中國信息科技發展有限公司

China Information Technology Development Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8178)

ANNUAL REPORT 2009

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

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

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

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

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Corporate Information

CHAIRMAN OF THE BOARD AND NON-EXECUTIVE DIRECTOR

Mr. Zhang Honghai

EXECUTIVE DIRECTORS

Mr. Hu Zhuoer *(Chief Executive Officer)*
Dr. Yu Xiaoyang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ma Yuhua
Ms. Liang Yeping
Dr. Zhou Chunsheng
Dr. Sun Guofu

COMPANY SECRETARY

Mr. Wong Kwok Ho

COMPLIANCE OFFICER

Dr. Yu Xiaoyang

AUTHORISED REPRESENTATIVES

Mr. Hu Zhuoer
Mr. Wong Kwok Ho

REMUNERATION COMMITTEE

Ms. Ma Yuhua *(Chairman)*
Ms. Liang Yeping
Dr. Zhou Chunsheng
Mr. Zhang Honghai
Dr. Sun Guofu

AUDIT COMMITTEE

Ms. Ma Yuhua
Ms. Liang Yeping
Dr. Zhou Chunsheng
Dr. Sun Guofu

AUDITORS

Ernst & Young

LEGAL ADVISORS

Conyers Dill & Pearman

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 4401, 44/F., COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

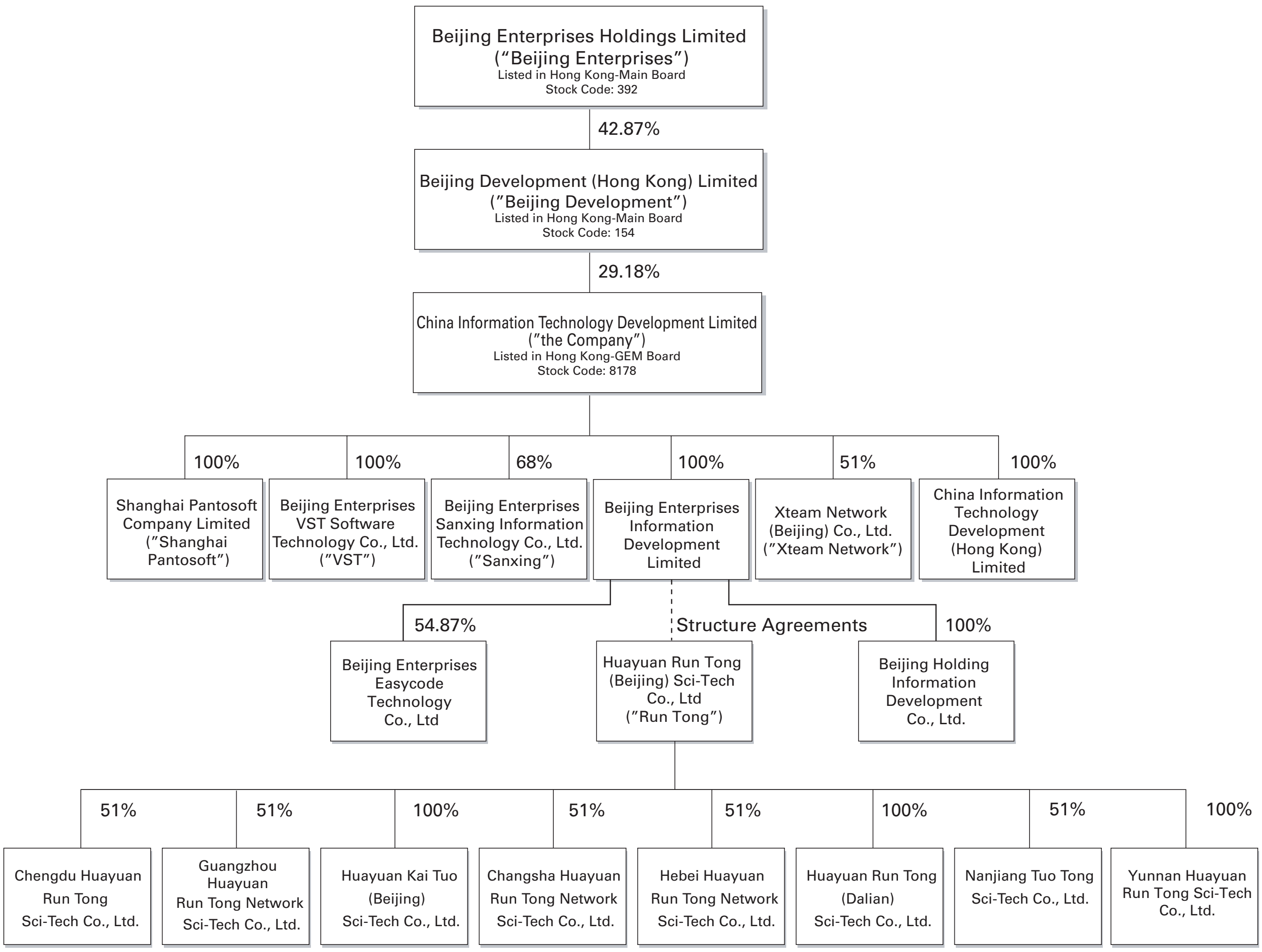
GEM STOCK CODE

8178

WEB-SITE ADDRESS

www.chinainfotech.com.hk

Corporate Structure



Note: Place of operations:

Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd	:	Beijing
Beijing Enterprises VST Software Technology Co., Ltd.	:	Beijing
Beijing Enterprises Sanxing Information Technology Co., Ltd	:	Beijing
Shanghai Pantosoft Company Limited	:	Shanghai
Xteam Network (Beijing) Co., Ltd.	:	Beijing
China Information Technology Development (Hony Kong) Limited	:	Hong Kong
Beijing Enterprises Easycode Technology Co., Ltd	:	Beijing
Beijing Holding Information Development Co., Ltd	:	Shenzhen

As at 31 March 2010

Chairman's Statement

I am presenting to the shareholders the annual report of China Information Technology Development Limited (the "Company") and its subsidiaries (thereinafter collectively referred to as the "Group") for the year ended 31 December 2009. The directors are aware of the non-compliance of passing the annual report after the statutory deadline. Due to the additional time required to verify financial data and to clarify the outstanding issues with the regulatory authorities, this annual report is now published and distributed to the shareholders the soonest practicable after the final results announcement was released on 31 March 2010.

Trading in the shares of the Company has been suspended since 29 January 2009. The Company's decision of suspension of trading was based on concerns about the genuiness of the results of one of the Group's subsidiaries. Directed by Section 8 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Hong Kong Stock Exchange requires the Company to fully address these matters fully before a resumption of trading of shares can be considered. In response, the Company has engaged Tanrich Capital Limited as its financial adviser in respect of the resumption of a share trading status of the Company.

In 2009, the Company took the following measures to meet to the challenges in front of the Company:

(1) To further standardize and improve the Company's internal control measures, emphasizing on an effective and efficient internal control and monitoring system.

(2) To enhance the Company's level of maturity in its operations management level and its ability of risk prevention.

(3) To stabilize the profitability in the Company's software development and system integration businesses.

During the year under review and up to the date of this annual report, there have been certain changes to the members of the board of directors.

On behalf of the board of directors of the Company, I would like to express the sincere gratitude to the community and the staff for their continuous supports to the Group.

By the order of the Board
Zhang Honghai
Chairman

Hong Kong, 31 March 2010

Management Discussion and Analysis

BUSINESS REVIEW

In year 2009, unusual transaction data was found in the revenue recording system of Mingsuo internet platform. The Group promptly established a special committee and appointed an independent professional adviser to investigate into the matter. After careful consideration on the investigation results, the revenue of the Group for financial year ended 31 December 2009 were adjusted down by approximately HK$3 million. In view of the results of the investigation, the directors of the Company have made tremendous efforts to improve the Company's account reporting system, and to enable the Group to resume its normal operations. The directors of the Company believe that the operations of the Group's other subsidiaries have been normal and healthy, and the Group as a whole can maintain sufficient level of operations pursuant to GEM Rule 17.26.

The board of directors is looking forward to a successful resumption of trading of the Company's shares on GEM after its satisfactory fulfillment of regulatory requirements.

FINANCIAL REVIEW

Revenue

The Group's revenue for 2009 amounted to HK$108,571,000, increased by 15.9% from HK$93,657,000 in 2008. This was mainly due to the increase in provision of technical supports and maintenance services increase by 69.0% from the previous year to HK$59,505,000.

Cost of sales and services

The Group had a total cost of sales and services of HK$64,727,000 for 2009, which decreased by 6.2% compared with HK$68,969,000 in 2008. The decrease was primarily due to the decrease in amortisation of other intangible assets used in these businesses and the salaries paid to the technical staff involved.

Gross profit

The gross profit of the Group in 2009 amounted to HK$43,844,000 which increased by HK$19,156,000 compared with HK$24,688,000 in 2008. The gross profit margin was 40.4% compared with 26.4% in 2008.

Other income and gains

During the financial year ended 31 December 2009, the Group generated other incomes which comprised: (i) income received from the sales agents amounted to HK$3,199,000; (ii) bank interest income amounted to HK$1,141,000; and (iii) PRC tax subsidy and others in aggregate amounted to HK$1,291,000.

Management Discussion and Analysis

Selling and distribution costs

The Group's selling and distribution costs in 2009 amounted to HK$19,651,000, which decreased by 43.7% compared with HK$34,894,000 in 2008. The decrease was mainly due to the promotion expenses incurred for the corporate information enquiry services which amounted to HK$16,775,000 in 2008.

Administrative expenses

Administrative expenses of the Group in 2009 were HK$75,325,000, decreased by 23.4% comparing to HK$98,359,000 in 2008. The decrease was mainly due to the downsizing of Mingsuo operation.

Other expenses

Other expenses of the Group was HK$2,951,000, decreased tremendously comparing to the previous year. The significant decrease was mainly due to the provision of impairment on other intangible assets and prepayment for the acquisition of other intangible assets from the suppliers and provision of impairment on trade receivables in 2008.

Finance costs

Finance costs of the Group in 2009 were HK$3,701,000, increased by 11.5% comparing to HK$3,319,000 in 2008.

Income tax expense

The Group's tax expenses in 2009 were HK$4,093,000, decreased by 84.8% compared with HK$26,981,000 in 2008. The significant decrease was mainly due to the provision of PRC taxation regarding the revenue from Mingsuo system during the financial year ended 31 December 2008.

Loss attributable to owners

The Group's loss attributable to owners was HK$57,396,000 for 2009 comparing to loss of HK$1,212,313,000 in 2008.

Management Discussion and Analysis

FINANCIAL POSITION

Liquidity and financial resource

As at 31 December 2009, cash and bank balances held by the Group decreased from HK$156,164,000 to HK$131,197,000. As at 31 December 2009, the Group's total borrowings amounted to HK$80,292,000, represented by the convertible bonds issued as consideration for acquisition of Run Tong Group in 2007. The gearing ratio (calculated as total borrowings over total equity) of the Group was 0.67.

For the year ended 31 December 2009, the Group had capital expenditure of HK$3,836,000 (2008: HK$51,709,000).

Exposures to exchange rate fluctuation and hedging activities

As the Group carried out its operations in China, and substantially all of its business transactions, assets and liabilities are denominated in Renminbi, the foreign exchange risk of the Group was considered minimal and no hedging activities had been conducted.

Biographical Information of Directors and Senior Management

CHAIRMAN OF THE BOARD AND NON-EXECUTIVE DIRECTOR

Mr. ZHANG Honghai, aged 57, is awarded with the honour of senior economist and is currently the vice president of the Beijing Chinese Overseas Friendship Association. He is also an executive director, the vice chairman and the chief executive officer of Beijing Enterprises, an executive director of Beijing Development and chairman and executive director of Beijing Enterprises Water Group Limited (Stock code 371). Mr. Zhang graduated from Peking University in 1982 and subsequently obtained a post-graduate qualification in business studies at The International Business School of Hunan University, with a master's degree in Management. He also obtained an Executive Master of Business Administration degree from Peking University in 2007. Mr. Zhang has worked for the Beijing Municipal Government for many years and was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. Mr. Zhang worked as deputy general manager and was then promoted to vice chairman and general manager of Beijing International Trust Investment Limited during the period from 1990 to 1998. Mr. Zhang served as an executive director and the Chairman of the Board of the Company during the period from 30 August 2004 to 14 March 2006. Mr. Zhang has extensive experience in corporate management. Mr. Zhang joined the Group on 11 February 2008 as chairman and executive director of the Company and re-designated to non executive director on 25 August 2009.

EXECUTIVE DIRECTORS

Mr. Hu Zhuoer, aged 44, chief executive officer, graduated from Shanghai University of Finance and Economics with a bachelor's degree in science in 1986 and obtained a master's degree in Finance from Peking University in 2002 and obtained the qualification of Senior Engineer in 2007. Mr. Hu served on the Ministry of Finance and was a deputy director and then director of the State Administration of Taxation and a party constitution member and deputy director of the Chengdu Municipal Office of the State Administration of Taxation. During his term of office in the State Administration of Taxation, he mainly engaged in technology and equipment management, IT construction and planning, international exchanges on technology, etc. During his service in the Chengdu Municipal Office of the State Administration of Taxation, he was mainly responsible for tax audit, the Golden Taxation project, tax collection for large enterprises, etc. Mr. Hu has extensive experiences in eGovernment planning and construction, tax reform implementation and governance and government affair restructuring and innovation. Mr. Hu joined the Group on 25 August 2009.

Mr. WANG Zhenyu, aged 40, former chief executive officer, was graduated from Peking University with a degree of Executive Master of Business Administration (EMBA) in 2006 and from Chinese People University with a Bachelor's Degree in finance in 1993. Mr. Wang is the director of Run Tong and General Manager of Huayuan Kai Tuo (Beijing) Sci-Tech Co. Ltd.. He is also the Chairman of China INSOnlineCorp, which has been listed on the Over The-Counter Bulletin Board of NASDAQ since December 2007. He has extensive experiences in telecommunication, software development and information technology. Mr. Wang joined the Group in 13 September 2007 and resigned on 23 August 2009.

Biographical Information of Directors and Senior Management

Mr. E Meng, aged 51, is the executive director and vice president of Beijing Enterprises, the chairman and executive director of Beijing Development and the independent non-executive director of JLF Investment Company Limited (stock code: 472). Mr. E graduated from China Science and Technology University with a master's degree in engineering, and is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, Mr. E was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Finance Auditing and State Asset Management, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State Asset Management Office of Beijing Haidian District. Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in August 2004 and resigned on 5 June 2008.

Dr. YU Xiaoyang, aged 56, was graduated from Peking University with a Bachelor's degree in Philosophy in 1982 and a Master's degree in Philosophy in 1984. Dr. Yu earned his Ph.D. and MBA degrees from Southern Illinois University, USA, in 1991 and 1993. Dr. Yu worked for international consulting and telecommunication corporations in software system development and information technology management for 12 years, and worked for Chinese high tech corporations as an executive director and the vice president over five years. Dr. Yu was the executive director of Beijing Development from March 2005 to February 2008. Dr. Yu joined the Group on 13 September 2007.

Mr. LI Kangying, aged 53, was the chairman of the Company and resigned as chairman on 11 February 2008. Mr. Li graduated from North China University of Electric Power majoring in telecommunications and is a qualified engineer in the PRC. He was a university lecturer and a member of the governmental research institute and has been responsible for the management and operational affairs in the technological field for the past decade. Mr. Li joined the Group in August 2004 and resigned on 5 June 2008.

Mr. YAN Qing, aged 48, is the vice president of Beijing Development. Mr. Yan graduated from Renmin University of China in 1985 with a bachelor degree in Business and obtained a master degree from Graduate School of Research Institute of the Ministry of Finance in 2000. He also obtained a master's degree in Business Administration from University of South Australia in 2005 and he has extensive experience in finance and management. Mr. Yan joined the Group in January 2005 and resigned on 5 June 2008.

Mr. ZHANG Zhihong, aged 43, was graduated from Institute of Communication Engineering of People's Liberation Army with a Bachelor's degree in Computer Science in 1988 and from Nanyang Technological University, Singapore with a Master's degree in Business Administration in 2006. Mr. Zhang has extensive marketing and management experiences in the telecommunication corporations in software system development and information technology management. Mr. Zhang joined Group on 13 September 2007 and resigned on 24 August 2009.

Mr. CAO Wei, aged 46, is the executive director and vice president of Beijing Development. Mr. Cao graduated from Harbin Industrial University and awarded the title of senior engineer. He has extensive experience in the telecommunications and information technology field. Mr. Cao joined the Group in August 2004 and resigned on 5 June 2008.

Biographical Information of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. MA Yuhua, aged 61, graduated from Beijing Financial College. Ms. Ma was the general manager of Beijing International Trust and Investment Co., Ltd. and the president of Guodu Securities Company Limited. Ms. Ma has over 30 years' extensive experiences in financial management and investment and she is currently the chief controller of Guodu Securities Company Limited. Ms. Ma joined the Group in December 2004.

Ms. LIANG Yeping, aged 61, studied at the Party School of the CPC Central Committee and School of Economics and Management of Tsinghua University. Ms. Liang is currently the president of Beijing Academy of Management Sciences, a senior consultant and lecturer of Beijing Guru Management Training Co., Ltd. Ms. Liang has for years held top level management positions in various companies such as China Xingfa Group Co., Ltd., Beijing Guoxinan IC Design Co., Ltd., Nanjing Jiangning Digital Harbor Co., Ltd., etc., in which she has accumulated extensive experiences in corporate operations, management and information technology. Ms. Liang joined the Group in December 2004.

Dr. ZHOU Chunsheng, aged 43, was graduated from Princeton University, USA with a doctoral degree in Economics, focusing on Economics and Finance. He is currently a Professor of Cheung Kong Graduate School of Business. Dr Zhou has worked as an economist for Federal Reserve of the United States, an officer of China Securities Regulation Commission, an associate professor of School of Business of Hong Kong University, a professor of Peking University and a member of the Listing Committee of Shenzhen Stock Exchange. He is also an independent non-executive director of Centennial Brilliance Science & Technology Co., Ltd., Daqin Railway Co., Ltd., Anhui Koyo(Group) Co., Ltd., Zhuguang Holding Group Company Limited., Starlake Bioscience Co., Inc. Zhaoqing Guangdong, etc. Dr. Zhou has rich experiences in corporate management in the listed companies. Dr. Zhou joined the Group on 13 September 2007.

Dr. SUN Guofu, aged 40, graduated from Shanxi Mining Institute (山西礦業學院) in 1991 and obtained a bachelor's degree in engineering. He obtained a master's degree in engineering from Beijing Institute of Technology in 1997 and a doctor's degree in engineering from Tsinghua University in 2001. He worked at Shanxi Mining Institute and 通訊設備公司 and was vice president of Founder Technology Group Corp. He is currently the general manager of the technology management department of Peking University Founder Group Company Limited, vice chairman of the China Communications Industry Association, a standing member of the China Electronic Chamber of Commerce and a member of the China Computer Users Association. Dr. Sun has extensive experience in management and research & development. Dr. Sun joined the Group on 25 August 2009.

Biographical Information of Directors and Senior Management

SENIOR MANAGEMENT

Mr. LI Jicheng, aged 45, is the chief executive of VST. He graduated from Tianjin University with a bachelor's degree and obtained a master's degree in 1988. Mr. Li was a university lecturer and has over 15 years of experience in project management and information technology. Mr. Li joined the Group in August 2004.

Ms. ZHENG Shaohua, aged 53, is the general manager of Sanxing. Ms. Zheng graduated from Beihang University in 1983. She has over 20 years of experience in project management and information technology. Ms. Zheng joined the Group in August 2004.

Mr. WU Zhaohui, aged 43, is the general manager of Run Tong. Mr. Wu graduated from Electronic Engineering Department of Fudan University and had served as company chief engineer, vice general manager and general manager of 深圳市万立通信息發展有限公司 since 1993. After 2002, he served in VYYO INC., the United States and 新傳國際(北京)文化傳播有限公司. Mr. Wu has over 10 year experience in operation and management of large-sized communication and software companies. Mr. Wu joined Run Tong in March 2007.

Mr. PENG Wensheng, aged 41, is the chairman of Shanghai Pantosoft. Mr. Peng graduated from the Engineering Faculty of Nanjing University of Science & Technology in 1987 with a bachelor degree in Science. He also obtained a master degree in Science in Huazhong University of Technology in 1994. He joined the Group in December 2002.

Mr. LIU Feng, aged 42, is the general manager of Xteam Network. Mr. Liu graduated from 南京郵電學院 with a bachelor degree in 1990. Mr. Liu has over 10 years experience in telecommunication industry.

Mr. Wong Kwok Ho, aged 36, is the financial controller and company secretary of the Company. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Wong has about 13 years experience in auditing, accounting and finance in an international accounting firm and listed companies. He joined the Group in March 2010.

Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 103.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 104. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options and convertible bonds during the year are set out in notes 29 and 26 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The Company had no reserves available for cash distribution/or distribution in specie as at 31 December 2009. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 49% of the total sales for the year and sales to the largest customer included therein amounted to 14%. Purchases from the Group's five largest suppliers accounted for 70.1% of the total purchases for the year.

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

DIRECTORS

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

Non-executive director:

Mr. Zhang Honghai	(re-designated from executive director to non-executive director on 25 August 2009)

Executive directors:

Mr. Hu Zhuoer	(appointed on 25 August 2009)
Dr. Yu Xiaoyang	
Mr. Wang Zhenyu	(resigned on 23 August 2009)
Mr. Zhang Zhihong	(resigned on 24 August 2009)

Independent non-executive directors:

Ms. Ma Yuhua	
Ms. Liang Yeping	
Dr. Zhou Chunsheng	
Dr. Sun Guofu	(appointed on 25 August 2009)

DIRECTORS *(Continued)*

In accordance with articles 86(3), 87(1) and 87(2) of the Company's articles of association, one-third of the directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Ms. Ma Yu Hua, Ms. Liang Yeping, Dr. Zhou Chunsheng and Dr. Sun Guofu, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on page 23 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:–

(1) Long positions in ordinary shares of the Company:

Name of director	Number of shares held	Capacity and nature of interest	Percentage of the Company's issued share capital
Dr. Zhou Chunsheng	600,000	Directly beneficially owned	0.01%

(2) Interest in underlying shares of the share options of the Company

Name of director	Nature of interest	Number of underlying shares *(Note 1)*	Exercise period of the share options	Exercise price per share	Approximate percentage of shareholding
Executive director					
Dr. Yu Xiaoyang	Beneficial owner	32,400,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.50% *(Note 2)*
Non-executive director					
Mr. Zhang Honghai	Beneficial owner	20,000,000 (L)	11 August 2008 to 10 February 2013	HK$0.53	0.31% *(Note 2)*
Independent non-executive directors					
Ms. Ma Yuhua	Beneficial owner	4,000,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.06% *(Note 2)*
Ms. Liang Yeping	Beneficial owner	4,000,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.06% *(Note 2)*
Dr. Zhou Chunsheng	Beneficial owner	4,000,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.06% *(Note 2)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

1. The letter "L" denotes a long position in the underlying shares.

2. This percentage was calculated on the basis of 6,494,906,368 shares in issue immediately following the exercise in full of all the options granted under the share option scheme at the same time and assuming that there would be no change in the total issued share capital of the Company other than as enlarged by the exercise of these options prior to the exercise in full of these options.

Save as disclosed above, as at 31 December 2009, none of the directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates the Share Option Scheme ("the Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 29 to the financial statements.

SHARE OPTION SCHEME *(Continued)*

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

		Number of Share Options		
Name or category of participant	*Notes*	**At 1 January 2009**	**Forfeited during the year**	**At 31 December 2009**
Executive directors:				
Mr. Wang Zhenyu	*(a)*	35,000,000	(35,000,000)	–
Dr. Yu Xiaoyang	*(a)*	32,400,000	–	32,400,000
Non-executive director:				
Mr. Zhang Honghai	*(b)*	20,000,000	–	20,000,000
Independent non-executive directors:				
Ms. Ma Yuhua	*(a)*	4,000,000	–	4,000,000
Ms. Liang Yeping	*(a)*	4,000,000	–	4,000,000
Dr. Zhou Chunsheng	*(a)*	4,000,000	–	4,000,000
Other employees	*(a)*	80,400,000	(9,925,000)	70,475,000
Advisers and consultants	*(a)*	4,000,000	–	4,000,000
		183,800,000	(44,925,000)	138,875,000

Notes:

a. These options were granted on 13 September 2007 at an exercise price of HK$0.79* per share. The options may be exercised at any time commencing on 13 March 2008 and, if not otherwise exercised, will lapse on 12 September 2012. The exercise of the option is subject to an annual cap of 25% of the share options granted. Subject to the approval of the Share Option Committee and the Remuneration Committee, executive directors and independent non-executive directors are entitled to exercise all the share options within three months from the date of termination of their employment.

b. These options were granted on 11 February 2008 at an exercise price of HK$0.53* per share. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.52. The options may be exercised at any time commencing on 11 August 2008 and, if not otherwise exercised, will lapse on 10 February 2013. The exercise of the options is subject to an annual cap of 25% of the share options granted.

SHARE OPTION SCHEME *(Continued)*

* The exercise price of these share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

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

Long positions in ordinary shares of the Company:

Name	*Notes*	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**	**Number of convertible bonds held**
Beijing Development (Hong Kong) Limited	*(a)*	Through controlled corporations	1,895,513,445	29.18%	–
Beijing Enterprises Holdings Limited	*(b)*	Through controlled corporations	1,895,513,445	29.18%	–
Beijing Enterprises Group Company Limited	*(c)*	Through controlled corporations	1,895,513,445	29.18%	–
Carford Holdings Limited		Directly beneficially owned	560,000,000	8.62%	87,000,000
Getwin Investment Limited		Directly beneficially owned	560,000,000	8.62%	87,000,000
Mr. Xia Xiaoman	*(d)*	Through controlled corporations	1,120,000,000	17.24%	174,000,000
Perfect Unit Limited		Directly beneficially owned	–	–	607,133,750

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

(a) Beijing Development (Hong Kong) Limited was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in its wholly owned subsidiaries, Prime Technology Group Limited and E-tron Limited.

(b) Beijing Enterprises Holdings Limited was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in Beijing Development (Hong Kong) Limited.

(c) Beijing Enterprises Group Company Limited was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in Beijing Enterprises Investments Limited and Beijing Enterprises Holdings Limited.

(d) Mr. Xia Xiaoman was deemed to be interested in the 1,120,000,000 shares by virtue of his controlling interests in Carford Holdings Limited and Getwin Investment Limited.

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

CONTINUING CONNECTED TRANSACTION

The Group entered into the following continuing connected transaction (other than the continuing connected transactions that are exempted under Rule 20.33 of the Listing Rules) during the year ended 31 December 2009:

In connection with the subcontracting service contracts entered into between the Company's subsidiaries and certain subsidiaries of Beijing Development (Hong Kong) Limited, the Group received service income amounting to HK$15,134,000 during the year. Further details of the transaction are included in note 34 to the financial statements.

EVENT AFTER THE REPORTING PERIOD

Detail of the significant event after the reporting period of the Group is set out in note 37 to the financial statements.

COMPETING INTERESTS

During the year and up to the date of this report, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company's corporate governance report is set out on pages 21 to 25.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Hu Zhuoer
Director

Hong Kong
31 March 2010

Corporate Governance Report

INTRODUCTION

The Company has complied with all the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "Code") for the year ended 31 December 2009.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the director's securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Directors have confirmed that they have complied with the Listing Rules throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

The board of directors, which currently comprises seven directors, is responsible for corporate strategy, annual, interim and quarterly results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of directors to the management include the preparation of annual, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of all directors are set out in the "Biographical Details of Directors and Senior Management" of this report. All directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience, knowledge and execution ability to hold the position so as to carry out his duties effectively and efficiently.

Corporate Governance Report

BOARD MEETING

During the year of 2009, the board held totally four meetings. The attendance of each director at board meetings are as follows:

Name of director	Attendance/ Number of meetings held
Chairman and Non-executive director:	
Mr. Zhang Honghai*	4/4
Executive directors:	
Mr. Hu Zhuoer *(Chief executive officer)*	2/2
Dr. Yu Xiaoyang	4/4
Mr. Wang Zhenyu *(former Chief executive officer)*#	0/2
Mr. Zhang Zhihong##	1/2
Independent non-executive directors:	
Ms. Ma Yuhua	4/4
Ms. Liang Yeping	4/4
Dr. Zhou Chunsheng	4/4
Dr. Sun Guofu**	2/2

\# Mr. Wang Zhenyu, resigned on 23 August 2009 and Mr. Hu Zhuoer was appointed as executive director and chief executive officer on 25 August 2009 and were only entitled to two board meetings.

\## Mr. Zhang Zhihong resigned as executive director on 24 August 2009 and was only entitled to two board meetings.

* Mr. Zhang Honghai re-designated from executive director to non-executive director on 25 August 2009.

** Dr. Sun Guofu appointed as independent non-executive director on 25 August 2009 and was only entitled to two board meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has complied with Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Zhang Honghai is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Mr. Hu Zhuoer replaced Mr. Wang Zhenyu from 25 August 2009 as the chief executive officer of the Company and is responsible for the day-to-day operations of the Group.

NON-EXECUTIVE DIRECTORS

The Board fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules. It met the requirement of having at least one of the independent non-executive directors with appropriate professional qualifications or accounting or related financial management expertise. They have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders. None of the non-executive directors is appointed for a specific term, which constitutes a deviation from Code Provision A4.1 which stipulates non-executive directors should be appointed for a specific term, subject to re-election.

In accordance with the articles of association of the Company, all non-executive directors are subject to retirement by rotation. The Company considers that there are sufficient measures to ensure the corporate governance standard of the Company is not less exacting than the Code.

REMUNERATION COMMITTEE

The remuneration committee of the Group was established in 2006. During the year under review, members of the remuneration committee are Ms. Ma Yuhua (committee chairman), Mr. Zhang Honghai, Ms. Liang Yeping, Dr. Zhou Chunsheng and Dr. Sun Guofu. The majority of the remuneration committee members are independent non-executive directors.

The main role and function included the determination of specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board on the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The remuneration committee meets regularly to determine the policy for the remuneration of directors and assess the performance of executive directors and certain senior management of the Company.

During the year of 2009, one remuneration committee meeting was held and the attendance of each member is set out below:

Name of member	**Attendance/ Number of meetings held**
Ms. Ma Yuhua	1/1
Mr. Zhang Honghai	1/1
Ms. Liang Yeping	1/1
Dr. Zhou Chunsheng	1/1
Dr. Sun Guofu	1/1

NOMINATION OF DIRECTORS

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

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the auditors' remuneration for audit services is approximately HK$1,275,000 (of which HK$950,000 has paid to Ernst & Young, and HK$325,000 was paid to the PRC auditors).

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rule.

The audit committee comprises four independent non-executive directors, namely Ms. Ma Yuhua (committee chairman), Ms. Liang Yeping, Dr. Zhou Chunsheng and Dr. Sun Guofu.

The duties of the audit committee include supervising the financial reporting procedure and reviewing the financial statements of the Group, examining and monitoring the internal control system adopted by the Group and reviewing the relevant work of the Group's external auditor.

During the year under review, one audit committee meeting was held and the attendance of each member is set out below:

Name of member	**Attendance/ Number of meetings held**
Ms. Ma Yuhua	1/1
Ms. Liang Yeping	1/1
Dr. Zhou Chunsheng	1/1
Dr. Sun Guofu*	0/0

* Dr. Sun Guofu appointed as independent non-executive director on 25 August 2009.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 26 to 28. The directors of the Company have confirmed that the preparation of the Group's financial statements is in compliance with the relative regulations and applicable accounting standards.

INTERNAL CONTROL

The Board conducted reviews of the system of internal control of the Group to ensure an effective and adequate internal control system. The Board convened meetings to discuss financial, operational and risk management control.

Subsequently after the year under review, the Board conducts reviews of the system of internal control with the assistance of Ernst and Young Advisory Services Limited ("Advisor"). The advisor has identified the following control weaknesses which affect the effectiveness of the process of the financial reporting and listing compliance:

(i) the specific written terms of the authority and duties for audit committee and remuneration committee is not comprehensive enough and clearly defined which may hinder the audit committee and remuneration committee carrying out their responsibilities and making recommendation to the board

(ii) external information disclosure and communication system is not well established which may increase the risk of non-compliance.

The Company will take all necessary steps to improve the above corporate governance aspects and comply with the GEM Listing Rules of Hong Kong Stock Exchange.

Independent Auditors' Report

ERNST & YOUNG
安　永

To the shareholders of
China Information Technology Development Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of China Information Technology Development Limited set out on pages 29 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

Independent Auditors' Report

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

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

BASIS FOR QUALIFIED OPINION

As further explained in note 2.2 to the financial statements, in light of the investigation into the transactions of Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd. ("Run Tong"), a wholly-owned subsidiary, in the prior year, adjustments were made to the Group's revenue, other income, deferred income and certain assets for the year ended 31 December 2008 which in aggregate increased the consolidated loss for the year by approximately HK$1,162,229,000. As explained in our report dated 31 March 2010 on the Group's financial statements for the year ended 31 December 2008, we were unable to obtain sufficient and appropriate audit evidence in respect of (a) certain transactions, adjustments and related party disclosures relating to Run Tong and (b) certain receipts of Run Tong. As a result, we were unable to express an opinion on the Group's financial statements for the year ended 31 December 2008. Any adjustments found to be necessary would not be expected to have a significant impact on the results for the current year.

QUALIFIED OPINION ON CORRESPONDING FIGURES

In our opinion, except for the possible effects on the corresponding figures of the matters described in the basis for qualified opinion paragraph above, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Independent Auditors' Report

EMPHASIS OF MATTER

Without further qualifying our opinion, we draw attention to note 2.2 to the financial statements which indicates that the Company had net current liabilities of HK$94,135,000 inclusive of convertible bonds with a carrying amount of HK$80,292,000 (principal amount of HK$82,260,000) as at 31 December 2009. This indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to repay the outstanding convertible bonds, if not converted, at the maturity date and to continue as a going concern.

As further explained in note 2.2 to the financial statements, the directors of the Company have been taking measures to improve the financial and current liquidity position of the Group, including to obtain consent from a holder of convertible bonds not to request repayment before 28 May 2011. The financial statements of the Group and the Company have been prepared on a going concern basis, the validity of which depends upon the Company's ability to realise the assets to meet the Group's and Company's future working capital and financial requirements and to timely repatriate funds from the Company's subsidiaries.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong
31 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	**108,571**	93,657
Cost of sales and services		**(64,727)**	(68,969)
Gross profit		**43,844**	24,688
Other income and gains	5	**5,631**	49,805
Selling and distribution costs		**(19,651)**	(34,894)
Administrative expenses		**(75,325)**	(98,359)
Other expenses		**(2,951)**	(86,854)
Impairment of goodwill	16	**–**	(1,040,952)
Finance costs	7	**(3,701)**	(3,319)
LOSS BEFORE TAX	6	**(52,153)**	(1,189,885)
Income tax expense	10	**(4,093)**	(26,981)
LOSS FOR THE YEAR		**(56,246)**	(1,216,866)
Attributable to:			
Owners of the Company	11	**(57,396)**	(1,212,313)
Minority interests		**1,150**	(4,553)
		(56,246)	(1,216,866)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	13		
– Basic & diluted		**HK(0.88) cents**	HK(18.80) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
LOSS FOR THE YEAR		**(56,246)**	(1,216,866)
Exchange differences on translation of foreign operations		**576**	14,141
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**576**	14,141
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(55,670)**	(1,202,725)
Attributable to:			
Owners of the Company	*11*	**(56,861)**	(1,198,906)
Minority interests		**1,191**	(3,819)
		(55,670)	(1,202,725)

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**15,055**	18,033
Goodwill	16	**34,000**	34,000
Other intangible assets	17	**2,475**	2,798
Interests in an associate	21	**20,000**	20,000
Total non-current assets		**71,530**	74,831
CURRENT ASSETS			
Inventories	18	**18,142**	7,169
Trade receivables	19	**33,510**	31,081
Prepayments, deposits and other receivables	20	**15,666**	32,430
Cash and cash equivalents	22	**131,197**	156,164
Total current assets		**198,515**	226,844
CURRENT LIABILITIES			
Trade payables	23	**5,568**	7,003
Other payables and accruals	24	**41,622**	37,366
Due to shareholders	25	**1,196**	1,205
Tax payable		**21,978**	20,578
Convertible bonds	26	**80,292**	–
Total current liabilities		**150,656**	66,152
NET CURRENT ASSETS		**47,859**	160,692
TOTAL ASSETS LESS CURRENT LIABILITIES		**119,389**	235,523
NON-CURRENT LIABILITIES			
Convertible bonds	26	**–**	76,591
Net assets		**119,389**	158,932

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*28*	**64,949**	64,949
Reserves	*30(a)*	**40,214**	80,948
		105,163	145,897
Minority interests		**14,226**	13,035
Total equity		**119,389**	158,932

Hu Zhuoer
Director

Yu Xiaoyang
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2009

		Attributable to owners of the Company									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Equity component of convertible bonds HK$'000	Share option reserve HK$'000	PRC reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumu-lated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008		62,339	1,128,172	25,345	23,770	19,103	11,193	6,497	1,276,419	12,802	1,289,221
Loss for the year		–	–	–	–	–	–	(1,212,313)	(1,212,313)	(4,553)	(1,216,866)
Other comprehensive income		–	–	–	–	–	13,407	–	13,407	734	14,141
Total comprehensive income for the year		–	–	–	–	–	13,407	(1,212,313)	(1,198,906)	(3,819)	(1,202,725)
Transfer to PRC reserve funds		–	–	–	–	3,235	–	(3,235)	–	–	–
Adjustment on contingent consideration	*26*	–	–	(8,586)	–	–	–	–	(8,586)	–	(8,586)
Reversal of share option expense		–	–	–	(12,938)	–	–	12,938	–	–	–
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	3,138	3,138
Capital contribution from a minority shareholder		–	–	–	–	–	–	–	–	2,487	2,487
Deemed disposal of a partial interest in a subsidiary		–	–	–	–	–	–	–	–	(1,573)	(1,573)
Conversion of convertible bonds	*26*	2,610	48,609	(6,348)	–	–	–	–	44,871	–	44,871
Equity-settled share option arrangements	*29*	–	–	–	32,099	–	–	–	32,099	–	32,099
At 31 December 2008 and 1 January 2009		64,949	1,176,781*	10,411 *	42,931*	22,338*	24,600*	(1,196,113)*	145,897	13,035	158,932
Loss for the year		–	–	–	–	–	–	(57,396)	(57,396)	1,150	(56,246)
Other comprehensive income		–	–	–	–	–	535	–	535	41	576
Total comprehensive income for the year		–	–	–	–	–	535	(57,396)	(56,861)	1,191	(55,670)
Reversal of share option expense		–	–	–	(10,948)	–	–	10,948	–	–	–
Equity-settled share option arrangements	*29*	–	–	–	16,127	–	–	–	16,127	–	16,127
At 31 December 2009		**64,949**	**1,176,781***	**10,411***	**48,110***	**22,338***	**25,135***	**(1,242,561)***	**105,163**	**14,226**	**119,389**

* These reserve accounts comprise the consolidated reserves of HK$40,214,000 (2008: HK$80,948,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(52,153)**	(1,189,885)
Adjustments for:			
Bank interest income	*5*	**(1,141)**	(2,696)
Finance costs	*7*	**3,701**	3,319
(Gain)/loss on disposal of items of property, plant and equipment	*5,6*	**1,734**	(20)
Amortisation of other intangible assets	*6*	**323**	5,355
Depreciation	*6*	**4,319**	3,944
Impairment of trade receivables	*6*	**–**	9,972
Impairment of prepayments and other receivables	*6*	**421**	27,958
Impairment of goodwill	*6*	**–**	1,040,952
Impairment of other intangible assets	*6*	**–**	44,586
Gain on deemed disposal of a subsidiary	*5*	**–**	(1,573)
Equity-settled share option expense	*29*	**16,127**	32,099
		(26,669)	(25,989)
Increase in inventories		**(10,973)**	(4,074)
Decrease/(increase) in trade receivables		**(2,429)**	55,427
Decrease in prepayments, deposits and other receivables		**16,343**	12,431
Decrease in financial assets designated at fair value through profit or loss		**–**	8,547
Increase/(decrease) in trade payables		**(1,435)**	958
Increase in other payables and accruals		**4,256**	13,925
Cash generated from/(used in) operations		**(20,907)**	61,225
Interest paid		**–**	(101)
Mainland China tax paid		**(2,693)**	(15,552)
Net cash flows from/(used in) operating activities		**(23,600)**	45,572
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,141**	2,696
Proceeds from disposal of items of property, plant and equipment		**812**	122
Purchases of items of property, plant and equipment	*14*	**(3,836)**	(6,477)
Additions to other intangible assets		**–**	(18,345)
Acquisition of a subsidiary		**–**	(3,841)
Increase in prepayments for purchases of other intangible assets		**–**	(27,958)
Proceeds from disposal of a partial interest in a subsidiary		**–**	2,487
Increase in loan to an associate		**–**	(20,000)
Net cash flows used in investing activities		**(1,883)**	(71,316)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in amounts due to shareholders		**(9)**	(67,611)
Net cash flows used in financing activities		**(9)**	(67,611)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(25,492)**	(93,355)
Cash and cash equivalents at beginning of year		**156,164**	235,808
Effect of foreign exchange rate changes, net		**525**	13,711
CASH AND CASH EQUIVALENTS AT END OF YEAR		**131,197**	156,164
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**101,500**	121,946
Non-pledged time deposits with original maturity of less than three months when acquired	*22*	**29,697**	34,218
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows		**131,197**	156,164

Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	**150,583**	160,407
Other intangible assets	17	**2,475**	2,798
Total non-current assets		**153,058**	163,205
CURRENT ASSETS			
Prepayments, deposits and other receivables	20	**1,595**	1,684
Cash and cash equivalents	22	**6**	225
Total current assets		**1,601**	1,909
CURRENT LIABILITIES			
Other payables and accruals	24	**4,062**	5,209
Due to subsidiaries	25	**11,382**	9,241
Convertible bonds	26	**80,292**	–
Total current liabilities		**95,736**	14,450
NET CURRENT LIABILITIES		**(94,135)**	(12,541)
TOTAL ASSETS LESS CURRENT LIABILITIES		**58,923**	150,664
NON-CURRENT LIABILITIES			
Convertible bonds	26	**–**	76,591
Net assets		**58,923**	74,073
EQUITY			
Issued capital	28	**64,949**	64,949
Reserves	30(b)	**(6,026)**	9,124
		58,923	74,073

Hu Zhuoer
Director

Yu Xiaoyang
Director

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Room 4401, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong.

During the year, the Group was principally engaged in the development and sale of computer software and hardware, the provision of system integration and related support services and the provision of internet and telecommunication value-added services in Mainland China.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 BASIS OF PREPARATION

Going Concern

As at 31 December 2009, the Company had net current liabilities of HK$94,135,000 inclusive of convertible bonds with a carrying amount of HK$80,292,000 (principal amount of HK$82,260,000) which will mature on 28 May 2010.

In order to improve the financial and current liquidity position of the Group, and otherwise to sustain the Group and the Company as a going concern, the directors of the Company have been taking the following measures:

(a) the Company has obtained the consent from a bondholder who holds outstanding convertible bonds with a principal amount of HK$63,937,000 to not to request repayment of the bonds before 28 May 2011;

(b) the Group will realise certain assets to improve the liquidity and meet the Group's future working capital and financial requirements; and

(c) the Group will repatriate funds from the Company's subsidiaries to the Company.

Provided that these measures are successful and can effectively improve the liquidity position of the Group and the Company, the directors are satisfied that the Group and the Company will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future.

2.2 BASIS OF PREPARATION *(Continued)*

Going Concern *(Continued)*

Should the Group or the Company be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

Doubtful transactions of Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd. ("Run Tong") in the prior year

On 18 September 2007, the Group acquired 100% interest in Full Trump International Limited ("Full Trump"), which in turn holds 100% interest in Run Tong whose principal activity is the provision of online corporate information enquiry services to the public through its Mingsuo business. In the course of auditing the financial statements for the year ended 31 December 2008, the auditors identified certain unusual transactions relating to Run Tong. In response, the Company appointed an independent professional firm to carry out an investigation into the revenue recording system of Run Tong for the period from May to December 2008 and the investigation period was later extended to cover the period from January to April 2008. The result of the investigation, announced by the Company on 19 May 2009, revealed that there were: (1) doubtful or questionable genuineness as to certain transaction records in Run Tong's systems; (2) doubtful or questionable genuineness as to certain transactions of Run Tong; (3) doubtful or questionable genuineness as to certain assets of Run Tong; (4) agents, suppliers and customers which might be controlled by Run Tong; and (5) agents and suppliers of Run Tong whose dealings with Run Tong could not be fully explained. Taking into account the result of the investigation, the directors considered that the Group's revenue, deferred income and certain assets in respect of Run Tong were overstated and consequently, the Company made the following adjustments to the Group's consolidated financial statements for the year ended 31 December 2008:

- reversal of revenue for the year of HK$135,151,000 and outstanding deferred income of HK$13,379,000; and a corresponding elimination of outstanding trade receivables of HK$105,596,000 and reclassification of receipts by Run Tong arising from purported sales of prepaid service cards included in revenue to other income for the year of HK$44,079,000;

- provisions for impairment of intangible assets, prepayments and trade receivables of approximately HK$39,934,000, HK$27,958,000 and HK$7,325,000 respectively; and

- provision for impairment of goodwill arising from the acquisition of Full Trump of approximately HK$995,940,000.

The Company also made provision for investment cost in subsidiaries and amounts due from subsidiaries of approximately HK$1,110,466,000 in its separate financial statements for the year ended 31 December 2008.

2.2 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

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

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

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments:* Disclosures – *Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKFRS 8 Amendment*	Amendment to HKFRS 8 *Operating Segments – Disclosure of information about segment assets*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(Continued)

HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

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

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

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

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

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

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

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

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. As the Group has no such financial instruments, the amendments have had no impact on the disclosures of the Group.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(Continued)

(d) HKFRS 8 *Operating Segments*

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

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

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

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

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

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

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

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(Continued)

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

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

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

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

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

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

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(Continued)

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

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

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

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

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

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

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

- HKFRS 7 *Financial Instruments: Disclosures:* Removes the reference to "total interest income" as a component of finance costs.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(Continued)

(n) *(Continued)*

- HKAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

- HKAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

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

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance:* Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- HKAS 27 *Consolidated and Separate Financial Statements:* Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

- HKAS 28 *Investments in Associates:* Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

- HKAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

- HKAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES
(Continued)

(n) *(Continued)*

- HKAS 39 *Financial Instruments: Recognition and Measurement:* (i) sets out a number of changes in circumstances relating to derivatives that are not considered to result in reclassification into or out of the fair value through profit or loss category; (ii) removes the reference to the designation of hedging instrument at the segment level; and (iii) requires that the revised effective interest rate (rather than the original effective interest rate) calculated on cessation of fair value hedge accounting should be used for the remeasurement of the hedged item when paragraph AG8 of HKAS 39 is applicable.

- HKAS 40 Investment Property: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group currently had no investment property.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2010

[3] Effective for annual periods beginning on or after 1 February 2010

[4] Effective for annual periods beginning on or after 1 July 2010

[5] Effective for annual periods beginning on or after 1 January 2011

[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates *(Continued)*

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates is treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

Property, plant and equipment and depreciation

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

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

Leasehold improvements	Over the lease terms
Furniture, fixtures and equipment	18% – 20%
Motor vehicles	10% – 20%

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

Golf club membership, computer software, computer system and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 20 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding two years, commencing from the date when the products are put into commercial production.

Operating leases

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities, including trade and other payables and amounts due to shareholders.

Subsequent measurement

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

Convertible bonds

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Government subsidies

Government subsidies are recognised at their fair value where there is reasonable assurance that the subsidy will be received and all outstanding conditions will be complied with.

Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from the rendering of services, when the relevant services have been rendered; and

(iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Share-based payment transactions

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

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

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

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

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

Other employee benefits

Pension schemes

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made by the subsidiaries based on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HK$34,000,000 (2008: HK$34,000,000), details of which are set out in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

4. OPERATING SEGMENT INFORMATION

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

(a) the software development and system integration segment engages in (i) the provision of software development services; (ii) the provision of system integration services; and (iii) the provision of technical support and maintenance services;

(b) the internet, mobile and telecommunication segment engages in the provision of internet, mobile and telecommunication value-added services;

(c) the in-house developed products segment engages in the sale and leasing of in-house developed computer hardware; and

(d) the corporate segment comprises corporate income and expense items.

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

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss, derivative financial instruments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank and other borrowings, the amount due to the ultimate holding company, convertible bonds, tax payable, deferred tax liabilities and other unallocated head office and corporate assets as these liabilities are managed on a group basis.

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Reporting segment information

Year ended 31 December 2009 and 31 December 2008

Group

	Software development and system integration		Internet, mobile and telecommunication		In-house developed products		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**105,924**	89,403	**1,599**	1,534	**1,048**	2,720	**108,571**	93,657
Intersegment sales	**1,296**	5,081	**–**	–	**–**	–	**1,296**	5,081
Other income and gains	**1,189**	860	**3,199**	44,079	**–**	212	**4,388**	45,151
	108,409	95,344	**4,798**	45,613	**1,048**	2,932	**114,255**	143,889
Reconciliation:								
Elimination of intersegment sales							**(1,296)**	(5,081)
Revenue							**112,959**	138,808
Segment results	**3,238**	(24,111)	**(21,951)**	(72,495)	**(2,063)**	(3,033)	**(20,776)**	(99,639)
Reconciliation:								
Elimination of intersegment results							**(333)**	89
Interest income							**1,141**	2,696
Unallocated gains							**102**	1,958
Corporate and other unallocated assets							**(28,586)**	(50,718)
Impairment of goodwill							**–**	(1,040,952)
Finance costs							**(3,701)**	(3,319)
Loss before tax							**(52,153)**	(1,189,885)

4. OPERATING SEGMENT INFORMATION *(Continued)*

Reporting segment information *(Continued)*

31 December 2009 and 31 December 2008

Group

	Software development and system integration		Internet, mobile and telecommunication		In-house developed products		Corporate		Total	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Segment assets	**212,538**	202,630	**25,211**	62,874	**3,398**	4,975	**4,093**	5,586	**245,240**	276,065
Reconciliation:										
Unallocated assets									**24,805**	25,610
Total assets									**270,045**	301,675
Segment liabilities	**(34,425)**	(29,311)	**(4,798)**	(5,751)	**(1,643)**	(1,735)	**(5,121)**	(6,384)	**(45,987)**	(43,181)
Reconciliation:										
Unallocated liabilities									**(104,669)**	(99,562)
Total liabilities									**(150,656)**	(142,743)
Other segment information:										
Depreciation	**2,955**	3,427	**841**	36	**259**	261	**264**	220	**4,319**	3,944
Amortisation of other intangible assets	**–**	57	**–**	4,680	**–**	295	**323**	323	**323**	5,355
Impairment of trade receivables	**–**	7,605	**–**	2,237	**–**	130	**–**	–	**–**	9,972
Impairment of prepayments and other receivables	**–**	–	**421**	27,958	**–**	–	**–**	–	**421**	27,958
Impairment of other intangible assets	**–**	–	**–**	44,586	**–**	–	**–**	–	**–**	44,586
Capital expenditure	**2,921**	4,865	**914**	46,103	**1**	10	**–**	731	**3,836**	51,709

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Group	
	2009	2008
	HK$'000	HK$'000
Revenue		
Sale of in-house developed products	**1,048**	2,720
Provision of software development and system integration services	**46,419**	54,186
Provision of technical support and maintenance services	**59,505**	35,217
Provision of internet, mobile and telecommunication value-added services	**1,599**	1,534
	108,571	93,657

	Group	
	2009	2008
	HK$'000	HK$'000
Other income and gains		
Bank interest income	**1,141**	2,696
PRC tax subsidy	**1,189**	1,072
Gain on deemed disposal of a subsidiary	**–**	1,573
Income received from sales agents	**3,199**	44,079
Gain on disposal of items of property, plant and equipment	**–**	20
Others	**102**	365
	5,631	49,805

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

		Group	
	Notes	**2009** **HK$'000**	2008 HK$'000
Cost of inventories sold		**16,960**	28,382
Cost of services provided		**47,767**	40,587
Depreciation	*14*	**4,319**	3,944
Amortisation of other intangible assets	*17*	**323**	5,355
Rental payments under operating leases in respect of land and buildings		**10,775**	10,528
Auditors' remuneration		**1,275**	4,535
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**39,243**	40,076
Equity-settled share option expense		**16,126**	32,099
Pension scheme contributions		**3,659**	3,433
		59,028	75,608
Foreign exchange differences, net		**640**	13
Impairment of trade receivables*		**–**	9,972
Impairment of prepayments and other receivables*		**421**	27,958
Impairment of goodwill		**–**	1,040,952
Impairment of other intangible assets*		**–**	44,586
Loss on disposal of items of property, plant and equipment*		**1,734**	–

* The amounts are included in "Other expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Interest on a bank overdraft	**–**	101
Interest on convertible bonds *(note 26)*	**3,701**	3,218
	3,701	3,319

8. DIRECTORS' REMUNERATION

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

	Group	
	2009	2008
	HK$'000	HK$'000
Fees	**600**	600
Other emoluments:		
Salaries, allowances and benefits in kind	**1,584**	2,805
Equity-settled share option expense	**10,909**	22,850
Pension scheme contributions	**22**	–
	12,515	25,655
	13,115	26,255

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:–

	Fees	Employee share option benefits	Total remuneration
	HK$'000	HK$'000	HK$'000
2009			
Ms. Ma Yuhua	**100**	**496**	**596**
Ms. Liang Yeping	**100**	**496**	**596**
Dr. Zhou Chunsheng	**100**	**496**	**596**
Dr. Sun Guofu	**35**	**–**	**35**
	335	**1,488**	**1,823**
2008			
Ms. Ma Yuhua	100	711	811
Ms. Liang Yeping	100	711	811
Dr. Zhou Chunsheng	100	711	811
	300	2,133	2,433

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2009					
Executive directors					
Mr. Wang Zhenyu	**65**	**514**	**–**	**8**	**587**
Mr. Hu Zhuoer	**35**	**254**	**–**	**–**	**289**
Dr. Yu Xiaoyang	**100**	**483**	**4,014**	**7**	**4,604**
Mr. Zhang Zhihong	**65**	**333**	**4,014**	**7**	**4,419**
	265	**1,584**	**8,028**	**22**	**9,899**
Non-executive director					
Mr. Zhang Honghai	**–**	**–**	**1,393**	**–**	**1,393**
	265	**1,584**	**9,421**	**22**	**11,292**
2008					
Executive directors					
Mr. Zhang Honghai	–	–	2,969	–	2,969
Mr. Wang Zhenyu	100	1,345	6,224	–	7,669
Dr. Yu Xiaoyang	100	500	5,762	–	6,362
Mr. Zhang Zhihong	100	500	5,762	–	6,362
Mr. Yan Qing	–	460	–	–	460
	300	2,805	20,717	–	23,822

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,736**	845
Equity-settled share option expenses	**1,858**	2,667
Pension scheme contributions	**29**	12
	3,623	3,524

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

	Number of employees	
	2009	2008
Nil to HK$1,000,000	**1**	–
HK$2,000,000 to HK$3,000,000	**1**	–
HK$3,000,000 to HK$4,000,000	**–**	1
	2	1

In prior years, share options were granted to the non-director, highest paid employee in respect of her services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2008: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries enjoy income tax exemptions and reductions. Certain PRC subsidiaries are subject to income tax rates ranging from 0% to 25%.

	2009	2008
	HK$'000	HK$'000
Group:		
Current – Hong Kong	**–**	–
Current – Elsewhere		
Charge for the year	**4,093**	26,997
Overprovision in prior years	**–**	(16)
Total tax charge for the year	**4,093**	26,981

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

10. INCOME TAX *(Continued)*

Group – 2009

	Hong Kong		Mainland China		Total	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Loss before tax	**(32,203)**		**(19,950)**		**(52,153)**	
Tax at the statutory tax rate	**(5,313)**	**16.5**	**(4,988)**	**25.0**	**(10,301)**	**19.8**
Lower tax rate for specific provinces or enacted by local authority	**–**		**(2,283)**		**(2,283)**	
Income not subject to tax	**(14)**		**–**		**(14)**	
Expenses not deductible for tax	**5,327**		**5,253**		**10,580**	
Tax losses not recognised	**–**		**5,343**		**5,343**	
Others	**–**		**768**		**768**	
Tax charge at the Group's effective rate	**–**		**4,093**		**4,093**	

Group – 2008

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(1,093,770)		(96,115)		(1,189,885)	
Tax at the statutory tax rate	(180,472)	16.5	(24,029)	25.0	(204,501)	17.2
Lower tax rate for specific provinces or enacted by local authority	–		114		114	
Income not subject to tax	(151)		(105)		(256)	
Expenses not deductible for tax	180,623		45,548		226,171	
Over provision in prior years	–		(16)		(16)	
Tax losses not recognised	–		5,267		5,267	
Others	–		202		202	
Tax charge at the Group's effective rate	–		26,981		26,981	

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the company for the year ended 31 December 2009 includes a loss of HK$31,277,000 (2008: HK$1,181,194,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2009 (2008: Nil).

13. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on the loss for the year attributable to owners of the company of HK$57,396,000 (2008: HK$1,212,313,000) and the weighted average number of 6,494,906,368 (2008: 6,447,127,679) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2009 and 2008 are the same as the basic loss per share, as the average share price of the Company for the years ended 31 December 2009 and 2008 are lower than the exercise price of the share options outstanding during these years and the convertible bonds outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2009				
At 31 December 2008 and at 1 January 2009:				
Cost	4,097	16,473	8,789	29,359
Accumulated depreciation	(1,199)	(7,727)	(2,400)	(11,326)
Net carrying amount	2,898	8,746	6,389	18,033
At 1 January 2009, net of accumulated depreciation	2,898	8,746	6,389	18,033
Additions	527	2,105	1,204	3,836
Disposals	(1,454)	(787)	(305)	(2,546)
Depreciation provided during the year	(830)	(2,337)	(1,152)	(4,319)
Exchange realignment	6	25	20	51
At 31 December 2009, net of accumulated depreciation	1,147	7,752	6,156	15,055
At 31 December 2009:				
Cost	2,238	16,895	9,472	28,605
Accumulated depreciation	(1,091)	(9,143)	(3,316)	(13,550)
Net carrying amount	1,147	7,752	6,156	15,055

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

Group

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2008				
At 31 December 2007 and at 1 January 2008:				
Cost	2,741	13,093	6,929	22,763
Accumulated depreciation	(367)	(5,274)	(1,752)	(7,393)
Net carrying amount	2,374	7,819	5,177	15,370
At 1 January 2008, net of accumulated depreciation	2,374	7,819	5,177	15,370
Additions	1,196	3,181	2,100	6,477
Disposals	–	(450)	(157)	(607)
Transfer to inventories	–	(95)	–	(95)
Depreciation provided during the year	(802)	(2,129)	(1,013)	(3,944)
Exchange realignment	130	420	282	832
At 31 December 2008, net of accumulated depreciation	2,898	8,746	6,389	18,033
At 31 December 2008:				
Cost	4,097	16,473	8,789	29,359
Accumulated depreciation	(1,199)	(7,727)	(2,400)	(11,326)
Net carrying amount	2,898	8,746	6,389	18,033

15. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**1,351,453**	1,351,453
Impairment#	**(1,260,686)**	(1,260,686)
	90,767	90,767
Due from subsidiaries	**199,095**	205,106
Impairment@	**(139,279)**	(135,466)
	59,816	69,640
	150,583	160,407

\# An impairment was recognised for certain unlisted investments with a carrying amount of HK$1,323,553,000 (2008: HK$1,323,553,000) (before deducting the impairment loss) because their carrying values exceed the recoverable amounts of the assets.

@ An impairment was recognised for amounts due from certain subsidiaries with a carrying amount of HK$169,471,000 (2008: HK$172,313,000) (before deducting the impairment loss) because the relevant subsidiaries had suffered losses for years. An additional impairment loss of HK$3,813,000 has been recognised during the year.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2009	2008	
Asren Holdings Limited* ("Asren")	British Virgin Islands/ Hong Kong	US$200	**51**	51	Investment holding
Astoria Innovations Limited* ("Astoria")	British Virgin Islands/ Hong Kong	US$1,000	**68**	68	Investment holding
Beijing Enterprises Sanxing Information Technology Co., Ltd.△	Mainland China	RMB10,000,000	**68**	68	Development and sale of computer software and provision of system integration and related services
Beijing Enterprises VST Software Technology Co., Ltd. △	Mainland China	RMB20,000,000	**100**	100	Development and sale of computer software and provision of system integration and related services
China Information Technology Development (Hong Kong) Limited	Hong Kong	HK$100	**100**	100	Office management
Full Trump International Limited ("Full Trump")	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2009	2008	
Go Good Holdings Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Pantosoft International Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Proud Stars Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Shanghai Pantosoft Company Limited△	Mainland China	HK$10,000,000	**100**	100	Development and sale of computer software and provision of system integration and related services
Surfing Platform Software International Limited*	British Virgin Islands/ Hong Kong	US$1,080,668	**100**	100	Investment holding
Wisdom Elite Holdings Limited* ("Wisdom Elite")	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Xteam Network (Beijing) Co., Ltd.△	Mainland China	US$1,220,000	**51**	51	Development and sale of internet equipment and provision of related services

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2009	2008	Principal activities
Xteam Software (China) Co., Limited△	Mainland China	US$3,000,000	**100**	100	Sale of computer software and provision of related services
Allied Jumbo Development Limited	Hong Kong	HK$1	**100**	100	Investment holding
北京控股信息發展有限公司^	Mainland China	US$5,000,000	**100**	100	Office management
廣州華源潤通網絡科技有限公司^	Mainland China	RMB5,000,000	**51**	51	Provision of system integration, internet and mobile communication services
河北華源潤通科技有限公司^	Mainland China	RMB1,000,000	**51**	51	Dormant
長沙華源潤通網絡科技有限公司^	Mainland China	RMB1,000,000	**51**	51	Dormant
成都華源潤通科技有限公司^	Mainland China	RMB1,000,000	**51**	51	Dormant
華源潤通(大連)科技有限公司^	Mainland China	RMB1,000,000	**100**	100	Dormant
南京拓通科技有限公司^	Mainland China	RMB1,000,000	**51**	51	Dormant
Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd.^ ("Run Tong")	Mainland China	RMB10,000,000	**100**	100	Provision of system integration, internet and mobile communication services

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2009	2008	
華源開拓(北京)科技有限公司^	Mainland China	RMB1,000,000	**100**	100	Provision of system integration, internet and mobile communication services
深圳北控信息發展有限公司^	Mainland China	RMB2,000,000	**100**	100	Provision of internet and mobile communication services
雲南華源潤通科技有限公司^	Mainland China	RMB1,000,000	**100**	100	Dormant
China Luck International Limited*	British Virgin Island/ Hong Kong	HK$100	**100**	100	Investment holding
Beijing Enterprises Easycode Technology Co., Ltd (formerly named Long Ma Xun Tong (Beijing) Science Technology Company Limited)	Mainland China	RMB6,650,000	**55**	55	Provision of internet and mobile communication services

* Directly held by the Company

Δ Registered as wholly-foreign-owned enterprises under PRC law

^ Registered as limited liability companies under PRC law

16. GOODWILL

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January:		
Cost	**1,285,711**	1,353,240
Accumulated impairment	**(1,251,711)**	(210,759)
Net carrying amount	**34,000**	1,142,481
Cost, net of accumulated impairment:		
At 1 January	**34,000**	1,142,481
Acquisition of a subsidiary	**–**	306
Adjustment on contingent consideration	**–**	(67,835)
Impairment during the year	**–**	(1,040,952)
At 31 December	**34,000**	34,000
At 31 December:		
Cost	**1,285,711**	1,285,711
Accumulated impairment	**(1,251,711)**	(1,251,711)
Net carrying amount	**34,000**	34,000

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following cash-generating units in terms of principal subsidiaries for impairment testing.

	Group	
	2009	2008
	HK$'000	HK$'000
Asren *(note i)*	**–**	–
Astoria *(note ii)*	**19,000**	19,000
Wisdom Elite *(note ii)*	**15,000**	15,000
Full Trump *(note iii)*	**–**	–
Carrying amount of goodwill	**34,000**	34,000

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Notes:

(i) Asren cash-generating unit

The goodwill of this cash-generating unit has been fully impaired in the prior year due to the belief of the senior management that the recoverable amounts of the relevant business unit is less than its respective carrying amount with reference to the poor sales performance of its major product, In@box.

(ii) Astoria and Wisdom Elite cash-generating units

The recoverable amounts of the cash-generating units of Astoria and Wisdom Elite are determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets covering a five-year period approved by management. The discount rate used for the value-in-use calculation is 13% (2008: 13%). Management determined the budgeted gross margins based on past performances and the average growth rate used is comparable with the forecast of the information technology market in Mainland China.

(iii) Full Trump cash-generating unit

The goodwill of this cash-generating unit has been fully impaired in the prior year because in the opinion of the management, the recoverable amounts of the relevant business unit is less than its respective carrying amount with reference to the business valuation as a result of the cessation of Mingsuo Business in June 2009.

Key assumptions were used in the value-in-use calculation of the above-said cash-generating units for 31 December 2009 and 31 December 2008. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted turnover – Budgeted turnover is based on the expected growth rate of the market in which the assessed entity operates and the expected market share of the assessed entity.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, and adjusted for the expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials/labour price inflation – The basis used to determine the value assigned to raw materials/labour price inflation is the forecast price indices during the budget year in the Mainland China.

Operating expenses – The bases used to determine the value assigned are staff head counts and price inflation. The value assigned to the key assumption reflects past experience and management's commitment to maintain its operating expenses to an acceptable level.

17. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000	Trademarks HK$'000	Computer software HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2009					
At 1 January 2009:					
Cost	**2,328**	**5,142**	**45,682**	**3,229**	**56,381**
Accumulated amortisation and impairment	**(2,328)**	**(5,142)**	**(45,682)**	**(431)**	**(53,583)**
Net carrying amount	**–**	**–**	**–**	**2,798**	**2,798**
Cost at 1 January 2009, net of accumulated amortisation and impairment	**–**	**–**	**–**	**2,798**	**2,798**
Amortisation provided during the year	**–**	**–**	**–**	**(323)**	**(323)**
At 31 December 2009	**–**	**–**	**–**	**2,475**	**2,475**
At 31 December 2009:					
Cost	**2,336**	**5,159**	**45,827**	**3,229**	**56,551**
Accumulated amortisation and impairment	**(2,336)**	**(5,159)**	**(45,827)**	**(754)**	**(54,076)**
Net carrying amount	**–**	**–**	**–**	**2,475**	**2,475**

17. OTHER INTANGIBLE ASSETS *(Continued)*

Group *(Continued)*

	Deferred development costs HK$'000	Trademarks HK$'000	Computer software HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2008					
At 1 January 2008:					
Cost	1,750	2,723	553	3,229	8,255
Accumulated amortisation	(1,604)	(1,060)	(161)	(108)	(2,933)
Net carrying amount	146	1,663	392	3,121	5,322
Cost at 1 January 2008, net of accumulated amortisation	146	1,663	392	3,121	5,322
Additions	136	–	45,096	–	45,232
Acquisition of subsidiary	340	2,261	–	–	2,601
Amortisation provided during the year	(153)	(142)	(4,737)	(323)	(5,355)
Impairment loss	(470)	(3,835)	(40,281)	–	(44,586)
Exchange realignment	1	53	(470)	–	(416)
At 31 December 2008	–	–	–	2,798	2,798
At 31 December 2008:					
Cost	2,328	5,142	45,682	3,229	56,381
Accumulated amortisation and impairment	(2,328)	(5,142)	(45,682)	(431)	(53,583)
Net carrying amount	–	–	–	2,798	2,798

17. OTHER INTANGIBLE ASSETS *(Continued)*

Company

	Golf club membership	
	2009	2008
	HK$'000	HK$'000
Cost at 1 January 2009, net of amortisation	**2,798**	3,121
Amortisation provided during the year	**(323)**	(323)
At 31 December	**2,475**	2,798
At 31 December:		
Cost	**3,229**	3,229
Accumulated amortisation	**(754)**	(431)
Net carrying amount	**2,475**	2,798

18. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**555**	838
Work in progress	**4**	12
Finished goods and merchandise	**17,583**	6,319
	18,142	7,169

19. TRADE RECEIVABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Due from third parties	**33,206**	36,051
Due from related companies	**11,465**	6,156
	44,671	42,207
Impairment	**(11,161)**	(11,126)
	33,510	31,081

Generally, the Group has granted credit terms to its customers, ranging from 30 to 90 days. In certain cases, the Group would request payment in advance from the customers. Trade receivables are non-interest bearing.

The balances with related companies are repayable on similar credit terms to those offered to the major customers of the Group.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Within 1 month	**22,223**	11,313
1 to 2 months	**955**	2,160
2 to 3 months	**2,311**	1,665
Over 3 months	**8,021**	15,943
	33,510	31,081

19. TRADE RECEIVABLES *(Continued)*

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

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**11,126**	988
Impairment losses recognised *(note 6)*	**–**	9,972
Exchange realignment	**35**	166
At 31 December	**11,161**	11,126

Included in the above provision for impairment of trade receivables is the provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulty. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**15,807**	13,511
Less than 1 month past due	**7,692**	3,760
1 to 3 months past due	**3,184**	1,295
Over 3 months past due	**6,827**	12,515
	33,510	31,081

Receivables that were neither past due nor impaired mainly relate to several major customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**2,692**	12,995	**150**	150
Deposits and other receivables	**8,168**	13,825	**3**	92
Dividends receivable	**–**	–	**1,442**	1,442
Due from related companies	**4,806**	5,610	**–**	–
	15,666	32,430	**1,595**	1,684

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment.

21. INTERESTS IN AN ASSOCIATE

	Group	
	2009	2008
	HK$'000	HK$'000
Loan to an associate	**20,000**	20,000

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment.

21. INTERESTS IN AN ASSOCIATE *(Continued)*

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activity
Business Net (Hong Kong) Limited	Ordinary shares of HK$1 each	Hong Kong	40	Investment holding

The Group has not recognised its share of losses of the associate because the share of losses of the associate exceeded the Group's interests in the associate. The amounts of the Group's unrecognised share of loss of this associate for the current year and cumulatively were HK$2,376,000 (2008: HK$1,672,000) and HK$4,048,000 (2008: HK$1,672,000), respectively.

The above associate has been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associate extracted from its consolidated financial statements:

	2009 HK$'000	2008 HK$'000
Assets	**41,147**	48,572
Liabilities	**50,776**	52,262
Revenues	**2,433**	–
Loss	**(5,939)**	(4,181)

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**101,500**	121,946	**6**	225
Short term deposits	**29,697**	34,218	**–**	–
Cash and cash equivalents	**131,197**	156,164	**6**	225

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$126,523,000 (2008: HK$137,277,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE PAYABLES

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

	Group	
	2009	2008
	HK$'000	HK$'000
Within 1 month	**2,182**	2,425
1 to 2 months	**167**	106
2 to 3 months	**39**	90
Over 3 months	**3,180**	4,382
	5,568	7,003

The trade payables are non-interest-bearing and are normally settled within 30 to 90 days.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**30,025**	21,860	**894**	3,012
Accruals	**9,196**	13,112	**2,809**	1,838
Due to a related company	**2,401**	2,394	**359**	359
	41,622	37,366	**4,062**	5,209

Other payables are non-interest-bearing and are normally settled within 90 days.

The balance with a related company is unsecured, interest-free and has no fixed terms of repayment.

25. DUE TO SHAREHOLDERS / SUBSIDIARIES

The amounts due to shareholders and subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

26. CONVERTIBLE BONDS

On 18 September 2007, the Company issued two zero coupon convertible bonds with a principal amount of HK$200,246,000 to an independent third party as part of the consideration for the acquisition of Full Trump. The bonds conferred the right for the bondholder to convert the whole or part of the principal amount of the bonds into ordinary shares of the Company at any time commencing on 19 September 2007 until 21 May 2010 at a conversion price of HK$0.19215 per share. The outstanding principal amount of the convertible bonds, if not converted, will be repaid on 28 May 2010 at 100% of the outstanding amount.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

26. CONVERTIBLE BONDS *(Continued)*

	Liability component of convertible bonds HK$'000	Equity component of convertible bonds HK$'000
At 31 December 2007 and 1 January 2008	**177,493**	25,345
Interest expenses *(note 7)*	**3,218**	–
Adjustment on contingent consideration[@]	**(59,249)**	(8,586)
Conversion of convertible bonds[^]	**(44,871)**	(6,348)
At 31 December 2008 and 1 January 2009	**76,591**	10,411
Interest expenses *(note 7)*	**3,701**	–
At 31 December 2009	**80,292**	10,411

The fair value of the convertible bonds was determined by an independent qualified valuer based on the binomial valuation model. The fair value of the liability component on initial recognition was valued using a discounted cashflow model. The fair value of the conversion rights as a single derivative was valued by estimating the value of the whole bond with and without the conversion feature. The difference in value reflects the value of the conversion right.

@ Pursuant to the agreement for acquisition of Full Trump, the vendor guaranteed an audited net profit after tax of RMB60,000,000 for Full Trump for the year ended 31 December 2008. The Company will have the right to redeem the portion of convertible bonds corresponding to the shortfall in the net profit after tax at zero consideration. Full Trump incurred a loss for the year ended 31 December 2008 and thus the Company has the right to redeem the full amount of convertible bonds amounting to RMB60,000,000 (approximately HK$67,835,000) at zero consideration to cover the shortfall accordingly. The fair value of the convertible bonds had been reduced by this amount as an adjustment on contingent consideration. On 17 March 2010, the Company obtained the consent of its bondholder who holds outstanding convertible bond with principal amount of HK$116,661,000 to reduce the principal amount by HK$52,724,000.

^ During the year ended 31 December 2008, bonds with a face value of HK$50,151,000 were converted into 261,000,000 ordinary shares of the Company at a price of HK$0.19215 per share.

27. DEFERRED TAX

The Group has tax losses arising in Hong Kong of HK$3,682,000 (2008: HK$3,682,000) that are available indefinitely, and in Mainland China of HK$59,504,000 (2008: HK$44,818,000) that are available for a maximum of five years, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is considered not probable that taxable profits will be available against which tax losses can be utilised.

At 31 December 2009, there was no significant unrecognised deferred tax liability (2008: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

28. SHARE CAPITAL

Shares

	2009 **HK$'000**	2008 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
6,494,906,368 ordinary shares of HK$0.01 each	**64,949**	64,949

Share options

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

29. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive and non-executive directors, full-time employees of the Group, advisers and consultants of the Group. The Scheme became effective on 21 November 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and yet to be granted under the Scheme is currently limited to 30% of the shares of the Company in issue at any time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant in the Scheme in any 12-month period up to the date of the grant is limited to 1% of the aggregate number of issued shares of the Company at any time.

29. SHARE OPTION SCHEME *(Continued)*

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors at their discretion, and commences on the date upon which the options are deemed to be granted and accepted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2009		2008	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.76**	**183,800**	0.79	359,500
Granted during the year	**–**	**–**	0.53	20,000
Forfeited during the year	**0.79**	**(44,925)**	0.79	(195,700)
At 31 December	**0.75**	**138,875**	0.76	183,800

No share options were exercised during the current and prior years.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options '000	**Exercise price* HK$ per share**	**Exercise periods**
118,875	**0.79**	**13-3-2008 to 12-9-2012**
20,000	**0.53**	**11-8-2008 to 10-2-2013**
138,875		

29. SHARE OPTION SCHEME *(Continued)*

2008

Number of options '000	Exercise price* HK$ per share	Exercise periods
163,800	0.79	13-3-2008 to 12-9-2012
20,000	0.53	11-8-2008 to 10-2-2013
183,800		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The Group recognised a share option expense of HK$16,127,000 (2008: HK$32,099,000) during the year ended 31 December 2009 in respect of share options granted in the prior years.

At the end of the reporting period, the Company had 138,875,000 share options outstanding under the Scheme, which represented approximately 2% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 138,875,000 additional ordinary shares of the Company and additional share capital of HK$1,389,000 and share premium of HK$103,123,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 133,775,000 share options outstanding under the Scheme, which represented approximately 2% of the Company's shares in issue as at that date.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

Pursuant to the relevant laws and regulations of the PRC, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to reserve funds which are restricted as to use.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated retained profits.

30. RESERVES *(Continued)*

(b) Company

	Notes	Share premium account HK$'000	Equity component of convertible bonds HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2008		1,117,305	25,345	23,770	(41,876)	1,124,544
Total comprehensive income for the year		–	–	–	(1,181,194)	(1,181,194)
Conversion of convertible bonds	26	48,609	(6,348)	–	–	42,261
Adjustment on contingent consideration	26	–	(8,586)	–	–	(8,586)
Reversal of share option expense		–	–	(12,938)	12,938	–
Equity-settled share option arrangements	29	–	–	32,099	–	32,099
At 31 December 2008		1,165,914	10,411	42,931	(1,210,132)	9,124
Total comprehensive income for the year		–	–	–	(31,277)	(31,277)
Reversal of share option expense		–	–	(10,948)	10,948	–
Equity-settled share option arrangements	29	–	–	16,127	–	16,127
At 31 December 2009		1,165,914	10,411	48,110	(1,230,461)	(6,026)

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

31. CONTINGENT LIABILITIES

(a) Cessation of Mingsuo business

In June 2009, the Group ceased the corporate information enquiry services of Mingsuo business which is operated by Run Tong. The management is not able to ascertain the number of outstanding Mingsuo prepaid cards in issue, the unutilised stored values and their expiry dates. Accordingly, the management is not able to ascertain the Group's liabilities in respect of the services not yet provided for unutilised cards sold up to 31 December 2008. However, in the opinion of the directors, the possibility of the Group being claimed by the customers holding unutilised cards is low.

(b) Violation of the PRC law

On 25 April 2008, the PRC government imposed a new law 《政府信息公開條例》 (the "Regulation") which governs the uses of open government information since 1 May 2008. Run Tong maintained the operation of the Mingsuo Internet Platform for providing the search services on companies which were registered with the Beijing Administration for Industry and Commerce ("BAIC") after May 2008.

The management engaged an external legal counsel to make an assessment and opinion on whether the operation of the Mingsuo Internet Platform after May 2008 would violate the Regulation. According to the legal counsel, the risk for Run Tong and the Group of being sued due to violation of the Regulation is remote.

In the opinion of directors, the potential risk of being claimed against the violation of the Regulation was remote.

32. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and a staff quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**5,906**	9,144
In the second to fifth years, inclusive	**2,494**	7,515
	8,400	16,659

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted, but not provided for the purchase of information system	**540**	13,348

34. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2009 **HK$'000**	2008 HK$'000
Service fee income from subsidiaries of a major shareholder of the Company	**15,134**	29,731

The service fees were determined with reference to the fees charged to third parties by the Group.

(b) Compensation of key management personnel of the Group:

	2009 **HK$'000**	2008 HK$'000
Short term employee benefits	**7,677**	8,925
Post-employment benefits	**305**	151
Equity-settled share option expense	**11,737**	26,447
Total compensation paid to key management personnel	**19,719**	35,523

Further details of directors' emoluments are included in note 8 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

2009

Financial assets

Group

	Loans and receivables HK$'000
Trade receivables	**33,510**
Financial assets included in prepayments, deposits and other receivables *(note 20)*	**12,974**
Cash and cash equivalents	**131,197**
	177,681

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	**5,568**
Financial liabilities included in other payables and accruals *(note 24)*	**32,426**
Due to shareholders	**1,196**
Convertible bonds	**80,292**
	119,482

35. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2008

Financial assets

Group

	Loans and receivables HK$'000
Trade receivables	31,081
Financial assets included in prepayments, deposits and other receivables *(note 20)*	19,435
Cash and cash equivalents	156,164
	206,680

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	7,003
Financial liabilities included in other payables and accruals *(note 24)*	24,254
Due to shareholders	1,205
Convertible bonds	76,591
	109,053

All financial assets and liabilities of the Company as at 31 December 2008 and 2009 are loans and receivables, and financial liabilities stated at amortised cost, respectively.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise cash and short term deposits and convertible bonds. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Company's exposure to financial risks, including liquidity risk.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group's business is located in Mainland China and all the sales and purchases transactions are conducted in RMB. Fluctuations of the exchange rates of RMB against foreign currencies are not expected to have significant impact on the results of the Group.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax.

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in loss before tax**
	%	HK$'000
2009		
If Hong Kong dollar weakens against RMB	**5**	**(776)**
If Hong Kong dollar strengthens against RMB	**(5)**	**776**
2008		
If Hong Kong dollar weakens against RMB	5	(1,381)
If Hong Kong dollar strengthens against RMB	(5)	1,381

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

Credit risk

The carrying amount of trade receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables.

The Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. The provision for impairment of trade receivables is based upon a review of the expected collectability of all trade receivables. At the end of the reporting period, the Group has certain concentrations of credit risk of 14% (2008: 18%) and 49% (2008: 56%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

With respect to credit risk arising from the other financial assets of the Group, comprising cash and cash equivalents and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure being equal to the carrying amounts of these instruments. There is no significant concentration of credit risk within the Group in relation to the other financial assets.

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the convertible bonds and funding from the shareholders. Financial liabilities of the Group and the Company included in current liabilities as at the end of the reporting period either have no fixed terms of repayment or are due for repayment within one year.

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

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group	**2009**		
	On demand or within 1 year HK$'000	**2 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**5,568**	**–**	**5,568**
Financial liabilities included in other payables and accruals	**32,426**	**–**	**32,426**
Due to shareholders	**1,196**	**–**	**1,196**
Convertible bonds	**82,260**	**–**	**82,260**
	121,450	**–**	**121,450**

	2008		
	On demand or within 1 year HK$'000	2 to 5 years HK$'000	Total HK$'000
Trade payables	7,003	–	7,003
Financial liabilities included in other payables and accruals	24,254	–	24,254
Due to shareholders	1,205	–	1,205
Convertible bonds	–	82,260	82,260
	32,462	82,260	114,722

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

Liquidity risk *(Continued)*

Company

	2009 On demand or within 1 year HK$'000	2 to 5 years HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	**1,253**	**–**	**1,253**
Due to subsidiaries	**11,382**	**–**	**11,382**
Convertible bonds	**80,292**	**–**	**80,292**
	92,927	**–**	**92,927**

	2008 On demand or within 1 year HK$'000	2 to 5 years HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	3,371	–	3,371
Due to subsidiaries	5,872	–	5,872
Convertible bonds	–	82,260	82,260
	9,243	82,260	91,503

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern. The Group does not have specific policies for managing capital and it is not subject to any externally imposed capital requirements. The Group will continue to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

37. EVENT AFTER THE REPORTING PERIOD

On 17 March 2010, the Group entered into a sale and purchase agreement with Beijing Development (Hong Kong) Limited, the substantial shareholder of the Company, to dispose of its Golf Country Club Corporate Membership for a cash consideration of HK$1,875,000. This transaction is scheduled to be completed in May 2010 and is expected to result in a gain on disposal before tax of approximately HK$664,000.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2010.

Five Year Financial Summary

31 December 2009

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	1 January 2009 to 31 December 2009 HK$'000	1 January 2008 to 31 December 2008 HK$'000	1 January 2007 to 31 December 2007 HK$'000	1 January 2006 to 31 December 2006 HK$'000	1 January 2005 to 31 December 2005 HK$'000
RESULTS					
REVENUE	**108,571**	93,657	135,814	42,075	66,891
PROFIT/(LOSS) BEFORE TAX	**(52,153)**	(1,189,885)	20,000	(220,297)	15,946
Income tax expense	**(4,093)**	(26,981)	(3,947)	(2,066)	(444)
PROFIT/(LOSS) FOR THE YEAR	**(56,246)**	(1,216,866)	16,053	(222,363)	15,502
Attributable to:					
Owners of the Company	**(57,396)**	(1,212,313)	16,310	(220,247)	10,065
Minority interests	**1,150**	(4,553)	(257)	(2,116)	5,437
	(56,246)	(1,216,866)	16,053	(222,363)	15,502
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**270,045**	301,675	1,574,605	168,004	387,178
TOTAL LIABILITIES	**(150,656)**	(142,743)	(285,384)	(27,611)	(26,288)
MINORITY INTERESTS	**(14,226)**	(13,035)	(12,802)	(10,366)	(12,969)
	105,163	145,897	1,276,419	130,027	347,921