended 31 December 2010, the weighted average share price at the date of exercise for shares options exercised was HK$1.034.

The options outstanding at 31 December 2011 had a weighted average exercise price of HK$0.787 (2010: HK$0.840) and a weighted average remaining contractual life of 0.67 year (2010: 1.762 years).

(c) Fair value of share options and assumptions

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

Grant date	26.3.2009		14.8.2009			9.11.2009		
Option Type	Director	Employee	Director		Employee	Employee		
			A	B		A	B	C
Fair value at measurement date	HK$0.188	HK$0.146	HK$0.327	HK$0.360	HK$0.256	HK$0.219	HK$0.234	HK$0.258
Share price	HK$0.500	HK$0.500	HK$0.900	HK$0.900	HK$0.900	HK$0.750	HK$0.750	HK$0.750
Exercise price	HK$0.500	HK$0.500	HK$1.00	HK$1.00	HK$1.00	HK$0.770	HK$0.770	HK$0.770
Expected volatility	63.99%	63.99%	65.46%	65.46%	65.46%	63.45%	64.49%	64.49%
Option life	3 years	3 years	3 years	3 years	3 years	3 years	1.98 years	1.98 years
Expected dividends	0%	0%	0%	0%	0%	0%	0%	0%
Risk free interest rate	1.214%	1.214%	1.123%	1.123%	1.123%	0.899%	0.492%	0.492%

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For the year ended 31 December 2011

21. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(c) Fair value of share options and assumptions (Continued)

Grant date	**5.1.2010**		**9.2.2010**	**4.5.2010**
Option Type	**Director**	**Employee**	**Director**	**Employee**
Fair value at measurement date	HK$0.292	HK$0.231	HK$0.558	HK$0.341
Share price	HK$0.780	HK$0.780	HK$1.070	HK$1.100
Exercise price	HK$0.780	HK$0.780	HK$1.070	HK$1.100
Expected volatility	62.60%	62.60%	117.96%	72.97%
Option life	3 years	3 years	3 years	3 years
Expected dividends	0%	0%	0%	0%
Risk free interest rate	1.130%	1.130%	0.410%	1.211%

The expected volatility is based on the historical volatility. Expected dividends are based on historical dividends. Changes in the subjective input assumption could materially affect the fair value estimate.

(d) Terms of unexpired and unexercised share options at the end of the reporting period are as follows:

Exercise period	**Exercise price**	**2011 Number**	**2010 Number**
26 March 2009 to 25 March 2012	HK$0.50	63,000,000	63,000,000
14 August 2009 to 13 August 2012	HK$1.00	400,000	400,000
14 August 2010 to 13 August 2012	HK$1.00	3,000,000	3,000,000
14 August 2011 to 13 August 2012	HK$1.00	2,000,000	2,000,000
9 November 2009 to 8 November 2012	HK$0.77	100,000	5,100,000
1 October 2010 to 31 October 2011	HK$0.77	–	3,000,000
1 October 2011 to 31 October 2011	HK$0.77	–	2,500,000
5 January 2010 to 4 January 2013	HK$0.78	3,600,000	3,600,000
9 February 2010 to 8 February 2013	HK$1.07	60,000,000	60,000,000
4 May 2010 to 3 May 2013	HK$1.10	–	30,000,000
		132,100,000	172,600,000

Each option entitles the holders to subscribe for one ordinary share in the Company.

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22. RESERVES

	Share Premium	Merger reserve (Note)	Share-based compensation reserve	Translation reserve	Equity-linked debt instruments equity reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	1,181,334	8,390	26,391	111	–	(1,195,948)	20,278
Exercise of share options (note 20(i))	35,559	–	(8,125)	–	–	–	27,434
Forfeiture of share option (note 21(b))	–	–	(6,782)	–	–	6,782	–
Equity settled share-based payment transactions (note 21)	–	–	44,207	–	–	–	44,207
Issue of equity-linked debt instruments	–	–	–	–	2,005	–	2,005
Issue of shares upon conversion of equity-linked debt instruments	37,783	–	–	–	(1,911)	–	35,872
Transaction cost attributable to issue of equity-linked debt instrument	–	–	–	–	(94)	–	(94)
Exchange differences arising on translation of foreign operations	–	–	–	1,398	–	–	1,398
Profit for the year	–	–	–	–	–	196,450	196,450
At 31 December 2010	1,254,676	8,390	55,691	1,509	–	(992,716)	327,550
Forfeiture of share option (note 21(b))	–	–	(11,415)	–	–	11,415	–
Exchange differences arising on translation of foreign operations	–	–	–	1,616	–	–	1,616
Loss for the year	–	–	–	–	–	(23,438)	(23,438)
At 31 December 2011	1,254,676	8,390	44,276	3,125	–	(1,004,739)	305,728

Note: Merger reserve of the Group represents the difference between the aggregate of the nominal value of the ordinary shares of the subsidiaries acquired and the nominal value of the ordinary shares of the Company issued pursuant to the Group reorganisation.

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23. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders 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 consideration payable disclosed in note 19 and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of the existing debt.

24. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011	2010
	HK$'000	HK$'000
Financial assets		
Loans and receivables	408,201	487,856
Financial liabilities		
Amortised cost	5,450,706	83,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payable, bills payable, amount due from/(to) a non-controlling interest of a subsidiary and amount due to a related company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Group's exposure relating to financial instruments or the manner in which it manages and measures the risks.

Market risk

The Group's activities expose it primarily to the market risks of foreign currency risk and interest rate risk. Market risk exposures are further measured by sensitivity analysis. Details of each type of market risks are described as follows:

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies which are different from Hong Kong dollars and Renminbi, the functional currency of the respective subsidiaries. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

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

	Liabilities		Assets	
	2011	**2010**	**2011**	**2010**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
HKD	–	–	2,511	727
USD	–	–	598	617

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For the year ended 31 December 2011

24. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2010: 5%) change in respective functional currencies against the relevant foreign currencies. 5% (2010: 5%) represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2010: 5%) change in foreign currency rates. A positive number below indicates an increase in profit after tax for the year where respective functional currencies strengthen 5% (2010: 5%) against the relevant currencies. For a 5% (2010: 5%) weakening of respective functional currencies against the relevant currencies, there would be an equal and opposite impact on the profit after tax for the year and the balances below would be negative.

Since Hong Kong dollars are pegged to US dollars under the Linked Exchange Rate System, the management does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between Hong Kong dollars and US dollars. The Group mainly exposes to foreign currency risks other than US dollars.

	2011	2010
	HK$'000	HK$'000
HKD	126	27

Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to certain of its floating-rate bank balances. The Group is also exposed to fair value interest rate risk related to the fixed rate bank deposits. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. No sensitivity analysis was performed for floating-rate bank balances as the directors consider the amount is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk management

At the end of the reporting period, 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 as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, 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 debt 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 significantly reduced.

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

At 31 December 2010 and 2011, the Group has significant concentration risk on its fee receivable for the transfer of EMC framework agreements set out in note 16. The fee receivable is exposed to credit risk due to the default of repayment by the counterparty. However, the directors considered that the credit risk on the fee receivable is limited as credit evaluation is performed on the counterparty. The evaluation focuses on the counterparty's financial background and current ability to pay, and take into account information specific to the economic environment in which the counterparty operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk management

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 Group's liquidity position is monitored closely by the management of the Company.

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 based on 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.

	Weighted average effective interest rate	Less than 6 month	6 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
2011					
Trade and other payables	–	26,302	–	26,302	26,302
Consideration payable	–	5,369,545	–	5,369,545	5,369,545
Amount due to a non-controlling interest of a subsidiary	–	52,135	–	52,135	52,135
Amount due to a related company	–	2,724	–	2,724	2,724
		5,450,706	–	5,450,706	5,450,706
2010					
Trade and other payables	–	972	23,215	24,187	24,187
Bills payable	–	7,062	–	7,062	7,062
Receipt in advance	–	534	–	534	534
Amount due to a non-controlling interest of a subsidiary	–	–	40,000	40,000	40,000
Amount due to a related company	–	11,429	–	11,429	11,429
		19,997	63,215	83,212	83,212

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24. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value of financial instruments

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

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recognised in the consolidated statement of financial position approximate to their corresponding fair values.

25. ACQUISITION OF A SUBSIDIARY

On 19 April 2010, the Group acquired entire issued share capital of Wuxuan Tiejian Trading Co., Limited ("Wuxuan Tiejian") for a total consideration of HK$344,000. The acquired company was engaged in trading of energy.

Consideration transferred

	HK$'000
Cash	344
Total	344

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Current liability	
Other payable	(9)
Net identifiable net liabilities acquired	(9)

Goodwill arising on acquisition

	HK$'000
Consideration transferred	344
Add: fair value of identifiable net liabilities acquired	9
Goodwill arising on acquisition	353

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For the year ended 31 December 2011

25. ACQUISITION OF A SUBSIDIARY (Continued)

The goodwill on acquisition of the above subsidiary represents an opportunity for the Group to access to energy trading business in PRC that were provided by the above newly acquired subsidiary. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid in cash	344
Less: cash and cash equivalent balances acquired	–
	344

Impact of acquisition on the results of the Group

Included in the profit for the year is HK$221,000 attributable to the additional business generated by Wuxuan Tiejian. Revenue for the year includes HK$16,921,000 in respect of Wuxuan Tiejian.

Had these business combinations been effected at 1 January 2010, the revenue and profit of the Group would have been unchanged.

26. OPERATING LEASE

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 which fall due as follows:

	2011	2010
	HK$'000	HK$'000
Within one year	3,778	3,744
In the second to fifth years	2,148	5,012
	5,926	8,756

Operating lease payments represent rentals payable by the Group for certain of its office premises. The lease typically runs for an initial year of 3 years (2010: 3 years), with an option to renew the lease when all terms are renegotiated and rentals are fixed over the relevant lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

27. COMMITMENTS

	2011	2010
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of technical knowhow	5,498	8,239

28. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	2011	2010
	HK$'000	HK$'000
Service fee income from China Public Procurement (Hong Kong) Technology Company Limited (i)	21,600	–
Service expenses charged by Guocai Science & Technology Company Limited (i)	–	40,000

(b) At the end of the reporting period, the Group has the following significant balances with related parties:

	2011	2010
	HK$'000	HK$'000
Amount due from:		
China Public Procurement (Hong Kong) Technology Company Limited (i)	10,800	–
Guocai Science & Technology Company Limited (i)	9,774	3,610
Amount due to:		
Guocai Science & Technology Company Limited (i)	52,135	40,000
Beijing Rongxin Dentsu Science & Technology Development Limited (ii)	2,724	11,429

Note:

(i) The above companies have common directorship with the Company. Guocai Science & Technology Company Limited is non-controlling interest of a subsidiary of the Company in PRC. China Public Procurement (Hong Kong) Technology Company Limited is a wholly owned subsidiary of Guocai Science & Technology Company Limited.

(ii) Mr. Lu Xing, the director of the Company, has controlling interest over Beijing Rongxin Dentsu Science & Technology Development Limited.

The amounts due are unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

The remuneration of directors and other members of key management during the year are as follows:

	2011	2010
	HK$'000	HK$'000
Salaries and other short-term employee benefits	9,973	9,292
Other long-term benefit	46	45
Share-based payments	–	34,121
	10,019	43,458

29. INTERESTS IN SUBSIDIARIES

Name of subsidiaries	Place of incorporation/ registration and operation	Class of share held	Paid up/ registered capital	Attributable equity interests held by the Company				Principal activities
				Directly		Indirectly		
				2011	2010	2011	2010	
Hong Kong Public Procurement Limited	Hong Kong	Ordinary	HK$1 Ordinary share	100%	100%	–	–	Inactive
Positive Rise Holdings Limited	BVI	Ordinary	US$100 Ordinary shares	100%	100%	–	–	Investment holding
Skyking Holdings Limited	BVI	Ordinary	US$1 Ordinary share	100%	100%	–	–	Investment holding
Famous Ever International Limited	Hong Kong	Ordinary	HK$1 Ordinary share	–	–	100%	100%	Provision of management services
Famous Key Holdings Limited	Hong Kong	Ordinary	HK$1 Ordinary share	–	–	100%	100%	Provision of management services
Public Procurement Limited	Hong Kong	Ordinary	HK$34,000,000 Ordinary shares	–	–	100%	100%	Investment holding
Hero Joy International Limited	BVI	Ordinary	US$4,350,100 Ordinary shares	–	–	100%	100%	Investment holding

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29. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ registration and operation	Class of share held	Paid up/ registered capital	Attributable equity interests held by the Company				Principal activities
				Directly		Indirectly		
				2011	2010	2011	2010	
Guocai (Beijing) Technology Company Limited *	PRC	Ordinary	Registered and contributed capital RMB60,000,000	–	–	90%	90%	Provision of technological development, advisory services, business planning and public-relations activities for online procurement business
Beijing Zhongcai Century Technique Co., Ltd. #	PRC	Ordinary	Registered and contributed capital RMB5,000,000	–	–	100%	100%	Inactive
Wuxuan Tiejian Trading Co., Limited **	PRC	Ordinary	Registered and contributed capital RMB2,000,000	–	–	90%	90%	Trading of energy
Guocai (Qinghai) Technology Company Limited **	PRC	Ordinary	Registered and contributed capital RMB10,000,000 and RMB8,000,000	–	–	62.5%	–	Provision of online procurement services
Guocai (Wubei) Technology Company Limited **	PRC	Ordinary	Registered and contributed capital RMB10,000,000	–	–	100%	–	Provision of online procurement services

* Sino-Foreign Joint Venture
\# Wholly Foreign-owned Enterprise
** Domestic Invested Enterprise

None of the subsidiaries had issued any debt securities at the end of the year or any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. FINANCIAL INFORMATION OF THE COMPANY

	2011	2010
	HK$'000	HK$'000
Non-current assets		
Property, plant and equipment	1	3
Investments in subsidiaries	1	1
	2	4
Current assets		
Trade and other receivables	3,806	3,248
Amounts due from subsidiaries	7,917	7,911
Bank balances	9,045	38,661
	20,768	49,820
Current liabilities		
Accruals and other payables	24,000	24,000
Net current (liabilities)/assets	(3,232)	25,820
Net (liabilities)/assets	(3,230)	25,824
Capital and reserves		
Share capital	33,163	32,163
Reserves	(36,393)	(7,339)
Total equity	(3,230)	25,824

31. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 11 April 2012, Victory Good Limited ("Victory Good"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with three PRC individuals and pursuant to which, Victory Good has conditionally agreed to acquire 70% of the equity interest in Shenzhen Zhongcai Information Technology Company Limited at a consideration of RMB30 million (equivalent to approximately HK$37 million).

Details of this potential acquisition were disclosed in the Company's announcement on 11 April 2012.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December			Period ended 31 December	Year ended 30 September
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	5,353	24,901	20,051	208,936	57,831
Profit/(Loss) before taxation	(20,863)	261,045	(818,747)	(507,195)	(146,909)
Taxation	(3,442)	(66,433)	–	–	(1,654)
Profit/(Loss) for the year	(24,305)	194,612	(818,747)	(507,195)	(148,563)
Attributable to:					
Owners of the Company	(23,438)	196,450	(818,170)	(507,027)	(151,480)
Non-controlling interests	(867)	(1,838)	(577)	(168)	2,917
	(24,305)	194,612	(818,747)	(507,195)	(148,563)

ASSETS AND LIABILITIES

	Year ended 31 December			Period ended 31 December	Year ended 30 September
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	5,807,479	514,813	81,405	165,820	232,892
Total liabilities	5,461,359	(149,821)	(26,375)	(18,956)	(10,682)
Total equity	346,120	364,992	55,030	146,864	222,210
Equity attributable to the owners of Company	338,891	360,713	52,474	146,864	215,201
Non-controlling interests	7,229	4,279	2,556	–	7,009
Total equity	346,120	364,992	55,030	146,864	222,210