China Railway Logistics Limited

中國鐵路貨運有限公司*

(incorporated in Bermuda with limited liability)

Stock Code: 8089

ANNUAL REPORT 2010

* For identification purpose only

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

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

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Yeung Sau Han Agnes
Ms. Chan Shui Sheung Ivy

Independent Non-executive Directors

Ms. Yuen Wai Man
Mr. Lam Ka Wai Graham
Mr. Wang Chin Mong

AUTHORISED REPRESENTATIVES

Ms. Yeung Sau Han Agnes
Ms. Chan Shui Sheung Ivy

AUDIT COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Ka Wai Graham
Mr. Wang Chin Mong

NOMINATION COMMITTEE

Ms. Yeung Sau Han Agnes *(Chairman)*
Ms. Yuen Wai Man
Mr. Lam Ka Wai Graham
Mr. Wang Chin Mong

REMUNERATION COMMITTEE

Mr. Lam Ka Wai Graham *(Chairman)*
Ms. Yeung Sau Han Agnes
Ms. Yuen Wai Man
Mr. Wang Chin Mong

COMPANY SECRETARY

Mr. Li Chak Hung

COMPLIANCE OFFICER

Ms. Yeung Sau Han Agnes

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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China Overseas Building
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Wanchai
Hong Kong

WEB-SITE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER AGENT OFFICE

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

AUDITOR

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

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
China Construction Bank Corporation
Fubon Bank (Hong Kong) Limited

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in businesses of computer telephony, properties investments, securities trading and loan financing. The turnover of the Group for the year ended 31 December 2010 encouragingly increased by 667.6% to HK$68,435,000 as compared with the preceding financial year.

Computer Telephony

During the year under review, computer telephony business recorded an increase in revenue and earned stable income generated from major customers, including various departments of the Hong Kong Government, the Citibank and Hutchison Telecom.

Properties Investments

The Group held properties in Hong Kong and in the PRC for investment purposes with total amounted to approximately HK$118,887,000 as at 31 December 2010 (2009: approximately HK$142,246,000).

During the year, the Group acquired two properties in Hong Kong for investment purposes at the purchase price of approximately HK$8,200,000 and HK$9,300,000, respectively. Through renting out of the properties, the Group recorded a rental income of approximately HK$288,000. As at 31 December 2010, the increase in fair value changes in investment properties was approximately HK$12,840,000 on the basis of valuation carried out on that date by independent firms of professional valuers not connected with the Group.

Further, during the year, an investment property in Hong Kong was disposed at the consideration of HK$78,000,000, resulting in a gain on disposal of approximately HK$14,610,000.

Securities Trading

Segmental turnover and loss of the securities trading business were HK$31,669,000 and HK$155,855,000, respectively. The loss recorded was mainly due to the fair value changes of investments held for trading held by the Group as at 31 December 2010.

As at 31 December 2010, the Group held investments held for trading amounted to approximately HK$205,989,000 (2009: HK$94,540,000).

Loan Financing

Currently, a wholly-owned subsidiary of the Group possesses a money lender licence. The loan financing business commenced in late 2009. The loan financing business generated solid, diversified and broadened income for the Group, since then, there has been a continual increase in interest income. During the year under review, interest income of approximately HK$27,779,000, was recorded from the loan financing business.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2010, the Group recorded a turnover from continuing operations of approximately HK$68,435,000 (2009: approximately HK$8,916,000), representing an increase of approximately 667.6% as compared with the preceding financial year. The remarkable increase in turnover was mainly contributed from the securities trading and loan financing business.

Administrative expenses for the year ended 31 December 2010 was approximately HK$33,406,000 (2009: HK$36,424,000), representing a decrease of 8.3% as compared with the preceding financial year.

The Group's investment in the jointly controlled entity, 長沙賽格發展有限公司 (Changsha Seg Development Co. Limited, formerly known Changsha Xinxing Development Co. Limited, "Changsha Seg") performed satisfactory during the year. The Group's share of profit of Changsha Seg amounted to HK$10,520,000 for the year ended 31 December 2010 (2009: loss of HK$4,028,000).

The profit attributable to the owners of the Company for the year ended 31 December 2010 aggregated at approximately HK$178,252,000 (2009: loss of approximately HK$5,512,000), which was mainly contributed from the gain on deconsolidation of a former subsidiary, China Eco-Farming Limited ("CEF"). The basic earnings per share for the year ended 31 December 2010 was HK31.62 cents (2009: basic loss per shares of HK0.99 cent).

OUTLOOK

The loan financing business has been undergoing a continual increase in interest income since its commencement in late 2009. Riding on the generally stabilized and improved regional economy, and backed up by the fund raising platform provided by the Company, the Directors are confident that this new business segment will continue to grow at a healthy pace and will generate solid income for the Group in the coming year.

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

Furthermore, the Board remains prudently optimistic about the property markets in the PRC and in Hong Kong in the long run and will continue to identify and secure investment opportunities in the respective property markets to enhance the Group's profitability.

Changsha Seg, a jointly controlled entity of the Group, is principally engaged in the management of a shopping mall selling electronic products in Changsha, the PRC (the "Shopping Mall") that is situated at a prime location near the Changsha Railway Station with gross floor area of approximately 25,700 square metres. Most of the shops therein have been leased out and the Shopping Mall was renovated and commenced operation in January 2010. The Group has been working closely with its partner, Shenzhen Seg Co. Ltd., a company listed on the Shenzhen Stock Exchange, as well as the remaining shareholders of Changsha Seg, with respect to the operation and development of the Shopping Mall.

The Board considers that the Group's overall financial position is healthy. In addition, global economic recovery is expected to sustain in 2011, hence, the Board remains optimistic on the prospects of the Group. The Board will continue to adopt a positive but prudent approach towards its investment strategy and will continue to seek other investment opportunities and to explore the feasibility of expansion into other business segments with a view to diversify the Group's business portfolio aiming to enhance the Group's profitability and the shareholders' value in the long run.

FUND RAISING ACTIVITIES

Pursuant to a conditional placing agreement between the Company and Fortune (HK) Securities Limited ("Fortune Securities" as the placing agent) dated 13 May 2010 (as supplemented by an extension letter dated 10 September 2010) (the "Placing Agreement"), the placing agent conditionally agree to place on a best effort basis 112,000,000 new shares of the Company (the "Placing Shares") at a price of HK$0.70 per share (the "Placing Price") to independent institutional or private investors between 13 May 2010 and 7 January 2011 (collectively, the "Placing"). As the Placing Shares will be issued under the general mandate and therefore the Placing is not subject to the approval of the shareholders of the Company ("Shareholders"). On 7 January 2011, the Company and Fortune Securities entered into a supplemental placing agreement to further extend the placing period to 7 April 2011 and revise the Placing Price to HK$0.43 per Placing Share. The Placing has not yet been completed as at the date of this annual report.

LIQUIDITY AND FINANCIAL RESOURCES

The Group principally finances its operations through a combination of shareholders equity and internally generated cash flows.

As at 31 December 2010, the Group had cash and cash equivalent of approximately HK$113,577,000 (2009: approximately HK$299,866,000) and had no bank borrowings (2009: nil). The gearing ratio, measured on the basic of total non-current liabilities to total assets less current liabilities, was zero times (2009: zero times).

CAPITAL STRUCTURE

As at 31 December 2010, the Company's issued shares capital was HK$563,814 and the number of its issued ordinary shares was 563,814,000 of HK$0.001 each ("Shares") (2009: 563,814,000 Shares).

CHARGES ON GROUP ASSETS

As at 31 December 2010 and at 31 December 2009, the Group did not have any charges on its assets.

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENTS

As at 31 December 2010, the Group had capital commitment of HK$2,391,000 (2009: nil) in respect of acquisition of plant and equipment.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The reporting currency adopted by the Group is Hong Kong dollars ("HK$"). The majority of the Group's sales, receivables and expenditures are dominated in HK$, United States dollars ("USD") or Renminbi ("RMB"). HK$ is closely linked with USD. Although the exchange rate of HK$ against RMB had steadily depreciated during the year under review, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk. No hedging or other similar device has been implemented. However, the Directors will constantly monitor the Group's foreign exchange exposure and implement foreign currency hedging measures should the need arises.

MATERIAL ACQUISITIONS AND DISPOSALS

On 15 December 2008, Top Status International Limited ("Top Status"), a wholly-owned subsidiary of the Company, entered into a conditional placing agreement with a placing agent (as amended by supplemental placing agreements dated 22 December 2008, 15 March 2009, 15 June 2009, 15 September 2009 and 15 December 2009, respectively) for a private placing of 150,000,000 convertible preference shares ("CP Shares") of CEF, a company listed on the GEM Board of the Stock Exchange (Stock Code: 8166), which at that juncture was a non-wholly-owned subsidiary of the Company, at a price of HK$0.53 per CP Share to potential subscribers (collectively, the "CP Placing") on a best effort basis. The CP Placing constituted a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules and was completed on 28 January 2010. Following the completion of the CP Placing, CEF ceased to be a subsidiary of the Company. The net proceeds earned from the CP Placing aggregated at approximately HK$78,705,000 which was applied as general working capital of the Group. Immediately after the issuance of new shares in CEF pursuant to the full conversion of the CP Shares by the holders thereof, the Company's interest in CEF was diluted. For further details, please refer to the announcements of the Company dated 29 December 2008, 16 March 2009, 15 June 2009, 15 September 2009, 15 December 2009 and 29 January 2010 and the circular of the Company dated 19 January 2009.

On 3 March 2010, Top Status (as the vendor) and China Coalfields International Group Limited ("China Coalfields", as the purchaser) entered into a conditional sale and purchase agreement (the "Agreement") in relation to the disposal of 537,276,000 CEF shares held by Top Status, representing approximately 22.27% of the then issued share capital of CEF, at an aggregate consideration of HK$175,366,886. The disposal constituted a major transaction for the Company under the GEM Listing Rules and is subject to Shareholders' approval. As the conditions of the disposal have not been fulfilled before the long stop date, and Top Status and China Coalfields have not yet concluded to extend the long stop date, the Agreement lapsed. Neither Top Status nor China Coalfields shall have any obligations and liabilities towards each other. Nevertheless, as at the date thereof, Top Status and China Coalfields are still engaged in negotiations and try to conclude to a revised agreement with respect to the disposal, albeit that no binding agreement has been signed to date. For further details, please refer to the announcements of the Company dated 4 March 2010, 25 March 2010, 4 May 2010, 25 June 2010, 6 August 2010 and 29 November 2010.

On 11 June 2010, a conditional placing agreement (as subsequently amended by supplemental agreements dated 18 June 2010, 5 July 2010 and 15 July 2010, respectively) between Top Status, CEF and the placing agent, Fortune Securities and a subscription agreement (as subsequently amended by supplemental agreements dated 5 July 2010 and 15 July 2010, respectively) between Top Status and CEF were entered into in relation to the placing of a maximum of 135,000,000 CEF shares held by Top Status at HK$0.46 per share on a best effort basis (the "Share Placing") and the subscription of the exact number of new CEF shares by Top Status (the "Subscription") at HK$0.46 per share. As Top Status, being a substantial shareholder of CEF, is a connected person to CEF, the Subscription constituted a connected transaction for CEF and is subject to CEF's shareholders' approval. As at the date hereof, both the Share Placing and the Subscription have not been completed; and an aggregate of 38,500,000 CEF shares held by Top Status have been placed out by Fortune Securities. For further details, please refer to the announcement of the Company dated 3 August 2010.

During the year, details of acquisition and disposal of the investment properties are set out under section "Properties Investments" above.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group (excluding its associate) had about 50 full time employees (2009: 55 employees) in Hong Kong and the PRC as at 31 December 2010. During the year ended 31 December 2010, the Group had incurred staff costs (including Directors' emoluments) of approximately HK$15,263,000 (2009: approximately HK$15,459,000).

The emoluments of the Directors are recommended by the remuneration committee, and approved by the Board, as authorized by the Shareholders in the annual general meeting of the Company, having regard to the respective Directors' skills, knowledge and involvement in the Company's affairs. None of the Directors are involved in deciding their own remuneration.

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

In order to attract, retain and motivate eligible employees, including the Directors, the Company has adopted a share option scheme. The scheme enables eligible persons to obtain an ownership interest in the Company and thus motivates them to optimize their continuing contributions to the Group. As at 31 December 2010, there are 2,200,000 share options remained outstanding.

EXECUTIVE DIRECTORS

Ms. Yeung Sau Han Agnes ("Ms. Yeung"), aged 45, was a graduate from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma in fashion design. Prior to joining the Company, Ms. Yeung worked in various garment companies for over 17 years and is currently the director of certain subsidiaries of the Company. Ms. Yeung previously served as the executive director for China Bio-Med Regeneration Technology Limited (Stock Code: 8158) ("China Bio-Med"), from 8 June 2007 to 3 December 2009, and Heng Xin Holdings Limited (Stock Code: 8046) ("Heng Xin"), from 11 July 2007 to 31 March 2009, which both China Bio-Med and Heng Xin are listed on GEM Board of the Stock Exchange. She was appointed as an executive director of PME Group Limited (Stock Code: 379) ("PME"), a company listed on the Main Board of the Stock Exchange, since 2 May 2007.

According to the service contract between the Company and Ms. Yeung, Ms. Yeung is entitled to an annual remuneration of HK$960,000, which is determined by the Board with reference to her duties and responsibilities within the Company, and a fixed bonus equal to the monthly salary of HK$80,000. All the remuneration and fixed bonus are covered by the service contract. Ms. Yeung has been appointed for an initial fixed term of two years which will continue thereafter until being terminated by either party. Ms. Yeung is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-law no. 87(1) of the bye-laws of the Company.

Save as disclosed above, Ms. Yeung has not previously held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years. Save for being an executive director of PME, a substantial shareholder of the Company, Ms. Yeung is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Ms. Chan Shui Sheung Ivy ("Ms. Chan"), aged 46, is graduated from The University of South Australia with a Master of Business Administration degree. Ms. Chan has over 17 years of experience in investment and is currently the director of certain subsidiaries of the Company. She is also a director of Channel Enterprises (Int'l) Limited and the executive director of PME (Stock Code: 379) and China Oriental Culture Group Limited (formerly known as ZZNode Technologies Company Limited) (Stock Code: 2371) ("China Oriental Culture"), which both PME and China Oriental Culture are listed on the Main Board of the Stock Exchange.

Ms. Chan has not entered into any service contract with the Company and has no fixed term of service with the Company, but she is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the bye-law no. 87(1) of the bye-laws of the Company. Ms. Chan is entitled to a monthly emolument of HK$80,000. The emolument is determined by the Board with reference to her position, her level of responsibilities, the remuneration policy of the Company and prevailing market conditions.

Save as disclosed above, Ms. Chan has not previously held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years. Save for being an executive director of PME, a substantial shareholder of the Company, Ms. Chan is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company. Ms. Chan had the following interests in shares and underlying shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance:

Name	Personal Interest	Approximate percentage of shareholding
Chan Shui Sheung Ivy	60,000	0.011%

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yuen Wai Man ("Ms. Yuen"), aged 39, is graduated from the University of Hong Kong with a degree in Business Administration in 1994. She is the fellow member of The Association of Chartered Certified Accountants, fellow member of The Hong Kong Institute of Certified Public Accountants and overseas member of The Chinese Institute of Certified Public Accountants. Prior to joining the Company, Ms. Yuen worked in accounting and auditing area for over 16 years.

Ms. Yuen has entered into an appointment letter with the Company effective from 4 July 2010 for a term of one year. She is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the bye-law no. 87(1) of the bye-laws of the Company, and is entitled to a monthly emolument of HK$20,000 without any bonus payment. The emolument is determined with reference to the expected time commitment of Ms. Yuen to the Company's affairs.

Saved as disclosed above, Ms. Yuen has not previously held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years. Also, she is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Lam Ka Wai Graham ("Mr. Lam"), aged 43, graduated from the University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is a member of Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lam is currently a Managing Director and Head of Corporate Finance of an investment bank and has around 17 years experience in investment banking as well as around 4 years experience in accounting and auditing. He is also the independent non-executive director of Cheuk Nang (Holdings) Limited (Stock Code: 131), Applied Development Holdings Limited (Stock Code: 519), China Fortune Group Limited (Stock Code: 290), China Sonangol Resources Enterprise Limited (Stock Code: 1229), Pearl Oriental Innovation Limited (Stock Code: 632) and Value Convergence Holdings Limited (Stock Code: 821), all of which are companies listed on the Main Board of the Stock Exchange; and Hao Wen Holdings Limited (Stock Code: 8019) and Trasy Gold Ex Limited (Stock Code: 8063), both companies are listed on GEM Board of the Stock Exchange. In addition, Mr. Lam previously served as the independent non-executive director for China Oriental Culture (Stock Code: 2371), a company listed on the Main Board of the Stock Exchange, from 29 January 2008 to 5 October 2010 and Finet Group Limited (Stock Code: 8317), a company listed on GEM Board of the Stock Exchange, from 5 August 2009 to 24 January 2011.

Mr. Lam has entered into an appointment letter with the Company effective from 22 December 2010 for a term of one year. He is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-law no. 87(1) of the bye-laws of the Company, and is entitled to a monthly emolument of HK$20,000 without any bonus payment. The emolument is determined with reference to the expected time commitment of Mr. Lam to the Company's affairs.

Save as disclosed above, Mr. Lam has not previously held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years. He is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Wang Chin Mong ("Mr. Wang"), aged 39, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wang has more than 14 years of experience in the fields of auditing, accounting and finance. He was an independent non-executive director of Heng Xin (Stock Code: 8046), a company listed on GEM Board of the Stock Exchange, for the period from April 2008 to March 2009.

Mr. Wang has entered into an appointment letter with the Company effective from 10 August 2010 for a term of one year. He is subject to retirement by rotation and re-election at general meeting of the Company in accordance with the bye-law no. 87(1) of the bye-laws of the Company, and is entitled to a monthly emolument of HK$20,000 without any bonus payment. The emolument is determined with reference to the expected time commitment of Mr. Wang to the Company's affairs.

Save as disclosed above, Mr. Wang has not previously held any position with the Company or any of its subsidiaries and has not been a director in any other listed company in the past three years. Also, he is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

SENIOR MANAGEMENT

Ms. Siu Yuk Wa Joe Joe, the Chief Financial Officer of the Group, holds a Bachelor's Degree of Business Administration and is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 22 years' experience in accounting and financial management.

REPORT OF DIRECTORS

The Board presents this annual report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries were principally engaged in investment holding, sales, development and implementation of computer telephony products, properties investments, securities trading and loan financing.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business segment is set out in Note 7 to the accompanying financial statements.

RESULTS

Details of the Group's results for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on pages 36 and 37 of this annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 141 to 143 of this annual report.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and the Group's associate are set out in Notes 47 and 19 to the accompanying financial statements, respectively.

PLANT AND EQUIPMENT

Details of movements in plant and equipment during the year are set out in Note 17 to the accompanying financial statements.

DIVIDEND

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

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 36 to the accompanying financial statements.

RESERVES

Movements in reserves of the Group during the year are set out in the section headed "Consolidated Statement of Changes in Equity" on page 40 of this annual report.

The Company had no reserves available for distribution to shareholders as at 31 December 2010 (2009: nil).

SHARE OPTION SCHEME

A summary of the share option scheme and details of the movements in share options of the Company during the year are set out in Note 37 to the accompanying financial statements.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes are set out in Note 39 to the accompanying financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases for the year ended 31 December 2010 attributable to the Group's major suppliers is as follows:

	Percentage of purchases
The largest supplier	57.7%
Five largest suppliers combined	79.8%

The percentage of revenue for the year ended 31 December 2010 attributable to the Group's major customers is as follows:

	Percentage of revenue
The largest customer	14.5%
Five largest customers combined	43.7%

During the year, none of the Directors, their associates, or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the Group's five largest suppliers and customers.

RELATED PARTY TRANSACTIONS

The related party transactions of the Group are disclosed in Note 40 to the accompanying financial statements.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting date are set out in Note 48 to the accompanying financial statements.

OTHER DISCLOSURE

Reference is made to the announcements of the Company dated 4 November 2008, 24 November 2008, 26 November 2008, 30 December 2009 and 20 January 2011, respectively, and the circular of the Company dated 2 December 2008 in relation to the disposal agreement dated 13 October 2008 (as amended) between Dragon Billion Limited (as the vendor, the "Vendor", a wholly-owned subsidiary of the Company) and Portstar Enterprises Limited (as the purchaser, the "Purchaser") regarding (i) the disposal of the total issued shares (the "Sale Shares") of Eternity Profit Investments Limited ("Eternity Profit"), (ii) the disposal of the outstanding debts of HK$151,980,000 advanced by the Vendor to Eternity Profit as at 30 August 2008 (the "Sale Debts") and (iii) the option (the "Call Option") to allow the Vendor to buy-back the Sale Shares. As additional time is required by the Purchaser to fulfill a condition precedent for the completion of the disposal of the Sale Debts, on 20 January 2011, the Vendor and the Purchaser entered into the second supplemental agreement to, among others, extend the long stop date to 31 December 2011. As such, the completion of the disposal of Sale Debts and the expiry date of the Call Option were extended correspondingly.

DIRECTORS

The Directors who held office during the year and up to the date of this annual report are:

Executive Directors

Ms. Yeung Sau Han Agnes
Ms. Chan Shui Sheung Ivy

Independent Non-executive Directors

Ms. Yuen Wai Man
Mr. Lam Ka Wai Graham
Mr. Wang Chin Mong

In accordance with bye-law no. 87(1) of the Company's bye-laws, Ms. Chan Shui Sheung Ivy and Mr. Lam Ka Wai Graham will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive Directors are appointed for a specific term, subject to retirement by rotation in accordance with the Company's bye-laws.

Under the bye-laws of the Company, all Directors are subject to retirement by rotation at least once every three years.

None of the Directors being proposed for re-elections at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group as at the date of this annual report are set out on pages 11 to 14 of this annual report.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 13 and 14 to the accompanying financial statements, respectively.

SERVICE CONTRACT OF DIRECTORS

Ms. Yeung Sau Han Agnes has entered into a service contract with the Company for an initial fixed term of two years commenced from 8 May 2008, which will continue thereafter until terminated by either party.

Ms. Chan Shui Sheung Ivy has not entered into any service contract or appointment letter with the Company.

Ms. Yuen Wai Man has entered into an appointment letter with the Company effective from 4 July 2010 for a term of one year.

Mr. Lam Ka Wai Graham has entered into an appointment letter with the Company effective from 22 December 2010 for a term of one year.

Mr. Wang Chin Mong has entered into an appointment letter with the Company effective from 10 August 2010 for a term of one year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors or Company's members of its management had a material interest, whether directly or indirectly, subsisted at 31 December 2010 or at any time during the year.

COMPETING INTERESTS

None of the Directors or the controlling shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year ended 31 December 2010.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2010, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, or to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares and underlying shares of the Company

Name of Director	Type of interests	Number of issued ordinary shares held	Total interests	Approximate percentage of the issued share capital
Chan Shui Sheung Ivy	Beneficial owner	60,000	60,000	0.011%

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed in the above section headed "Directors' and Chief Executives' Interests in Shares", at no time during the year ended 31 December 2010 was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Directors or Company's members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors, their spouse or their children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year ended 31 December 2010.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, persons who had interests or short positions directly or indirectly in the Company's shares, underlying shares recorded in the register kept by the Company pursuant to section 336 of the SFO or to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules were as follows:

Name of Shareholders	Capacity	Number of shares	Percentage of interests
PME Group Limited	Interest of corporation controlled	80,254,000 *(Note 1)*	14.23%
Sunbright Asia Limited	Beneficial owner	71,000,000 *(Note 1)*	12.59%
Well Support Limited	Beneficial owner	52,415,466 *(Note 2)*	9.30%
Liu Yi Dong	Trustee of Liu Yi Dong Family Trust	52,415,466 *(Note 2)*	9.30%

Notes:

1. Pursuant to the corporate substantial shareholder notices filed by PME Group Limited and by Sunbright Asia Limited, PME Group Limited is interested in 80,254,000 Shares through its controlled corporation as follows:

   (i) 71,000,000 Shares are directly held by Sunbright Asia Limited which in turn is 100% directly owned by CR Investment Group Limited which in turn is directly 100% owned by PME Group Limited; and

   (ii) 9,254,000 Shares are directly held by Betterment Enterprises Limited which in turn is directly 99.49% owned by Richcom Group Limited which in turn is directly 100% owned by CR Investment Group Limited which in turn is directly 100% owned by PME Group Limited.

2. Pursuant to the corporate substantial shareholder notice filed by Well Support Limited and the individual substantial shareholder notice filed by Liu Yi Dong, these Shares are held by Well Support Limited, which is beneficially owned by Liu Yi Dong Family Trust and the beneficiaries of which are Liu Yi Dong and his family members.

Save as disclosed above, the Directors were not aware of any other party who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of the Company, or any other substantial shareholders whose interest or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO as at 31 December 2010.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 24 to 33 of this annual report.

PUBLIC FLOAT

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

AUDITOR

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

On behalf of the Board
Chan Shui Sheung Ivy
Executive Director

Hong Kong, 25 March 2011

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules (the "CG Code") for the year ended 31 December 2010 except for the deviations as disclosed in the following relevant paragraphs.

BOARD OF DIRECTORS

As at the date of this annual report, the Board consists of five Directors, of whom two are the executive Directors, namely Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy, and three are the independent non-executive Directors, namely Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong.

Biographical details of each Director is set out in the section headed "Directors and Senior Management" on pages 11 to 14 of this annual report.

The Board includes a balanced composition of executive Directors and independent non-executive Directors, and possesses a wide spectrum of relevant skills and experience. The participation of the independent non-executive Directors in the Board brings independent opinion on issues relating to the Group's strategy, performance, conflicts of interest and management process in order to ensure the interests of all shareholders of the Company have been duly considered. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

Throughout the year ended 31 December 2010, the Board consists at least one independent non-executive Director has appropriate professional qualification or accounting or related financial management expertise as required by rule 5.05(2) of the GEM Listing Rules.

Pursuant to rule 5.09 of the GEM Listing Rules, the Company has received a written confirmation from each independent non-executive Director of his/her independence to the Company. The Company considers all of the independent non-executive Directors to be independent.

The Board is responsible for approving and monitoring business plans, evaluating the performance of the Group and oversight of management. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to the executive Directors and senior management of the Company, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through the executive Directors who have attended the Board meetings.

The Board held 8 meetings during the year ended 31 December 2010. Details of the attendance of the Board are as follows:

	Attendance
Executive Directors	
Ms. Yeung Sau Han Agnes	8/8
Ms. Chan Shui Sheung Ivy	7/8
Independent Non-executive Directors	
Ms. Yuen Wai Man	7/8
Mr. Lam Ka Wai Graham	7/8
Mr. Wang Chin Mong	7/8

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

The company secretary of the Company (the "Company Secretary") is responsible for distributing detailed documents to the Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. And all Directors have access to the advice and services of the Company Secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are followed. During the year, the Company fully complied with rules 5.14 of the GEM Listing Rules.

Any Director wishing to do so in the furtherance of his or her duties may take independent professional advice at the Company's expense. The Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at the Board and committee meetings, and through meeting key members of management.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' 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 "Code of Conduct"). Following a specific enquiry, all Directors confirmed that they have complied with the Code of Conduct throughout the year ended 31 December 2010.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

During the year ended 31 December 2010 and up to the date hereof, the posts of chairman and chief executive officer were vacant. The Board will keep reviewing the current structure of the Board from time to time and should candidates with suitable knowledge, skill, and experience be identified, the Company will make appointments to fill the posts as appropriate.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established on 12 August 2005 with written terms of reference. It currently consists of four members, including three independent non-executive Directors, namely Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong, and the executive Director, namely Ms. Yeung Sau Han Agnes. Mr. Lam Ka Wai Graham is the chairman of the committee.

The role and function written in the terms of reference of the remuneration committee are no less exacting terms than CG Code. The remuneration committee makes recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management. No committee member can be involved in deciding his own remuneration. The remuneration committee will 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 to determine the remuneration package of all executive Directors and senior management; and expected time commitment to the Company's affair would be considered for determination of the remuneration packages of all non-executive Directors and independent non-executive Directors.

The remuneration committee of the Company will consult the Board about its proposals relating to the remuneration of other executive Directors and the senior management of the Company and has the right to require the Company's management to furnish any remuneration related information of the Company for the purposes of discharging its duties.

During the year under review, the remuneration committee of the Company held 1 meeting to review the remuneration package of Directors and senior management.

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

Members	Attendance
Mr. Lam Ka Wai Graham *(Chairman)*	1/1
Ms. Yeung Sau Han Agnes	1/1
Ms. Yuen Wai Man	1/1
Mr. Wang Chin Mong	1/1

NOMINATION COMMITTEE

The nomination committee of the Company was established on 12 August 2005 with written terms of reference. It currently comprises four members, including three independent non-executive Directors, namely Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong, and the executive Director, namely Ms. Yeung Sau Han Agnes. Ms. Yeung Sau Han Agnes is the chairman of the committee.

The duties and responsibilities of the nomination committee include the following:

1. To review regularly the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regards to any changes;

2. To give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the Board in the future;

3. To be responsible for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise but will make no prior commitment in advance of Board approval to such candidates;

4. Before any appointment is made by the Board, evaluate the balance of skills, knowledge and experience on the Board and, with reference to such evaluation, prepare a description of the role and capabilities required for a particular appointment.

5. To make recommendations to the Board concerning:

   (a) Succession plans for both executive and non-executive Directors and in particular for the key roles of chairman of the Board and chief executive officer;

   (b) Suitable plans for the role of senior independent Director, if thought appropriate;

   (c) Membership of the audit and remuneration committees, in consultation with the chairmen of those committees;

   (d) The re-appointment of any non-executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

   (e) The continuation (or not) in service of any Director who has reached the age of 70;

   (f) The re-election by shareholders of any Director under the "retirement by rotation" provisions in the Company's bye-laws having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

   (g) Any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an executive Director as an employee of the Company subject to the provisions of the law and their service contract; and

   (h) The appointment of any Director to executive or other office other than to the position of chairman of the Board and chief executive officer, the recommendation for which would be considered at a meeting of the full Board.

The nomination committee of the Company considers the past performance, qualification, general market conditions and the Company's bye-laws in selecting and recommending candidates for directorship during the year under review.

During the year under review, the nomination committee of the Company held 1 meeting with the significant matters discussed are summarized as follows:

- To consider the retirement of the Directors as required by the Listing Rules and the bye-laws of the Company to retire and to recommend the Board for re-election of Directors.

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

Details of the attendance of the Company's nomination meetings are as follows:

Members	**Attendance**
Ms. Yeung Sau Han Agnes *(Chairman)*	1/1
Ms. Yuen Wai Man	1/1
Mr. Lam Ka Wai Graham	1/1
Mr. Wang Chin Mong	1/1

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the Board.

The audit committee in conjunction with the external auditors of the Company have reviewed the Group's financial statements for the year ended 31 December 2010 and have provided advice and comments thereon. The Company's audit committee has met 5 times during the year.

As at the date of this annual report, the Company's audit committee comprises three independent non-executive Directors, namely Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong. Ms. Yuen Wai Man is the chairman of the committee.

The audit committee of the Company held 5 meetings during the year ended 31 December 2010. Details of the attendance of the Company's audit committee meetings are as follows:

Members	Attendance
Ms. Yuen Wai Man *(Chairman)*	5/5
Mr. Lam Ka Wai Graham	5/5
Mr. Wang Chin Mong	5/5

The Group's unaudited quarterly and interim results and audited annual results in respect of the year ended 31 December 2010 have been reviewed by the Company's audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITOR'S REMUNERATION

During the year, the remuneration paid/payable to the Company's external auditor, SHINEWING (HK) CPA Limited, is set out below:

	HK$'000
Services rendered to the Group	
– Audit services	700
– Non-audit services	8
	708

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

Annual Report and Financial Statements

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

Accounting Period

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

Accounting Records

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

Going Concern

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

Investor and Shareholder Relations

The Board recognizes the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. Therefore, the Board maintains close communications with the investors by uploading the announcements and news onto the Company's website. The Board also welcomes the views of the shareholders of the Company on matters affecting the Group and encourages them to attend the shareholders' meetings to communicate with the Board or management directly.

Internal Control

The Board had conducted a review of the effectiveness of the Group's internal control system. Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control system on an ongoing basis.

On behalf of the Board
Chan Shui Sheung Ivy
Executive Director

Hong Kong, 25 March 2011

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

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

TO THE MEMBERS OF CHINA RAILWAY LOGISTICS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Railway Logistics Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 140, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

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

SHINEWING (HK) CPA Limited
Certified Public Accountants

Chong Kwok Shing
Practising Certificate Number: P05139

Hong Kong
25 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
Turnover	7	**68,435**	8,916
Revenue	7	**36,766**	8,916
Cost of sales	7	**(4,127)**	(3,104)
Gross profit	7	**32,639**	5,812
Other income	8	**2,203**	4,685
Distribution and selling expenses		**(23)**	(20)
Administrative expenses		**(33,406)**	(36,424)
Gain on disposal of an investment property		**14,610**	15,123
Fair value changes in investment properties	18	**12,840**	27,432
Loss arising from fair value changes of investments held for trading		**(137,021)**	(13,048)
Loss on disposals of investments held for trading		**(18,746)**	–
Gain on disposal of convertible instruments designated at financial assets at fair value through profit or loss		**562**	–
(Loss) gain arising from fair value changes of convertible instruments designated at financial assets at fair value through profit or loss		**(103,253)**	17,529
Gain on deconsolidation of a subsidiary	45	**414,302**	–
Gain on disposal of subsidiaries		**–**	205
Gain on disposal of an associate		**–**	94
Other expenses		**(2,300)**	(3,823)
Share of loss of an associate		**–**	(23)
Share of profit (loss) of a jointly controlled entity		**10,520**	(4,028)
Finance costs	9	**–**	(3)
Profit before tax	10	**192,927**	13,511
Income tax expense	11	**(12,727)**	(8,084)
Profit for the year from continuing operations		**180,200**	5,427
Discontinued operations	12		
Loss for the year from discontinued operations		**–**	(10,872)
Profit (loss) for the year		**180,200**	(5,445)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Other comprehensive income (expense)			
Fair value gain on available-for-sale financial assets		**5,479**	951
Exchange differences on translating foreign operations		**3,556**	(45)
Share of reserve of a jointly controlled entity		**3,111**	–
Other comprehensive income for the year		**12,146**	906
Total comprehensive income (expense) for the year		**192,346**	(4,539)
Continuing operations			
Profit (loss) for the year attributable to:			
– Owners of the Company		**178,252**	(5,512)
– Non-controlling interests		**1,948**	67
		180,200	(5,445)
Total comprehensive income (expense) attributable to:			
– Owners of the Company		**189,822**	(4,606)
– Non-controlling interests		**2,524**	67
		192,346	(4,539)
Earnings (loss) per share from continuing and discontinued operations	*16*		
– Basic		**31.62 cents**	(0.99) cent
– Diluted		**31.62 cents**	(0.99) cent
Earnings per share from continuing operations	*16*		
– Basic		**31.62 cents**	0.96 cent
– Diluted		**31.62 cents**	0.96 cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Plant and equipment	17	**14,238**	15,292
Investment properties	18	**118,887**	142,246
Interest in an associate	19	**–**	–
Interest in a joint controlled entity	20	**106,322**	92,691
Goodwill	21	**–**	–
Deposits paid for acquisition of plant and equipment	22	**3,121**	–
Available-for-sale financial assets	23	**23,916**	16,437
Other asset	24	**–**	–
Loan receivables	25	**20,100**	–
		286,584	266,666
Current assets			
Loan receivables	25	**408,885**	124,081
Convertible instruments designated at financial assets at fair value through profit or loss	26	**67,766**	46,176
Inventories	27	**17,469**	626
Trade receivables	28	**4,571**	252
Prepayments, deposits and other receivables	29	**57,058**	101,150
Investments held for trading	30	**205,989**	94,540
Bank balances and cash	31	**113,577**	299,866
		875,315	666,691
Assets classified as held for sale	32	**–**	28,444
		875,315	695,135
Current liabilities			
Trade payables	33	**394**	222
Accruals and other payables		**5,526**	4,404
Receipts in advance		**529**	359
Taxation		**12,833**	2,419
		19,282	7,404
Liabilities directly associated with assets classified as held for sale	32	**–**	3,859
		19,282	11,263
Net current assets		**856,033**	683,872
Total assets less current liabilities		**1,142,617**	950,538

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current liability			
Deferred taxation	34	**8,055**	5,665
Net assets		**1,134,562**	944,873
Capital and reserves			
Share capital	36	**564**	564
Reserves		**1,116,796**	926,974
		1,117,360	927,538
Non-controlling interests		**17,202**	17,335
Total equity		**1,134,562**	944,873

The consolidated financial statements on pages 36 to 140 were approved and authorised for issue by the board of directors on 25 March 2011 and are signed by:

Chan Shui Sheung Ivy
Director

Yeung Sau Han Agnes
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Share premium	Contributed surplus	Share options reserve	Investment revaluation reserve	Capital reserve *(note)*	Warrant reserve	Exchange translation reserve	Accumulated losses	Equity attributable to owners of the Company	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	537	2,837,253	7,914	3,590	–	–	–	(53)	(1,944,521)	904,720	–	904,720
Other comprehensive income (expenses) for the year	–	–	–	–	951	–	–	(45)	–	906	–	906
(Loss) profit for the year	–	–	–	–	–	–	–	–	(5,512)	(5,512)	67	(5,445)
Total comprehensive income (expenses) for the year	–	–	–	–	951	–	–	(45)	(5,512)	(4,606)	67	(4,539)
Deemed partial disposal of subsidiaries	–	–	–	–	–	6,898	–	–	–	6,898	2,657	9,555
Acquisition of assets through acquisition of subsidiaries *(Note 42(b))*	–	–	–	–	–	–	–	–	–	–	14,611	14,611
Issue of non-listed warrants *(Note 35)*	–	–	–	–	–	–	3,300	–	–	3,300	–	3,300
Issue of shares on acquisition of a subsidiary *(Note 36)*	27	17,199	–	–	–	–	–	–	–	17,226	–	17,226
At 31 December 2009 and 1 January 2010	564	2,854,452	7,914	3,590	951	6,898	3,300	(98)	(1,950,033)	927,538	17,335	944,873
Other comprehensive income for the year	–	–	–	–	5,479	–	–	6,091	–	11,570	576	12,146
Profit for the year	–	–	–	–	–	–	–	–	178,252	178,252	1,948	180,200
Total comprehensive income for the year	–	–	–	–	5,479	–	–	6,091	178,252	189,822	2,524	192,346
Deconsolidation of a subsidiary *(Note 45)*	–	–	–	–	–	(6,898)	–	–	6,898	–	(2,657)	(2,657)
At 31 December 2010	564	2,854,452	7,914	3,590	6,430	–	3,300	5,993	(1,764,883)	1,117,360	17,202	1,134,562

note:

The capital reserve represents the difference between the capital contribution by non-controlling interests and the relevant share of the carrying value of a subsidiary's net assets by non-controlling interests.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Profit before tax from continuing operations	**192,927**	13,511
Loss before tax from discontinued operations	**–**	(10,872)
Profit before tax	**192,927**	2,639
Adjustments for:		
Bank interest income	**(184)**	(2,790)
Finance costs	**–**	3
Dividend income	**(630)**	(15)
Depreciation of plant and equipment	**2,441**	2,556
Loss on disposal of plant and equipment	**–**	679
Reversal of impairment loss on trade receivables	**(143)**	(52)
Impairment loss on loan receivables	**–**	3,823
Share of (profit) loss of a jointly controlled entity	**(10,520)**	4,028
Share of loss of an associate	**–**	23
Gain on disposal of an investment property	**(14,610)**	(15,123)
Gain on disposal of subsidiaries	**–**	(980)
Gain on disposal of an associate	**–**	(94)
Gain on deconsolidation of a subsidiary	**(414,302)**	–
Fair value changes in investment properties	**(12,840)**	(27,432)
Loss arising from fair value changes of investments held for trading	**137,021**	13,048
Loss (gain) arising from fair value changes of convertible instruments designated at financial assets at fair value through profit or loss	**103,253**	(17,529)
Gain on disposal of convertible instruments designated at financial assets at fair value through profit or loss	**(562)**	–
Deposit forfeited	**(1,000)**	–
Write-down of inventories	**2,300**	–
Reversal of allowance for inventories	**–**	(80)
Operating cash flows before movements in working capital	**(16,849)**	(37,296)
Increase in inventories	**(19,143)**	(285)
Increase in loan receivables	**(292,904)**	(123,181)
(Increase) decrease in trade receivables	**(4,176)**	4,255
(Increase) decrease in prepayments, deposits and other receivables	**(13,465)**	6,106
Decrease (increase) in investments held for trading	**22,374**	(53,987)
Increase (decrease) in trade payables	**172**	(2,322)
Increase (decrease) in accruals and other payables	**1,162**	(8,228)
Increase (decrease) in receipts in advance	**170**	(208)
NET CASH USED IN OPERATING ACTIVITIES	**(322,659)**	(215,146)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of an investment property		**77,610**	134,424
Proceeds on disposals of convertible instruments		**20,400**	–
Net cash inflow from deconsolidation of a subsidiary	*45*	**54,720**	–
Refund of deposits paid for acquisition of potential investment/receivables in respect of a terminated acquisition in previous years		**22,750**	45,000
Deposit forfeited		**1,000**	–
Proceeds on partial disposal of an associate		**–**	150
Dividend income		**630**	15
Interest received		**184**	2,790
Net cash inflow from disposal of subsidiaries	*44*	**10**	4,557
Deposits paid for acquisition of potential investments		**(35,205)**	(99,324)
Acquisition of investment properties		**(24,253)**	(234,115)
Purchase of plant and equipment		**(1,386)**	(1,870)
Deposits paid for acquisition of plant and equipment		**(3,121)**	–
Acquisition of available-for-sale investment		**(2,000)**	(15,486)
Net cash outflow from acquisition of assets through acquisition of subsidiaries, net of acquisition cost	*42*	**–**	(91,023)
Net cash outflow from acquisition of subsidiaries, net of acquisition cost	*43*	**–**	(1)
Acquisition of convertible instruments		**–**	(21,600)
Investment in an associate		**–**	(1)
Proceeds on disposal of plant and equipment		**–**	47
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**111,339**	(276,437)
FINANCING ACTIVITIES			
Capital contribution from minority shareholders		**–**	9,555
Proceeds from issue of warrants, net of issue expenses		**–**	3,300
Interest paid		**–**	(3)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**–**	12,852

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 HK$'000	2009 HK$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(211,320)**	(478,731)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**323,851**	802,629
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	**1,046**	(47)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**113,577**	323,851
ANALYSIS OF CASH AND CASH EQUIVALENTS:		
Bank balances and cash	**113,577**	299,866
Bank balances and cash included in assets classified as held for sale	**–**	23,985
	113,577	323,851

1. GENERAL

China Railway Logistics Limited (the "Company") was incorporated in Bermuda on 25 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 May 2000. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

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

The principal activities of the Company is investment holding and the principal activities of its subsidiaries (collectively the "Group") are set out in Note 47.

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

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

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

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

Amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

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

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are applied prospectively by the Group on 1 January 2010.

The application of HKAS 27 (Revised 2008) has resulted in changes in the Group's accounting policies regarding decreases in ownership interests in subsidiaries of the Group that results in a loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

During the current year, as further detailed in Note 32, the Group lost control over China Eco-Farming Limited ("CEF"), a former subsidiary which is listed on the GEM of the Stock Exchange and was classified as held for sale at 31 December 2009. The impact of the change in policy had been that the difference of HK$414,302,000 between the fair value of the interest retained in CEF and consideration received and the decrease in the net carrying amount of the assets less liabilities held for sale been recognised in profit or loss. Had the previous accounting policy been applied, the carrying amount of interest in CEF immediate prior to the loss of control instead of fair value of the interest retained in CEF would have been used. Such change in accounting policy resulted in an increase in the gain on deconsolidation by HK$217,160,000.

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

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

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

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

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

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

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

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

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

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

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

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

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised standard is applied in future accounting periods. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Allocation of total comprehensive income to non-controlling interests

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

The Group applies a policy of treating transactions with non-controlling interests as transactions with the owners of the Group. Gains or losses on disposals to non-controlling interests are also recorded in equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity ("capital reserve").

Business combination

Business combination that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination *(Continued)*

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

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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

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

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

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

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the jointly controlled entity. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses resulting from the transactions are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

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

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

Rental income from investment properties, leasing of telecommunication and computer telephony equipment are recognised on a straight-line basis over the respective term of the leases.

Service fees income is recognised when the services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Investment properties

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences on monetary items, are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation) all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits schemes contribution

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Cash and cash equivalents

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Financial assets at fair value through profit or loss (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Convertible instruments acquired by the Group (including related embedded derivatives) are designated at financial assets at fair value through profit or loss on initial recognition. Subsequent to initial recognition, the entire convertible bond are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit and loss (see accounting policy on impairment loss on financial assets below).

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment loss on financial assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment loss on financial assets *(Continued)*

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

For financial assets carried at cost, the amount of the impairment loss in measured as the difference between the assets carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar asset. Such impairment will not be reversed in subsequent periods.

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses, previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment loss on financial assets *(Continued)*

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequent reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(ii) Financial liabilities and equity instruments

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade payables, accruals and other payables are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(ii) Financial liabilities and equity instruments *(Continued)*

Equity instruments

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

Warrants

Warrants issued by the Company that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as an equity instrument.

For warrants issued to subscribers of the Company's shares, the fair value of warrants on the date of issue is recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to accumulated losses.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(iii) Derecognition *(Continued)*

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Borrowing costs

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement

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

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

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets (or disposal groups) are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the assets' or disposal groups' previous carrying amount and fair value less costs to sell.

Impairment loss on assets other than goodwill (see the accounting policy in respect of goodwill)

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

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

In addition, tangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment loss on assets other than goodwill (see the accounting policy in respect of goodwill) *(Continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment loss on loan receivables

Loan receivables are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The directors of the Company make judgements on whether such events or changes in circumstances have occurred, and makes estimates in determining the recoverable amount. During the year ended 31 December 2009, an impairment loss of approximately HK$3,823,000 had been recognised in the consolidated statement of comprehensive income.

Fair value of convertible instruments designated at financial assets at FVTPL

The fair value of the convertible instruments involves assumptions on the issuer's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the fair value.

Fair value of investment properties

The Group's investment properties were revalued at the end of the reporting period on an open market value basis by independent professional valuers. Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results.

Write-down and allowance of inventories

The management of the Group reviews the ageing analysis at the end of each reporting period and makes provision for obsolete and slow-moving inventory items. The management estimates the net realisable value for raw materials held for trading based on the current market conditions. Write-down of inventories of HK$2,300,000 (2009: nil) has been recognised during the year ended 31 December 2010.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment loss on interest in a jointly controlled entity

Determining whether the interest in a jointly controlled entity is impaired requires an estimation of the future cash flows expected to arise and expected dividend yield from the jointly controlled entity and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of the Group's jointly controlled entity as at 31 December 2010 and 2009 are included in Note 20.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Available-for-sale financial assets		
– at cost	**2,000**	–
– at fair value	**21,916**	16,437
	23,916	16,437
FVTPL		
– investments held for trading	**205,989**	94,540
– convertible instruments designated at financial assets at FVTPL	**67,766**	46,176
	273,755	140,716
Loans and receivables (including bank balances and cash)	**603,179**	524,656
	900,850	681,809
Financial liabilities		
Other financial liabilities measured at amortised cost		
– trade payables	**394**	222
– accruals and other payables	**5,526**	4,404
	5,920	4,626

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity, trade receivables, other receivables, loan receivables, deposits paid for acquisition of potential investments, bank balances and cash, financial assets at FVTPL (including investments held for trading and convertible instruments designated at FVTPL), available-for-sale financial assets, trade payables, and accruals and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The functional currency of certain subsidiaries established in the People's Republic of China (the "PRC") is Renminbi ("RMB"). 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. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date, that are denominated in currencies other than the functional currency of the relevant group entities were mainly denominated in United States dollars ("USD").

Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates. The Group currently does not have any policy to hedge its exposure to currency risk.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% (2009: 5%) in exchange rate of HK$ against RMB/USD while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% (2009: 5%) change in foreign currency rates.

	Increase (decrease) in profit for the year 2010 HK$'000	Decrease (increase) in loss for the year 2009 HK$'000
– if HK$ weakens against USD	**455**	(7,161)
– if HK$ strengthens against USD	**(455)**	7,161
Increase (decrease) in other comprehensive income		
– if HK$ weakens against USD	**1,096**	822
– if HK$ strengthens against USD	**(1,096)**	(822)
– if HK$ weakens against RMB	**1,260**	–
– if HK$ strengthens against RMB	**(1,260)**	–

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis *(Continued)*

A change of 5% in exchange rate of HK$ against RMB and USD does not affect other comprehensive income other than the exchange translation reserve and investment revaluation reserve.

(ii) Interest rate risk

The Group's exposure to changes in interest rate risk is mainly attributable to its bank balances at variable-interest rate expose the Group to cash flow interest-rate risk, while loan receivables and convertible bonds at fixed rates expose the Group to fair value interest-rate risk. The Group has not formulated a policy to manage the interest rate risk. The Group has not used any derivative contracts or formulated any policy to hedge its exposure to interest rate risk as the exposure is considered to be insignificant.

Sensitivity analysis

If the interest rates had been increased/decreased by 100 basis points and assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant, the Group's profit after tax would increase/decrease and the Group's accumulated losses would decrease/increase by approximately HK$114,000 (2009: loss for the year and accumulated loses will decrease/increase by approximately HK$324,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities, unlisted investments in funds and convertible instruments designated at financial assets at FVTPL. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's other price risk is mainly concentrated on instruments quoted on the Stock Exchange and on fund investments quoted by the financial institutions.

Sensitivity analysis

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

If the prices of the respective equity securities and unlisted investments in funds included in investment held for trading had been 10% (2009: 10%) higher (lower), the post-tax profit for the year ended 31 December 2010 would increase (decrease) by approximately HK$19,032,000 (2009: post-tax loss would decrease (increase) by approximately HK$9,454,000) as a result of the changes in financial assets at fair value through profit or loss.

For unlisted investments in funds included in available-for-sale financial assets, if the prices of the respective equity instruments had been 10% higher (lower), the investment revaluation reserve as at 31 December 2010 would increase (decrease) by approximately of HK$2,192,000 (2009: HK$1,643,000).

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

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

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

In respect of loan receivables, representing financing advances to customers under the Group's loan financing business, individual credit evaluations are performed on all customers. These evaluations focus on the customer's financial background and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group has a certain degree of concentration of credit risk as 30% (2009: 72%) and 65% (2009: 96%) of the total gross trade receivables were due from the Group's largest customer and the five largest customers for the Group's telephony business respectively.

In respect of the loan receivables arising from the Group's loan financing business 20% (2009: 30%) of the total gross loan receivables as at 31 December 2010 was due from the Group's largest customer and 61% (2009: 100%) of the total loan receivables as at 31 December 2010 was due from the Group's five largest customers for the Group's loan financing business.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

However, the directors of the Company consider the credit risk under control since the management exercise due care in granting credit and check the financial background of these customers on a regular basis.

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

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

Liquidity risk

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

The contractual maturity for the Group's non-derivative financial liabilities as at 31 December 2010 and 2009, based on the agreed repayment terms, is repayable on demand or within 1 year.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Fair value

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

The fair value of other financial assets are determined in accordance with generally accepted pricing models based on discounted cash flows analysis using the relevant prevailing market rate.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flows analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to their fair values due to their short-term maturities.

Fair value measurements recognised in the statement of financial position

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

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

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

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Fair value measurements recognised in the statement of financial position *(Continued)*

	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
2010			
Financial assets at FVTPL			
– listed equity securities	**202,352**	**–**	**202,352**
– unlisted investment in funds	**–**	**3,637**	**3,637**
– convertible instruments designated at FVTPL	**–**	**67,766**	**67,766**
Available-for-sale financial assets			
– unlisted investment in funds	**–**	**21,916**	**21,916**
	202,352	**93,319**	**295,671**

	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
2009			
Financial assets at FVTPL			
– listed equity securities	91,158	–	91,158
– unlisted investment in funds	–	3,382	3,382
– convertible instruments designated at FVTPL	-	46,176	46,176
Available-for-sale financial assets			
– unlisted investment in funds	–	16,437	16,437
	91,158	65,995	157,153

There are no transfers between levels 1 and 2 during both reporting periods.

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION

The Group's operating segments, based on the information reported to the chief operating decision maker, being the chief executive officer, for making strategic decisions. The segments are managed separately as each business offers different products which vary in materials used, design and technology and services which require different production/service information to formulate different marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

Computer telephony	–	leasing of telecommunication equipments and computer telecommunications and computer telephony system and provision of consulting and maintenance services
Properties investments	–	investment in properties for rental income purpose
Securities trading	–	trading of securities
Loan financing	–	provision of financing services
Logistics	–	provision of logistics services
Telecommunications	–	provision of supply, development and integration of telecommunications and computer telephony system and solutions
One-stop value chain services	–	provision of total solution services including trading, packaging and logistic solutions
Voice portal	–	provision of voice search engine portal
KM systems	–	sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology

During the year ended 31 December 2009, the operations of logistics, telecommunications, one-stop value chain services, voice portal and KM systems were discontinued subsequent to the disposal of subsidiaries or the date of classification of discontinued operation. Details of the discontinued operations are set out in Note 12.

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns and services rendered by the Group; rental income; net proceeds from the disposal of investments held for trading; and interest income from the provision of loan financing during the year. The following is an analysis of the Group's turnover, revenue and results by reportable segment from continuing operations:

	2010 HK$'000	2009 HK$'000
Turnover		
– Computer telephony	**8,699**	6,334
– Properties investments	**288**	–
– Securities trading	**31,669**	–
– Loan financing	**27,779**	2,582
	68,435	8,916
Revenue		
– Computer telephony	**8,699**	6,334
– Properties investments	**288**	–
– Securities trading	**–**	–
– Loan financing	**27,779**	2,582
	36,766	8,916
Cost of sales		
– Computer telephony	**(4,068)**	(3,104)
– Properties investments	**(59)**	–
– Securities trading	**–**	–
– Loan financing	**–**	–
	(4,127)	(3,104)
Gross profit		
– Computer telephony	**4,631**	3,230
– Properties investments	**229**	–
– Securities trading	**–**	–
– Loan financing	**27,779**	2,582
	32,639	5,812

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

	2010 HK$'000	2009 HK$'000
Segment results		
– Computer telephony	**1,518**	(681)
– Properties investments	**37,356**	39,830
– Securities trading	**(155,855)**	(16,018)
– Loan financing	**18,134**	(187)
	(98,847)	22,944
Unallocated corporate expenses	**(22,040)**	(31,765)
Unallocated corporate income	**2,203**	4,530
Net (loss) gain on fair value change/disposal of convertible instruments designated at financial assets at FVTPL	**(102,691)**	17,529
Gain on deconsolidation/disposal of subsidiaries/associate	**414,302**	299
Share of loss of an associate	**–**	(23)
Finance costs	**–**	(3)
Profit before tax	**192,927**	13,511

The accounting policies of the reportable segment are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit (loss) attributable to each segment without allocation of central administration costs, directors' emoluments, bank interest income, fair value changes and gain on disposal of convertible instruments designated at financial assets at FVTPL, gain on deconsolidation/disposal of subsidiaries/associate, share of loss of an associate and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Segment assets		
Continuing operations:		
– Computer telephony	**1,796**	1,376
– Properties investments	**229,837**	235,570
– Securities trading	**219,322**	90,523
– Loan financing	**409,211**	124,339
Total segment assets	**860,166**	451,808
Assets related to discontinued operations	**–**	28,444
Unallocated corporate assets	**301,733**	481,549
Consolidated total assets	**1,161,899**	961,801
Segment liabilities		
Continuing operations:		
– Computer telephony	**1,933**	2,292
– Properties investments	**1,357**	118
– Securities trading	**–**	16
– Loan financing	**92**	55
Total segment liabilities	**3,382**	2,481
Liabilities related to discontinued operations	**–**	3,859
Unallocated corporate liabilities	**23,955**	10,588
Consolidated total liabilities	**27,337**	16,928

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

- all assets are allocated to reportable segments other than interest in an associate, available-for-sale financial assets, goodwill, deposits paid for acquisition of potential investments, convertible instruments designated at financial assets at FVTPL and bank balances and cash, certain inventories and certain other receivables; and

- all liabilities are allocated to reportable segments other than certain other payables and accruals, and taxation.

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2010

	Continuing operations					
	Computer telephony HK$'000	Properties investments HK$'000	Securities trading HK$'000	Loan financing HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included the measure of segment profit or loss or segment assets						
Depreciation on plant and equipment	103	–	–	–	2,338	2,441
Additions to plant and equipment, investment properties and deposits paid for acquisition of plant and equipment	23	27,374	–	–	1,363	28,760
Reversal of impairment loss on trade receivables	(143)	–	–	–	–	(143)
Share of profit of a jointly controlled entity	–	(10,520)	–	–	–	(10,520)
Fair value losses (gains)						
– investments properties	–	(12,840)	–	–	–	(12,840)
– investments held for trading	–	–	137,021	–	–	137,021
Losses (gains) on disposals						
– investment properties	–	(14,610)	–	–	–	(14,610)
– investments held for trading	–	–	18,746	–	–	18,746

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

Interest revenue	–	(11)	(142)	(10)	(21)	(184)
Income tax expenses	–	6,902	2,923	2,902	–	12,727

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2009

	Continuing operations					
	Computer telephony HK$'000	Properties investments HK$'000	Securities trading HK$'000	Loan financing HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included the measure of segment profit or loss or segment assets						
Depreciation on plant and equipment	107	–	–	–	1,389	1,496
Additions to plant and equipment, investment properties and deposits paid for acquisition of plant and equipment	–	234,115	–	158	1,712	235,985
Reversal of impairment loss on trade receivables	(46)	–	–	–	–	(46)
Impairment loss on loan receivables	–	–	–	–	3,823	3,823
Reversal of allowance for inventories	(80)	–	–	–	–	(80)
Loss on disposal of plant and equipment	–	–	–	–	679	679
Share of loss of a jointly controlled entity	–	4,028	–	–	–	4,028
Fair value losses (gains)						
– investment properties	–	(27,432)	–	–	–	(27,432)
– investments held for trading	–	–	13,048	–	–	13,048
Gain on disposal of an investment property	–	(15,123)	–	–	–	(15,123)

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

	Computer telephony HK$'000	Properties investments HK$'000	Securities trading HK$'000	Loan financing HK$'000	Unallocated HK$'000	Consolidated HK$'000
Interest revenue	(1)	(30)	(2)	–	(2,754)	(2,787)
Interest expense	–	–	–	–	3	3
Income tax expense	–	8,084	–	–	–	8,084
Share of loss of an associate	–	–	–	–	23	23

7. TURNOVER AND REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

	Revenue from external customers		**Non-current assets**	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**36,766**	8,916	**97,262**	112,729
PRC	**–**	–	**189,322**	153,937
	36,766	8,916	**286,584**	266,666

Information about major customers

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

	2010	2009
	HK$'000	HK$'000
Customer A[1]	**5,312**	N/A[3]
Customer B[2]	**N/A[4]**	962

1 Revenue from loan financing
2 Revenue from computer telephony
3 There is no revenue derived from this customer in the respective year.
4 The corresponding revenue did not contribute over 10% of the total revenue of the Group in the respective year.

8. OTHER INCOME

The analysis of the Group's other income is as follows:

	2010 HK$'000	2009 HK$'000
Continuing operations		
Bank interest income	**184**	2,787
Reversal of impairment loss on trade receivables	**143**	46
Dividend income	**630**	15
Penalty income *(note a)*	**–**	1,800
Deposit forfeited *(note b)*	**1,000**	–
Others	**246**	37
	2,203	4,685

notes:

a. Penalty income represented the charge to the seller who failed to execute a sale and purchase agreement in respect of acquisition of a property located in the PRC.

b. Deposit of HK$1,000,000 was forfeited during the year as further detailed in Note 32.

9. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Continuing operations		
Interest expenses on bank overdrafts	**–**	3

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	2010 HK$'000	2009 HK$'000
Continuing operations		
Staff costs including directors' emoluments:		
Salaries and allowances	**14,957**	15,090
Contributions to retirement benefits schemes	**306**	369
	15,263	15,459
Auditor's remuneration	**700**	600
Depreciation of plant and equipment	**2,441**	1,496
Share of tax of a jointly controlled entity	**2,866**	(120)
Minimum lease payments under operating leases	**2,931**	3,134
Loss on disposal of plant and equipment	**–**	679
Reversal of allowance for inventories (included in cost of sales)	**–**	(80)
Cost of inventories recognised as an expense	**4,068**	3,104
Impairment loss on loan receivables (included in other expenses)	**–**	3,823
Write-down of inventories (included in other expenses)	**2,300**	–
Gross rental income	**(288)**	–
Less: outgoings (included in cost of sales)	**59**	–
Net rental income	**(229)**	–

11. INCOME TAX EXPENSE

	2010 **HK$'000**	2009 HK$'000
Continuing operations		
Current tax:		
Hong Kong	**10,414**	2,419
Deferred taxation *(Note 34)*	**2,313**	5,665
	12,727	8,084

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2010 **HK$'000**	2009 HK$'000
Profit before tax from continuing operations	**192,927**	13,511
Tax at the domestic income tax rate of 16.5% (2009: 16.5%)	**31,833**	2,229
Tax effect of share of loss of an associate	**–**	664
Tax effect of share of loss of a jointly controlled entity	**(1,736)**	4
Tax effect of expenses not deductible for tax purpose	**33,300**	7,825
Tax effect of income not taxable for tax purpose	**(56,220)**	(3,760)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,223**	997
Tax effect of tax loss not recognised	**3,777**	103
Tax effect of deductible temporary differences not recognised	**805**	22
Utilisation of tax losses previously not recognised	**(255)**	–
Tax charge for the year (relating to continuing operations)	**12,727**	8,084

11. INCOME TAX EXPENSE *(Continued)*

The principal components of the Group's deferred tax asset not provided for, on the cumulative temporary differences at the end of the reporting period are as follows:

	Other temporary differences	Estimated tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2009	56	5,343	5,399
Movement for the year	22	103	125
At 31 December 2009 and 1 January 2010	78	5,446	5,524
Movement for the year	805	3,522	4,327
At 31 December 2010	**883**	**8,968**	**9,851**

No deferred tax asset attributable to other temporary differences and tax losses of the Group have been recognised for both years due to unpredictability of future profit streams. At the end of the reporting period, the Group had unexpired estimated tax losses available for off-setting future taxable profits and deductible temporary differences of approximately HK$53,733,000 (2009: HK$33,006,000) and HK$4,165,000 (2009: HK$473,000) respectively.

During the year ended 31 December 2010, tax loss of approximately HK$1,547,000 (2009: nil) for which no deferred tax asset was recognised previously was utilised.

12. DISCONTINUED OPERATIONS

Since the logistics segment had been inactive for the past two years, the directors of the Company decided to abandon the logistics segment in 2009 and considered the logistics segment became a discontinued operation.

On 29 June 2009, the Group entered into a sale and purchase agreement to dispose of a subsidiary, Proactive International Limited ("Proactive International") which was engaged in the telecommunication business. The disposal was completed on 2 July 2009, on which date the control of Proactive International passed to the acquirer.

12. DISCONTINUED OPERATIONS *(Continued)*

On 9 December 2009, the Group completed the disposal of Chineseroad Incorporated ("Chineseroad") and its subsidiaries (collectively the "Chineseroad Group"), which were engaged in the provision of voice search engine portal and the sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology.

The operation of one-stop value chain services segment was presented as discontinued operation in 2009 upon the classification of the related assets and liabilities as assets classified as held for sale and liabilities directly associates with assets classified as held for sale respectively (see Note 32).

The loss for the period from the discontinued operations up to the date to the disposal of subsidiaries or the date of classification of discontinued operation, are analysed as follows:

	2010 **HK$'000**	2009 HK$'000
Loss of the discontinued operations for the year:		
– voice portal	–	(405)
– KM systems	–	(690)
– telecommunications	–	(80)
– logistics	–	–
– one-stop value chain services	–	(10,472)
	–	(11,647)
Gain (loss) on disposal of discontinued operations (see Note 44)		
– voice portal division and KM systems	–	1,148
– telecommunications	–	(373)
– logistics	–	–
	–	775
	–	(10,872)

12. DISCONTINUED OPERATIONS *(Continued)*

The results of the discontinued operations for the period from January 2009 to the respective disposal dates or the date of classification of discontinued operation, which have been included in the consolidated statement of comprehensive income for the year ended 31 December 2009, were as follows:

	Voice portal HK$'000	KM systems HK$'000	Tele-communications HK$'000	Logistics HK$'000	One-stop value chain services HK$'000	Consolidated HK$'000
Revenue	–	–	2,563	–	35,844	38,407
Cost of sales	–	–	(2,196)	–	(34,940)	(37,136)
Gross profit	–	–	367	–	904	1,271
Other income	–	–	4	–	3	7
Administrative expenses	(405)	(690)	(451)	–	(11,379)	(12,925)
Loss before tax	(405)	(690)	(80)	–	(10,472)	(11,647)
Income tax expense	–	–	–	–	–	–
Loss for the year from discontinued operations	(405)	(690)	(80)	–	(10,472)	(11,647)
Cash flows from discontinued operations						
Net cash from (used in) operating activities	715	308	(340)	–	(7,726)	(7,043)
Net cash from (used in) investing activities	–	–	337	–	(692)	(355)
Net cash inflow (outflow)	715	308	(3)	–	(8,418)	(7,398)
Loss for the year from discontinued operations included the followings:						
Bank interest income	–	–	–	–	(3)	(3)
Auditors' remuneration	–	–	–	–	300	300
Other staff costs	–	106	–	–	6,132	6,238
Retirement benefits contribution	–	36	–	–	107	143
Depreciation	–	801	43	–	216	1,060
Reversal of impairment loss made on receivables	–	–	(6)	–	–	(6)

13. DIRECTORS' EMOLUMENTS

	2010 HK$'000	2009 HK$'000
Executive Directors:		
Fees	–	–
Salaries and other benefits *(note 1)*	1,920	1,920
Discretionary bonus *(note 2)*	480	480
Contributions to retirement benefits schemes	24	24
	2,424	2,424
Independent Non-Executive Directors:		
Fees	720	835
	3,144	3,259

notes:

1. Other benefits include housing allowance.

   No directors waived his emoluments for each of year ended 31 December 2010 and 2009. No emoluments have been paid to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 December 2010 and 2009.

2. Discretionary bonus is determined by individual performance.

13. DIRECTORS' EMOLUMENTS *(Continued)*

The details of directors' remuneration of each director for the two years ended 31 December 2010 and 2009 are set out below:

For the year ended 31 December 2010

Name of directors	Non-executive directors' fees HK$'000	Executive directors' salaries HK$'000	Discretionary bonus HK$'000	Contributions to retirement benefits schemes HK$'000	Total HK$'000
Yeung Sau Han Agnes	–	960	240	12	1,212
Chan Shui Sheung Ivy	–	960	240	12	1,212
Yuen Wai Man *(note)*	240	–	–	–	240
Lam Ka Wai Graham *(note)*	240	–	–	–	240
Wang Chin Mong *(note)*	240	–	–	–	240
	720	1,920	480	24	3,144

note: The independent non-executive directors.

13. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2009

Name of directors	Non-executive directors' fees HK$'000	Executive directors' salaries HK$'000	Discretionary bonus HK$'000	Contributions to retirement benefits schemes HK$'000	Total HK$'000
Yeung Sau Han Agnes	–	960	240	12	1,212
Chan Shui Sheung Ivy	–	960	240	12	1,212
Law Wing Tak Jack *(notes 1 & 6)*	100	–	–	–	100
Yuen Wai Man *(note 6)*	240	–	–	–	240
Lam Raymond Shiu Cheung *(notes 2 & 6)*	111	–	–	–	111
Lam Ka Wai Graham *(note 6)*	240	–	–	–	240
Xie Jintai *(notes 3 & 5)*	50	–	–	–	50
Wang Chin Mong *(notes 4 & 6)*	94	–	–	–	94
	835	1,920	480	24	3,259

notes:

1. Retired on 29 May 2009.
2. Resigned on 17 June 2009.
3. Resigned on 31 May 2009.
4. Appointed on 10 August 2009.
5. The non-executive director.
6. The independent non-executive directors.

14. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included two directors (2009: two directors) of the Company, whose emoluments have been included in Note 13 above. The emoluments of the remaining three individuals for the year ended 31 December 2010 (2009: three individuals) were as follows:

	2010 **HK$'000**	2009 HK$'000
Salaries and allowances	**2,539**	2,356
Contributions to retirement benefits schemes	**36**	43
	2,575	2,399

Their emoluments were within the following bands:

	2010 **No. of** **employees**	2009 No. of employees
Below HK$1,000,000	**3**	2
HK$1,000,001to HK$1,500,000	**–**	1

15. DIVIDEND

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

16. EARNINGS (LOSS) PER SHARE

For continuing and discontinued operations

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

	2010	2009
	HK$'000	HK$'000
Profit (loss)		
Profit (loss) for the year attributable to owners of the Company	**178,252**	(5,512)

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**563,814,000**	555,900,301
Effect of dilutive potential ordinary shares:		
Non-listed warrants	**–**	1,186,750
	563,814,000	557,087,051

The computation of diluted earnings per share for continuing and discontinuing operations for the year ended 31 December 2010 does not assume the exercise of the Company's share options and non-listed warrants because the respective exercise prices of the Company's share options and non-listed warrants were higher than the average market price of the Company's shares for the year ended 31 December 2010.

The computation of diluted earnings per share for continuing and discontinuing operations for the year ended 31 December 2009 does not assume the exercise of the Company's share options because the exercise price of the Company's share options was higher than the average market price of the Company's shares for the year ended 31 December 2009.

16. EARNINGS (LOSS) PER SHARE *(Continued)*

For continuing and discontinued operations *(Continued)*

From continuing operations

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

	2010 HK$'000	2009 HK$'000
Profit (loss) for the year attributable to owners of the Company	**178,252**	(5,512)
Less: loss for the year from discontinued operations	–	10,872
Profit for the purpose of basic earnings per share from continuing operations	**178,252**	5,360

The denominators used are the same as those detailed above for basic earnings (loss) per share.

The computation of diluted earnings per share for continuing operations for the year ended 31 December 2010 does not assume the exercise of the Company's share options and non-listed warrants because the respective exercise prices of the Company's share options and non-listed warrants were higher than the average market price of the Company's shares for the year ended 31 December 2010.

The computation of diluted earnings per share for continuing operations for the year ended 31 December 2009 does not assume the exercise of the Company's share options because the exercise price of the Company's share options was higher than the average market price of the Company's shares for the year ended 31 December 2009.

From discontinued operations

Basic loss per share for the discontinued operations for the year ended 31 December 2009 is HK1.96 cents per share, based on the loss for that year from the discontinued operations of HK$10,872,000 and the denominators detailed above for basic loss per share.

The computation of diluted earnings per share for discontinued operations for the year ended 31 December 2009 does not assume the exercise of the Company's share options because the exercise price of the Company's share options was higher than the average market price of the Company's shares for the year ended 31 December 2009.

17. PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Equipment on lease to customers HK$'000	Equipment for development HK$'000	Motor vehicles HK$'000	Vessel HK$'000	Total HK$'000
Cost								
At 1 January 2009	34	1,959	4,212	68	366	1,449	14,010	22,098
Exchange adjustment	–	2	22	–	–	–	–	24
Additions	97	1,487	284	–	–	2	–	1,870
Acquired on acquisition of subsidiaries	–	38	–	–	–	–	–	38
Disposals	–	(656)	(116)	–	–	–	–	(772)
Disposal of subsidiaries	–	(15)	–	–	–	–	–	(15)
Classifies as assets held for sale	(59)	(694)	(249)	–	–	(352)	–	(1,354)
At 31 December 2009 and 1 January 2010	72	2,121	4,153	68	366	1,099	14,010	21,889
Exchange adjustment	–	–	2	–	–	–	–	2
Additions	306	316	45	15	54	650	–	1,386
Write-off	–	–	(1,623)	–	–	–	–	(1,623)
At 31 December 2010	378	2,437	2,577	83	420	1,749	14,010	21,654
Depreciation								
At 1 January 2009	9	1,085	2,784	67	312	39	–	4,296
Exchange adjustment	–	2	20	–	–	–	–	22
Charge for the year	31	180	553	1	17	300	1,474	2,556
Eliminated on disposals	–	(32)	(14)	–	–	–	–	(46)
Classified as assets held for sale	(15)	(94)	(40)	–	–	(82)	–	(231)
At 31 December 2009 and 1 January 2010	25	1,141	3,303	68	329	257	1,474	6,597
Exchange adjustment	–	–	1	–	–	–	–	1
Charge for the year	73	234	249	1	29	462	1,393	2,441
Eliminated on write-off	–	–	(1,623)	–	–	–	–	(1,623)
At 31 December 2010	**98**	**1,375**	**1,930**	**69**	**358**	**719**	**2,867**	**7,416**
Net carrying values								
At 31 December 2010	**280**	**1,062**	**647**	**14**	**62**	**1,030**	**11,143**	**14,238**
At 31 December 2009	47	980	850	–	37	842	12,536	15,292

17. PLANT AND EQUIPMENT *(Continued)*

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

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Computer equipment	30%
Equipment on lease to customers	30%
Equipment for development	30%
Motor vehicles	30%
Vessel	10%

18. INVESTMENT PROPERTIES

	2010 **HK$'000**	2009 HK$'000
At 1 January	**142,246**	–
Additions	**24,253**	234,115
Disposal	**(63,000)**	(119,301)
Increase in fair value	**12,840**	27,432
Exchange adjustment	**2,548**	–
At 31 December	**118,887**	142,246
Investment properties held under medium-term leases		
– leasehold land and buildings in Hong Kong	**37,203**	81,000
– buildings in the PRC	**81,684**	61,246
	118,887	142,246

During the year ended 31 December 2009, the Group entered into a provisional sale and purchase agreement with an independent third party in respect of acquisition of an investment property situated in Hong Kong in consideration of HK$119,301,000. Before the completion of the provisional sale and purchase agreement, the Group disposed of the investment property to another independent third party for a consideration of approximately HK$134,424,000 (net of cost directly related to the disposal).

18. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties located in Hong Kong at 31 December 2010 have been arrived at on the basis of a valuation carried out on that date by Jointgoal Surveyors Limited ("Jointgoal Surveyors"), an independent firm of professional property valuers not connected with the Group. Jointgoal Surveyors has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

For the Group's investment properties located in the PRC, the valuation was carried out by Malcolm & Associates Appraisal Limited ("Malcolm & Associates"), an independent firm of professional property valuers not connected with the Group. Malcolm & Associates has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

For properties situated in Hong Kong and the PRC, the valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

19. INTEREST IN AN ASSOCIATE

	2010 **HK$'000**	2009 HK$'000
Cost of investment in an unlisted associate in the PRC	**377**	377
Share of post acquisition losses	**(377)**	(377)
	–	–

During the year ended 31 December 2009, the Group acquired 46% equity interests in 廣東振戎石油化工有限公司（「振戎石油」）and 20% equity interests in Sauna De Palais Limited ("Sauna De"), through the acquisition of assets and liabilities of Great Hill Trading Limited ("Great Hill") as disclosed in Note 42(a). 振戎石油 is incorporated in the PRC with limited liability and is inactive. Sauna De is incorporated in Hong Kong with limited liability and is engaged in provision of entertainment business.

During the year ended 31 December 2009, the Group acquired 49% equity interests in FDC Limited ("FDC") in consideration of US$1.00. The interest in FDC was included in the assets classified as held for sale as disclosed in Note 32.

In September 2009, the Group disposed of Sauna De to an independent third party for a consideration of HK$150,000.

19. INTEREST IN AN ASSOCIATE *(Continued)*

In October 2009, the Group disposed 振戎石油 through the disposal of its holding company, Welford International Industrial Limited ("Welford") as disclosed in Note 44.

As at 31 December 2010, the Group had interest in the following associate:

Name	Form of business structure	Place of incorporation and operations	Particulars of issued/paid-up capital	Percentage of effective equity interest attributable to the Group	Principal activity
Beijing Teletron System Integration Company Limited ("Beijing Teletron)	Limited liability company	PRC	Paid-up capital	40%	Inactive

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

	2010 HK$'000	2009 HK$'000
Total assets	197	227
Total liabilities	(2,530)	(2,378)
Net liabilities	(2,333)	(2,151)
Group's share of net liabilities of the associate	–	–
Revenue	–	–
Loss for the year	(90)	(179)
Group's share of losses of the associate for the year	–	(23)

19. INTEREST IN AN ASSOCIATE *(Continued)*

The Group has discontinued recognising its share of loss of Beijing Teletron since the Group's share of loss of the associate has exceeded its investment in Beijing Teletron. The amount of unrecognised share of the associate, extracted from the summarised financial information in respect of the Group's associate is set out below:

	2010 HK$'000	2009 HK$'000
Unrecognised share of losses of for the year	**36**	26
Accumulated unrecognised share of losses	**785**	749

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2010 HK$'000	2009 HK$'000
Cost of investment in an unlisted jointly controlled entity in the PRC	**96,719**	96,719
Share of post acquisition profits (losses)	**6,492**	(4,028)
Share of post acquisition other comprehensive income	**3,111**	–
	106,322	92,691

During the year ended 31 December 2009, the Group acquired 14% equity interests in Changsha Seg Development Company Limited ("Changsha Seg") (formerly known as "Changsha Xingxing Development Limited") for a consideration of approximately HK$26,260,000 and acquired 40% equity interests in Changsha Seg through the acquisition of 75% equity interests in Gold Wide Holdings Limited ("Gold Wide") (see Note 42(b)).

20. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

As at 31 December 2010, the Group had interest in the following jointly controlled entity:

Name	Form of business structure	Place of incorporation and operations	Particulars of paid-up capital	Percentage of effective equity interest attributable to the Group	Principal activity
Changsha Seg	Limited liability company	PRC	Paid up capital RMB35,000,000	44%	Wholesale and retail of IT, digital and electronic products and parts, provision of catering, entertainment services, rental of office premises, and property management

Included in the cost of of investment in the jointly controlled entity as at 31 December 2010 is goodwill of HK$17,909,000 (2009: HK$17,909,000) arising on the acquisition. There are no movements in the goodwill during each of the reporting periods.

The summarised of the audited financial information in respect of the Group's interest in the jointly controlled entity which are accounted for using the equity method is set out below:

	2010 HK$'000	2009 HK$'000
Total assets	**254,035**	227,192
Total liabilities	**(90,328)**	(88,706)
Net assets	**163,735**	138,486
Group's share of net assets of the jointly controlled entity	**88,413**	74,782
Revenue	**17,662**	–
Profit (loss) for the year/period	**19,481**	(8,493)
Group's share of profit (loss) and other comprehensive income (expenses) for the year/period	**13,631**	(4,028)

21. GOODWILL

	HK$'000
Cost	
At 1 January 2009 and 31 December 2009	103,001
Deconsolidation of a subsidiary	(103,001)
At 31 December 2010	–
Impairment	
At 1 January 2009 and 31 December 2009	103,001
Deconsolidation of a subsidiary	(103,001)
At 31 December 2010	–
Carrying values	
At 31 December 2010	–
At 31 December 2009	–

Impairment testing on goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The goodwill has been allocated to one CGU, a subsidiary in the voice portal, KM systems and one-stop value chain services segment.

The recoverable amount of this unit had been determined to be less than the carrying value in prior year. Accordingly, an impairment loss in respect of the full amount of goodwill of HK$103,001,000 was recognised in the consolidated financial statements of the Group in prior year.

22. DEPOSITS PAID FOR ACQUISITION OF PLANT AND EQUIPMENT

	2010 **HK$'000**	2009 HK$'000
Deposits paid	**3,121**	–

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise:

	2010 **HK$'000**	2009 HK$'000
Unlisted investment in funds, at fair value	**21,916**	16,437
Unlisted equity investment in Hong Kong, at cost	**2,000**	–
	23,916	16,437

The Group's investment in the unlisted equity investment represented 12.5% equity interest in a Hong Kong private limited company engaged in the retailing of watches and clocks in Hong Kong. The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

The Group's unlisted investment in funds are measured at fair value and are classified as Level 2 fair value measurement (see Note 6(b)). Unlisted investment in funds that are denominated in currencies other than the functional currency of the relevant group entities is as follows:

	2010 **'000**	2009 '000
USD	**2,819**	2,121

24. OTHER ASSET

The other asset represents a golf club membership of approximately HK$286,000 and is measured at cost and was fully impaired in prior year.

25. LOAN RECEIVABLES

	2010 HK$'000	2009 HK$'000
Loan receivables arising from loan financing business:		
Secured loan receivables	**261,165**	98,873
Unsecured loan receivables	**147,820**	25,208
	408,985	124,081
Other loan receivables:		
Amount due from a former subsidiary	**151,980**	151,980
Advance to a former subsidiary	**20,000**	–
Other unsecured loan receivable	**3,823**	3,823
	175,803	155,803
Less: impairment loss recognised	**(155,803)**	(155,803)
	20,000	–
	428,985	124,081
The Group's loan receivables (net of impairment loss) are analysed into:		
Non-current assets	**20,100**	–
Current assets	**408,885**	124,081
	428,985	124,081

The secured loan receivables arising from loan financing business are secured by listed equity shares, convertible bonds issued by listed companies, unlisted shares and properties located in Hong Kong and bear interest at a fixed interest rate ranging from 8% to 14% (2009: 8% to 10%) per annum.

The unsecured loan receivables arising from loan financing business bear interest at a rate ranging from 7% to 14% (2009: 4% to 8%) per annum and are guaranteed by independent third parties.

At 31 December 2010 and 2009, all loan receivables (net of impairment loss) were neither past due nor impaired. The following table illustrates ageing analysis, based on loan drawn down date, of loan receivables (net of impairment loss) as of the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Within 3 months	**64,587**	48,378
More than 3 months but less than 6 months	**183,246**	25,274
More than 6 months but less than 12 months	**118,007**	50,429
More than 12 months	**63,145**	–
	428,985	124,081

25. LOAN RECEIVABLES *(Continued)*

The Group's financial advances to customers included in the loan receivables are due as of the due date specified in respective loan agreements. Further details on the Group's credit policy are set out in Note 6.

The movement of impairment loss of other loan receivables during the reporting period is as follows:

	2010	2009
	HK$'000	HK$'000
At 1 January	**155,803**	151,980
Impairment loss recognised	**–**	3,823
At 31 December	**155,803**	155,803

Included in the above impairment loss recognised at 31 December 2010 was individually impaired loan receivables with a carrying amount of HK$155,803,000 (2009: HK$155,803,000) before impairment. Loan receivables of HK$428,985,000 (2009: HK$124,081,000) were neither past due nor impaired, and are related to a number of independent customers that have strong financial background. Management believes that no further impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

During the year ended 31 December 2008, after the disposal of Eternity Profit Investments Limited ("Eternity"), the amount due from Eternity to the Group of approximately HK$151,980,000 was recorded as a loan receivable of the Group. The directors considered the possibility of recovery of the loan receivable was remote and impossible, and accordingly full impairment loss in respect of the loan receivable was recognised in the year ended 31 December 2008.

During the year ended 31 December 2009, impairment loss on loan receivables of HK$3,823,000 was recognised in the consolidated statement of comprehensive income. The receivable related to the bankruptcy of the customer and management assessed that the entire receivable is irrecoverable.

During the year ended 31 December 2010, after the Group lost its control over CEF, the amount due from CEF of HK$12,000,000 is recorded as loan receivable of the Group. In addition, HK$8,000,000 is advanced to CEF subsequently. The aggregate outstanding of HK$20,000,000 at 31 December 2010 is unsecured, bears interest at 6% per annum from 1 January 2011 and repayable on 31 July 2012.

26. CONVERTIBLE INSTRUMENTS DESIGNATED AT FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 HK$'000	2009 HK$'000
Convertible instruments designated at FVTPL	**67,766**	46,176

During the year ended 31 December 2008, the Group acquired a two-year 2% coupon rate convertible bond with a principal amount of HK$5,000,000 issued by Asia Energy Logistics Group Limited ("AELG") from a subsidiary of Heng Xin China Holdings Limited ("Heng Xin") in which Yeung Sau Han Agnes, a director of the Company, is also one of the directors of Heng Xin. Both AELG and Heng Xin are companies listed on the Main Board of the Stock Exchange. The convertible notes with aggregate carry amount of HK$18,219,000 were fully converted into 100 million new ordinary shares of AELG at a conversion price of HK$0.05 per share during the year ended 31 December 2010.

During the year ended 31 December 2009, the Group acquired a two-year 3% coupon rate convertible bond with a principal amount of HK$21,600,000 issued by China Agrotech Holdings Limited ("CAHL"), a company listed on the Main Board of the Stock Exchange. The convertible bond can be converted, in an amount of not less than HK$3,000,000, into new ordinary shares of CAHL at any time within a period of two years following the date of issue at a conversion price of HK$0.90 per share. As at 31 December 2010, the Group had investments in the convertible bond of CAHL in principal amount of HK$21,600,000 (2009: HK$21,600,000).

As further detailed in Note 29(b), a five-year zero coupon rate convertible bond (the "NEE CBs") with a principal amount of $39,000,000 issued by New Environmental Energy Holdings Limited (formerly known as Hembly International Holdings Limited) ("NEE"), a company listed on the Main Board of the Stock Exchange, was transferred to the Group for settling a deposit of HK$70,000,000 paid by the Group. The NEE CBs can be converted, in an amount of not less than HK$1,000,000, into new ordinary shares of NEE at any time within a period of five years following the date of issue at a conversion price of HK$1.18. During the current year, NEE CBs with a principal amount of HK$11,000,000 and HK$12,000,000 were disposed of for a cash consideration of HK$20,400,000 (after related transaction costs) and converted into 10,168,000 shares of NEE at a conversion price of HK$1.18 per share, respectively. The carrying amounts of the relevant batch of NEE CBs at the date of disposal and conversion are HK$19,838,000 and HK$8,196,000, respectively.

26. CONVERTIBLE INSTRUMENTS DESIGNATED AT FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

As further detailed in Note 32, upon the Group lost control over CEF, the Group's investment in the 23,913,000 5-year 3% coupon rate convertible preference shares (the "CP Shares") was classified as convertible instruments designated at financial assets at FVPTL. The CP Shares can be converted into 10 new ordinary shares of CEF at any time before the maturity date, 5 November 2012. Subsequent to the Group losing control over CEF, 1,200,000 CP Shares with a carrying amount of HK$5,341,000 were converted into 12,000,000 ordinary shares of CEF. The Group holds 22,713,000 shares at 31 December 2010.

A fair value loss of approximately HK$103,253,000 was recorded for the year ended 31 December 2010 (2009: gain of HK$17,529,000).

The fair values of the convertible instruments designated at financial assets at fair value through profit or loss were valued by Grant Sherman Appraisal Limited ("Grant Sherman") using the binominal option pricing model. The inputs into the model of each convertible bond as at 31 December 2010 and 2009 were as follows:

	2010	2009
AELG		
Stock price	**N/A**	HK$0.18
Conversion price	**N/A**	HK$0.05
Volatility	**N/A**	73.98%
Dividend yield	**N/A**	0%
Option life (years)	**N/A**	0.75
Risk free rate	**N/A**	0.192%
CAHL		
Stock price	**HK$0.79**	HK$0.83
Conversion price	**HK$0.9**	HK$0.9
Volatility	**50.18%**	77.1%
Dividend yield	**0%**	0%
Option life (years)	**0.56**	1.43
Risk free rate	**0.32%**	0.4%

26. CONVERTIBLE INSTRUMENTS DESIGNATED AT FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

	2010	2009
NEE		
Stock price	HK$0.73	N/A
Conversion price	HK$1.18	N/A
Volatility	46.79%	N/A
Dividend yield	0%	N/A
Option life (years)	3.94	N/A
Risk free rate	1.37%	N/A
CEF		
Stock price	HK$1.14	N/A
Conversion price	HK$0.0115	N/A
Volatility	96.86%	N/A
Dividend yield	0%	N/A
Option life (years)	1.85	N/A
Risk free rate	0.56%	N/A

27. INVENTORIES

	2010 HK$'000	2009 HK$'000
Inventories consisted of:		
Merchandise	17,313	–
Telecommunication and computer telephony hardware products	156	626
	17,469	626

As at 31 December 2010, the Group's merchandise is carried at its net realisable value.

During the year ended 31 December 2009, inventories which had been written down to net realisable value in prior years have been sold. As a result, a reversal of allowance for inventories of approximately HK$80,000 had been recognised and included in cost of sales.

28. TRADE RECEIVABLES

	2010 HK$'000	2009 HK$'000
Account receivables	**5,098**	805
Retention receivables	**258**	375
	5,356	1,180
Less: Impairment loss recognised	**(785)**	(928)
	4,571	252

The Group normally grants to its customers credit period ranging from 30 days to 180 days. The following is an aged analysis of trade receivables, net of impairment loss, presented based on the invoice date at the reporting date.

	2010 HK$'000	2009 HK$'000
Within 90 days	**4,529**	170
91 – 180 days	**17**	32
181 – 365 days	**25**	50
	4,571	252

As at 31 December 2010, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$42,000 (2009: HK$37,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

28. TRADE RECEIVABLES *(Continued)*

The ageing analysis of trade receivables which are past due but not impaired is as follows:

	2010	2009
	HK$'000	HK$'000
1 to 3 months past due	**17**	–
Over 3 months past due	**25**	37
Total	**42**	37

The Group's neither past due nor impaired trade receivables mainly represent sales made to creditworthy customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience and the financial standings of these customers, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable.

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

	2010	2009
	HK$'000	HK$'000
At 1 January	**928**	980
Written back of impairment loss made in previous years	**(143)**	(52)
At 31 December	**785**	928

At the end of each reporting period, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, individual impairment loss was recognised.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	notes	**2010** **HK$'000**	2009 HK$'000
Deposits paid for acquisition of potential investments:			
– Project A	*a*	**14,124**	19,324
– Project B	*b*	**–**	70,000
– Project C	*c*	**10,000**	10,000
– Project D	*d*	**17,655**	–
		41,779	99,324
Prepayments		**1,012**	693
Rental and utility deposits		**999**	649
Other receivables		**3,619**	484
Deposit with a securities broker		**9,649**	–
		57,058	101,150

notes:

(a) On 14 July 2009, China Seed Investment Limited ("China Seed"), an indirectly wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding ("MOU") (the "China Seed MOU") with two individual independent third parties (the "Vendors"), in relation to the acquisition of 42% equity interests in 海南南莊農業有限公司 (「海南南莊」), a company which engaged in harvesting exotic fruits, such as Lychees and Longans. Pursuant to the China Seed MOU, China Seed paid RMB15,000,000 (equivalent to approximately HK$17,550,000) and RMB17,000,000 (equivalent to approximately HK$19,324,000) refundable deposits during the year ended 31 December 2010 and 2009, respectively. The Group, after analysing the financial information of 海南南莊, decided not to proceed further with the acquisition. Subsequent to the termination, RMB20,000,000 (equivalent to approximately HK$22,750,000) was refunded to the Group. Pursuant to an agreement entered into by the Group and the Vendors dated 23 February 2011, the remaining deposit of RMB12,000,000, equivalent to approximately HK$14,124,000, at 31 December 2010 will be repaid by the Vendors on or before 31 December 2011. RMB1,200,000 (equivalent to approximately HK$1,412,000) was settled subsequent to the end of the reporting period.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

notes: (Continued)

(b) On 28 August 2009, Winner Performance Limited ("Winner Performance"), an indirectly wholly-owned subsidiary of the Company entered into a non-legally binding MOU ("the Winner Performance MOU") with an independent third party, in relation to the exclusive right for the purchase of 34% equity interests in 廣東振戎能源有限公司 (「廣東振戎」) ("Exclusive Right"), 廣東振戎 is engaged in energy and natural resources related business.

Pursuant to the Winner Performance MOU, HK$70,000,000 was paid by Winner Performance to that independent third party as refundable deposit.

On 13 January 2010, Winner Performance entered into a settlement agreement with that independent third party pursuant to which, the deposit will be settled by transfer of NEE CBs of principal amount of HK$39,000,000 to Winner Performance. The fair value of the NEE CBs at the date of transfer is approximately HK$70,000,000 and no gain or loss was recorded on such transfer. The fair value of the NEE CBs was valued by Grant Sherman using the binominal option pricing model with the following inputs:

Stock price	HK$2.16
Conversion price	HK$1.18
Volatility	55.35%
Dividend yield	0%
Option life (years)	4.86
Risk free rate	1.84%

(c) On 26 November 2009, Top Mega Asia Limited ("Top Mega"), an indirectly wholly-owned subsidiary of the Company, entered into a procurement agreement with an independent third party, in relation to the acquisition of a potential investment in country club development, the Group paid earnest deposit of HK$10,000,000 for this potential investment.

The potential acquisition was terminated during the year ended 31 December 2010 and the deposit was refunded to the Group in January 2011.

(d) On 13 July 2010, First Concept Group Limited ("First Concept"), an indirect wholly-owned subsidiary of the Company, entered into a MOU (the "First Concept MOU") with an independent third party, in relation to the acquisition of 100% equity interests in 深圳超能化工科技有限公司, a company engaged in trading of raw materials. Pursuant to the First Concept MOU, First Concept paid a refundable deposit of RMB15,000,000 (equivalent to approximately HK$17,655,000) for this potential investment.

30. INVESTMENTS HELD FOR TRADING

Investments held for trading consisted of:

	2010	2009
	HK$'000	HK$'000
Listed securities held for trading, at fair value		
– Equity securities listed in Hong Kong	**202,352**	91,158
Unlisted investment in funds, at fair value	**3,637**	3,382
	205,989	94,540

The fair values of the above listed securities and unlisted funds are determined based on the quoted market bid prices available on the relevant exchanges and quoted prices provided by the financial institutions, respectively.

The Group's unlisted investment in funds that are denominated in currencies other than the functional currency of the relevant group entities is as follows:

	2010	2009
	'000	'000
USD	**468**	436

31. BANK BALANCES AND CASH

Bank balances carry interest at market rates at 0.01% (2009: 0.01%) per annum.

The bank balances are deposited with creditworthy banks with no recent history of default.

Included in bank balances and cash are the following amounts which are subject to foreign exchange control regulations or not freely transferable:

	2010 '000	2009 '000
Amounts denominated in:		
RMB	**21,749**	39

The Group's material bank balances that are denominated in currencies other than the functional currency of the relevant group entities is as follows:

	2010 '000	2009 '000
USD	**780**	16,023

32. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 29 December 2008, the Company announced that it had entered into a placing agreement on 15 December 2008 and a supplemental placing agreement on 22 December 2008, pursuant to which Fortune (HK) Securities Limited agreed to act as placing agent for the purpose of a private sale of 150,000,000 CP Shares of its then subsidiary, CEF, at a price of HK$0.53 per CP Share on a best effort basis to potential subscribers. On 15 December 2009, the Company announced that it had signed a further extension letter to extend the date for fulfillment of all conditions precedents of the placing to 15 January 2010.

32. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

At 31 December 2009, the management of the Company considered that with the potential placees being actively located, in accordance with HKFRS 5, the remaining business segment of CEF, being the one-stop value chain services, was required to be presented as discontinued operations and the related assets and liabilities were classified as assets classified as held for sale and liabilities directly associated with assets classified as held for sale, respectively. The following amounts represented the Group's 58.87% share of the assets and liabilities of CEF as at 31 December 2009, which were presented separately in the Company's consolidated statement of financial position at 31 December 2009.

	2009 HK$'000
Plant and equipment	1,123
Interest in an associate	1
Trade receivables	3,090
Prepayments, deposits and other receivables	245
Bank balances and cash	23,985
Total assets classified as held for sale	28,444
Accruals and other payables	859
Unsecured loans	3,000
Total liabilities directly associated with assets classified as held for sale	3,859
Non-controlling interests of CEF	2,657

32. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

Upon the completion of placing of the CP Shares on 28 January 2010, the director of the Company considered that the Group lost control over CEF since the complete exercise of the conversion right in the CP Shares sold will cause the shareholding of the Company in CEF to be diluted from 58.87% to 22.27%. The directors of the Company confirmed that upon the loss of control over CEF, it is the Group's intention to dispose of the entire equity interests, including the ordinary shares and CP Shares, in CEF and the Group will then remain as a passive investor and will not nominate representatives to the board of directors of CEF. Accordingly, the retained equity interests owned by the Group in CEF is classified as investments held for trading. The remaining 23,913,000 CP shares held by the Group were classified as convertible instruments designated as financial assets at FVTPL.

Subsequent to the completion of the placing of the CP Shares, the holders of the CP Shares exercised the conversion rights to convert the entire CP Share held by then into 1,500,000,000 new ordinary shares of CEF (the "Conversion") simultaneously. The Group's equity interests in CEF was then diluted from 58.87% to 22.27%.

On 3 March 2010, Top Status International Limited ("Top Status), a wholly-owned subsidiary of the Company, entered into a conditional agreement with China Coalfields International Group Limited (the "Purchaser") for disposal (the "Disposal") of the Group's 22.27% interests in CEF for a consideration of approximately of HK$175,000,000 to the Purchaser. The Group received a non-refundable deposit of HK$1,000,000 in this respect. On 29 November 2010, the Group announced that due to certain conditions being not fulfilled, the Disposal was terminated and the deposit received from the Purchaser was forfeited. Notwithstanding the fact that the Disposal is terminated, the Group is in further negotiation with the Purchaser for disposal of the equity interests in CEF.

Further details of the financial impact on the deconsolidation of CEF was included in Note 45.

33. TRADE PAYABLES

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

	2010 HK$'000	2009 HK$'000
Within 60 days	**324**	175
61 to 120 days	**24**	47
Over 365 days	**46**	–
	394	222

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

34. DEFERRED TAXATION

The following are the major deferred tax liability recognised and movements thereon during the reporting period:

	Fair value changes in investment properties HK$'000
At 1 January 2009	–
Charge to profit or loss for the year 2009 and at 31 December 2009	5,665
Charge to profit or loss for the year	2,313
Exchange adjustment	77
At 31 December 2010	**8,055**

35. NON-LISTED WARRANTS

On 10 June 2009, the Company and Fortune (HK) Securities Limited entered into a placing agreement in respect of the placement of 110,000,000 warrants of the Company to independent investors at a price of HK$0.05 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.001 each at a subscription price of HK$1.40. Pursuant to the supplemental agreement dated 8 September 2009, the warrants price was amended from HK$0.05 to HK$0.03 per warrant and the exercise price was amended from HK$1.40 to HK$0.80 per warrant. The placement was completed on 20 November 2009 with the warrants expiring on 19 November 2012. Details of the above are set out in the Company's announcements dated 10 June 2010, 8 September 2009, 9 November 2009 and 20 November 2009.

No warrant had been exercised during the year ended 31 December 2010 and 2009.

At 31 December 2010, the 110,000,000 warrants remain outstanding and can be exercised at any time on or before 19 November 2012. Exercise in full of such warrants would result in the issue of approximately 110,000,000 additional ordinary shares of HK$0.001 each, which represents 16.32% of the enlarged share capital of the Company after full exercise of the warrants.

36. SHARE CAPITAL

	Number of shares '000	**Nominal value** HK$'000
Authorised:		
Ordinary shares of HK$0.001 each at 1 January 2009, 31 December 2009 and 31 December 2010	100,000,000	100,000
Issued and fully paid ordinary shares of HK$0.001 each		
At 1 January 2009	537,314	537
Issue of shares on acquisition of a subsidiary *(note)*	26,500	27
At 31 December 2009 and 2010	563,814	564

note: Pursuant to a sale and purchase agreement dated 23 January 2009, 26,500,000 new shares of HK$0.001 each were issued at the market value on the completion date as consideration shares to the vendor as part of the purchase consideration for the acquisition of Great Hill.

The above shares rank pari passu in all respect with the existing ordinary shares in issue.

37. SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme on 3 May 2000 ("Share Option Scheme"), pursuant to which it may grant options to employees (including executive directors) and consultants of the Group to subscribe for shares in the Company. Pursuant to the Share Option Scheme, options were granted on 30 June 2000 to executive directors and other employees of the Group to subscribe for an aggregate of 19,420,000 shares in the Company at a price of HK$1.30 per share, during the exercise period from 1 July 2003 to 30 June 2010.

Pursuant to resolutions passed at a special general meeting of the shareholders held on 13 November 2002, the Company terminated the Share Option Scheme and adopted a new share option scheme ("New Share Option Scheme") in order to comply with the new requirements of Chapter 23 of GEM Listing Rules effective on 1 October 2001. Under the terms of the New Share Option Scheme, the board of directors of the Company may, at their discretion, grant options to the participants fall within the definition prescribed in the New Share Option Scheme including the employees, non-executive directors of the Company or its subsidiaries etc., to subscribe for shares in the Company at a price determined by the Company's Board of Directors, and will not be less than the highest of (i) the nominal value of the shares; (ii) the average closing price of the shares quoted on the GEM on the five trading days immediately preceding the date of grant; and (iii) the closing price of the shares quoted on the GEM on the date of grant, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue and with an aggregate value (based on the closing price of the shares on the date of grant) in excess of HK$5 million must be approved by the Company's shareholders.

The New Share Option Scheme will remain in force for a period of 10 years from 13 November 2002. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

<u>Exercise of share options</u>

No share options had been granted or exercised during the year ended 31 December 2010 and 2009 under the New Share Option Scheme.

37. SHARE OPTION SCHEME *(Continued)*

Details of the share options outstanding during the year ended 31 December 2010 and 2009 were:

	Date of grant	Exercisable period	Subscription Price per share HK$
Employees	3/4/2007	3/4/2007-2/4/2017	7.35
Consultants	3/4/2007	3/4/2007-2/4/2017	7.35

As at 1 January 2009, 31 December 2009 and 31 December 2010, there were 2,200,000 outstanding share options granted to the employees and the consultants of the Group. No share options were granted or lapsed during each of the reporting periods.

38. COMMITMENTS

Operating leases

The Group as lessor

The Group had contracted with tenants for the following future minimum lease payments:

	2010 HK$'000	2009 HK$'000
Within one year	**1,032**	220
In the second to fifth year inclusive	**774**	–
	1,806	220

Operating lease receipts represent rentals receivable by the Group for certain of its equipment and investment properties. Leases are negotiated and rentals are fixed for one to two years.

38. COMMITMENTS *(Continued)*

Operating leases *(Continued)*

The Group as lessee

The Group had commitments for future minimum lease payments in respect of premises under various non-cancellable operating leases which fall due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	2,201	2,135
In the second to fifth year inclusive	2,033	1,548
	4,234	3,683

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases are negotiated and rentals are fixed for an average of three years.

Capital commitments

	2010 HK$'000	2009 HK$'000
Capital expenditure in respect of the acquisition of plant and equipment contracted but not provided for	2,391	–

39. RETIREMENT BENEFITS SCHEMES

The Group maintains various retirement schemes for its employees. The retirement scheme for employees of the PRC representative office is a mandatory central pension scheme organised by the PRC government, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries are charged as expenses when the employees have rendered services entitling to them to the contribution. The employer contributions vest fully once they are made. The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each make monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month.

During the year, the aggregate contributions made by the Group to the retirement schemes were approximately HK$306,000 (2009: HK$512,000). There were no material forfeitures available to offset the Group's future contributions for the two years ended 31 December 2010 and 2009.

40. RELATED PARTY TRANSACTIONS

(a) Compensation of directors and key management personnel

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

	2010 **HK$'000**	2009 HK$'000
Short-term benefits	**5,659**	6,333
Other long-term benefits	**60**	68
	5,719	6,401

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(b) Save as disclosed in the consolidated statement of financial position and respective notes, the Group did not enter into any significant related party transactions.

41. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2010:

(a) As disclosed in Note 29(b), deposit of HK$70,000,000 as at 31 December 2009 was settled by the NEE CBs.

(b) As disclosed in Note 26, convertible bonds of AELG with a carrying amount of HK$18,219,000 was converted into 100 million new ordinary shares of AELG.

(c) As disclosed in Note 26, NEE CBs with a carrying amount of HK$8,196,000 was converted into 10,168,000 new ordinary shares of NEE.

(d) As disclosed in Note 26, 1,200,000 CP Shares with a carrying amount of HK$5,431,000 was converted into 12,000,000 new ordinary shares of CEF.

For the year ended 31 December 2009:

(a) Subsequent to the completion of acquisition of Great Hill during the year ended 31 December 2009, the loan receivable was settled by 68,000,000 shares of a company listed on the GEM Board of the Stock Exchange. As at the date of transfer, the closing price of the shares was HK$0.74 per share. The directors of the Company consider the fair value of the shares was approximately HK$50,320,000, being the carrying amount of the loan receivable. The shares were subsequently recognised as investments held for trading.

(b) Part of the consideration for the purchase of a subsidiary comprised shares. Further details of the acquisition are set out in Note 42(a).

42. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2009

(a) During the year, the Group acquired the entire interests in Great Hill from an independent third party, which was mainly holding a loan receivable for a cash consideration of approximately HK$50,320,000, which was satisfied by HK$37,000,000 and an aggregate of 26,500,000 new shares of the Company. The acquisition had been accounted for as an acquisition of assets and liabilities. The effect of the acquisition is summarised as follows:

Assets and liabilities acquired:

	HK$'000
Plant and equipment	38
Interest in associates	1,599
Other receivables	2,246
Bank balances and cash	35
Loan receivables	50,320
Accruals and other payables	(12)
	54,226
Total consideration satisfied by:	
Cash	37,000
Issue of new shares	17,226
	54,226
Analysis of net outflow of cash and cash equivalents arising on acquisition of assets through a subsidiary:	
Bank balances and cash acquired	35
Cash paid	(37,000)
	(36,965)

42. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

(Continued)

For the year ended 31 December 2009 *(Continued)*

(b) During the year, the Group directly acquired 14% equity interests in Changsha Seg and 40% equity interests in Changsha Seg through the acquisition of 75% equity interests in Gold Wide from an independent third party. Total considerations of the above transactions were approximately HK$82,320,000, which was satisfied by cash. The acquisition had been accounted for as an acquisition of assets and liabilities. The effect of the acquisition is summarised as follows:

Assets and liabilities acquired:

	HK$'000
Interest in a jointly controlled entity	96,719
Prepayment, deposit and other receivables	5,700
Bank overdrafts	(13)
Accruals and other payables	(21)
Amount due to former director	(5,454)
	96,931
Non-controlling interests	(14,611)
Total consideration satisfied by cash	82,320
Analysis of net outflow of cash and cash equivalents arising on acquisition of assets through a subsidiary:	
Bank overdrafts acquired	(13)
Cash consideration	(82,320)
Deposits paid in previous year	28,275
	(54,058)

43. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2009

During the year, the Group acquired the entire interests in Fortune Investment and Excel Return from certain independent third parties at a consideration of approximately HK$1,000. The fair values of identifiable assets and liabilities of the above companies as at its date of acquisition, which has no significant difference from its carrying amount, are as follows:

Net assets acquired	**Total**
	HK$'000
Other receivables	146
Accruals and other payables	(133)
Amount due to former director	(12)
	1
Total cash consideration and net cash outflow arising on acquisition	(1)

The acquisition of Fortune Investment and Excel Return did not contribute significantly to the Group's turnover or operating results for the year ended 31 December 2009.

44. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2010

On 11 November 2010, the Group disposed of Fortune Business Group Limited ("Fortune Business") and its subsidiaries to an independent third party in consideration of HK$10,000.

The consolidated net liabilities of Fortune Business at the date of disposal was as follows:

Net liabilities disposed of:

	HK$'000
Prepayments, deposits and other receivables	12
Accruals and other payables	(40)
	(28)
Gain on disposal	38
Total consideration	10
Satisfied by:	
Cash and net cash inflow arising on disposals	10

The disposal of the subsidiaries did not result in significant impact on the Group's cash flows or operating results for the year ended 31 December 2010.

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2009

On 19 January 2009, the Group entered into a conditional sale and purchase agreement with an independent third party to dispose of the entire equity interests in Money Holder Limited ("Money Holder") in consideration of HK$1,200,000. Upon completion on 19 January 2009, the Group ceased to hold any equity interest in Money Holder.

On 29 June 2009, the Group entered into a conditional sale and purchase agreement with an independent third party to dispose of the entire equity interests in Proactive International and its shareholder's loan in consideration of HK$1,000,000. Upon completion on 2 July 2009, the Group ceased to hold any equity interest in Proactive International.

On 29 September 2009, the Group entered into a conditional sale and purchase agreement with an independent third party to dispose of the entire equity interests in Chineseroad Group and its shareholder's loan in consideration of HK$300,000. Upon completion on 9 December 2009, the Group ceased to hold any equity interests in Chineseroad.

On 16 October 2009, the Group entered into a conditional sale and purchase agreement with an independent third party to dispose of the entire equity interests in Welford and its shareholder's loan in consideration of HK$4,000,000. Upon completion on 21 October 2009, the Group ceased to hold any equity interests in Welford.

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2009 *(Continued)*

The consolidated net assets (liabilities) of Money Holder, Proactive International, Chineseroad Group and Welford at the respective date of disposal were as follows:

	Money Holder HK$'000	Proactive International HK$'000	Chineseroad Group HK$'000	Welford HK$'000	Total HK$'000
Net assets (liabilities) disposed of:					
Plant and equipment	–	–	15	–	15
Interest in an associate	–	–	–	1,520	1,520
Trade receivables	–	305	1,371	–	1,676
Prepayments, deposits and other receivables	1,229	2	–	2,246	3,477
Bank balances and cash	–	1,853	90	–	1,943
Shareholder's loan	–	(3,616)	(65,216)	(17,027)	(85,859)
Accruals and other payables	–	(787)	(2,324)	–	(3,111)
	1,229	(2,243)	(66,064)	(13,261)	(80,339)
Assignment of debt	–	3,616	65,216	17,027	85,859
(Loss) gain on disposal	(29)	(373)	1,148	234	980
Total consideration	1,200	1,000	300	4,000	6,500
Satisfied by:					
Cash	1,200	1,000	300	4,000	6,500
Net cash inflow (outflow) arising on disposals:					
Cash consideration	1,200	1,000	300	4,000	6,500
Bank balances and cash disposed of	–	(1,853)	(90)	–	(1,943)
	1,200	(853)	210	4,000	4,557

The disposal of the subsidiaries did not result in significant impact on the Group's cash flows or operating results for the ended 31 December 2009.

45. DECONSOLIDATION OF A SUBSIDIARY

As further detailed in Note 32, on 28 January 2010, the Group lost control over CEF and CEF was deconsolidated subsequent there to.

The consolidated net assets of CEF at the date control was lost were as follows:

	HK$'000
Net assets disposed of:	
Assets classified as held for sale*	28,444
Goodwill	–
Liabilities directly associated with assets classified as held for sale	(3,859)
Non-controlling interests	(2,657)
	21,928
Gain on deconsolidation	414,302
	436,230
Satisfied by:	
Investments held for trading**	239,088
Convertible instruments designated at financial assets at FVTPL***	106,437
Loan receivable from CEF	12,000
Cash consideration	78,705
	436,230

* Included bank balances and cash of HK$23,985,000

** Being market value of the shares at 28 January 2010

*** The fair values of the instruments were appraised by Grant Sherman using the binominal option pricing model with the following inputs:

Stock price	HK$0.4450
Conversion price	HK$0.0115
Volatility	99.59%
Dividend yield	0%
Option life (years)	2.77
Risk free rate	0.949%

	HK$'000
Net cash inflow arising on deconsolidation:	
Cash consideration	78,705
Bank balances and cash disposed of	(23,985)
	54,720

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 HK$'000	2009 HK$'000
Non-current Assets		
Investments in subsidiaries	**8,002**	8,002
Current Assets		
Prepayments, deposits and other receivables	**448**	154
Amounts due from subsidiaries*	**1,023,114**	730,798
Investments held for trading	**4,247**	4,082
Bank balances and cash	**6,037**	191,926
	1,033,846	926,960
Current Liabilities		
Other payables and accruals	**963**	885
Amounts due to subsidiaries*	**2,588**	6,572
	3,551	7,457
Net current Assets	**1,030,295**	919,503
Net assets	**1,038,297**	927,505
Capital and reserves		
Share capital	**564**	564
Reserves	**1,037,733**	926,941
Total equity	**1,038,297**	927,505

* Unsecured, interest-free and repayable on demand.

47. SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2010 are as follows:

Name	Place of incorporation/ operations	Class of shares held	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Asiaciti Management Limited	Hong Kong	Ordinary	HK$100	100%	Investment holdings
Best Core International Limited	British Virgin Islands ("BVI")	Ordinary	USD1,000	100%	Holding of investment properties
Fameway Finance Limited	Hong Kong	Ordinary	HK$1	100%	Provision of financing services
First Champion Worldwide Limited	BVI	Ordinary	USD1,000	100%	Trading of securities
Forever Success International Limited	Hong Kong	Ordinary	HK$1	100%	Provision of management services
Gold Wide Holdings Limited	Hong Kong	Ordinary	HK$160,000	75%	Investment holdings
Honor Wealth International Limited	BVI	Ordinary	US$1,000	100%	Investment in properties for rental income purpose
Luck Bloom International Limited	Hong Kong	Ordinary	HK$1	100%	Cash management

47. SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Class of shares held	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Proactive Technology Limited	Hong Kong	Ordinary	HK$1,000,000	100%	Provision of telecommunications and computer telephony solutions
Top Status International Limited	BVI	Ordinary	US$1	100%	Investment holdings
Ultra Million Limited	BVI	Ordinary	USD1,000	100%	Trading of securities
深圳市盛世富強科技有限公司	PRC	Ordinary	US$3,000,000	100%	Investment in properties for rental income purpose

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

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

48. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the financial statements, the Group had the following events after the reporting period.

(a) On 13 May 2010, the Company entered into a placing agreement with a placing agent (the "Placing Agent"), an independent third party, for the placing of 112,000,000 new ordinary shares of the Company. Pursuant to various supplemental agreements entered into by the Company with the Placing Agent on 10 September 2010 and 7 January 2011, the placing price is revised to HK$0.43 per ordinary share and the placing period was extended to 7 April 2011. Up to the date of approval of these financial statements, the placing had not been completed. Further details of the placing are included in the Company's announcement dated 13 May 2010, 10 September 2010 and 7 January 2011.

(b) In January 2011, the Group entered into certain banking facilities agreements with a bank in Hong Kong for new borrowings in aggregate of HK$18 million. The loans are drawn down subsequently in February 2011 and are secured by a mortgage on certain investment properties of the Group with aggregate carrying values of HK$37,203,000 as at 31 December 2010.

(c) Included in the disposal of equity interests in Eternity is a call option for the Group to buy back Eternity if the sale of debts of HK$151,980,000 cannot be completed by 31 December 2009 (or a later date as mutually agreed). As more fully explained in the circular issued on 2 December 2008, the completion of the disposal of debts of HK$151,980,000 is subject to, among other things, the release of monies currently subject to a court injunction and being freezed in CR Onway Freight Logistics and Transport Company Limited, a joint venture set up by the Group under Eternity, as at the date of disposal, on or before 31 December 2009 or any later date being agreed later with Portstar. Pursuant to various supplemental agreements entered into between the Company and Portstar, the completion date had been extended to 31 December 2011. The details of the above are set out in the announcements of the Company dated 30 December 2009 and 20 January 2011.

RESULTS

	For the year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**68,435**	8,916	21,856	11,338	11,880
Revenue	**36,766**	8,916	21,856	11,338	11,880
Cost of sales	**(4,127)**	(3,104)	(14,984)	(5,742)	(5,049)
Gross profit	**32,639**	5,812	6,872	5,596	6,831
Other income	**2,203**	4,685	28,625	26,529	1,101
Distribution and selling expenses	**(23)**	(20)	(28)	(25)	(23)
Administrative expenses	**(33,406)**	(36,424)	(61,961)	(100,835)	(11,422)
Gain on disposal of an investment property	**14,610**	15,123	–	–	–
Fair value changes in investment properties	**12,840**	27,432	–	–	–
Loss arising from fair value changes of investments held for trading	**(137,021)**	(13,048)	–	–	–
Loss on disposal of investments held for trading	**(18,746)**	–	–	–	–
Gain on disposal of convertible instruments designated at financial assets at fair value through profit or loss	**562**	–	–	–	–

FIVE-YEAR FINANCIAL SUMMARY

RESULTS *(Continued)*

	For the year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Gain arising from fair value changes of convertible instruments designated at financial assets at fair value through profit or loss	**(103,253)**	17,529	–	–	–
Gain on deconsolidation of a subsidiary	**414,302**	–	–	–	–
Impairment loss on goodwill	**–**	–	(103,001)	(1,621,794)	–
Impairment loss on a loan receivable	**–**	–	(151,980)	–	–
Gain on disposal of subsidiaries	**–**	205	–	–	–
Gain on disposal of an associate	**–**	94	–	–	–
Other expenses	**(2,300)**	(3,823)	–	–	–
Share of loss of an associate	**–**	(23)	–	–	–
Share of profit (loss) of a jointly controlled entity	**10,520**	(4,028)	–	–	–
Finance costs	**–**	(3)	(22)	(108)	136
Allowance for amount due from an associate	**–**	–	–	–	(234)
Loss on investments	**–**	–	–	–	–
Profit (loss) before tax	**192,927**	13,511	(281,495)	(1,690,637)	(3,611)
Income tax expense	**(12,727)**	(8,084)	(83)	–	–
Profit (loss) for the year from discontinued operations	**–**	(10,872)	–	–	–
Loss for the year	**180,200**	(5,445)	(281,578)	(1,690,637)	(3,611)
Attributable to:					
Owners of the Company	**178,252**	(5,512)	(281,578)	(1,690,637)	(3,611)
Non-controlling interests	**1,948**	67	–	–	–
	180,200	(5,445)	(281,578)	(1,690,637)	(3,611)

ASSETS AND LIABILITIES

	For the year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**286,584**	266,666	46,077	158,813	1,522
Total current assets	**875,315**	695,135	875,724	968,460	18,004
Total current liabilities	**19,282**	11,263	(17,081)	(4,752)	(3,542)
Total non-current liabilities	**8,055**	5,665	–	(654)	–
Equity attributable to owners of the Company	**1,117,360**	927,538	904,720	1,121,867	15,984
Non-controlling interests	**17,202**	17,335	–	–	–

SUMMARY OF INVESTMENT PROPERTIES

Address	Lot number	Tenure	Existing use
Hong Kong			
7th Floor, Block D and Car Port no. 34 on Upper Car Port, 64 Macdonnell Road, Hong Kong.	1/23rd parts or shares of and in Inland Lot no. 8201	Medium-term lease	Residential and Residential Car Park
PRC			
The Whole of 33rd Floor, Shidai-Caifu Building, Futian District, Shenzhen City, Guangdong Province, The PRC.	–	Medium-term lease (A term of 50 years expiring on 25 June 2050)	Commercial Office