



中國信息科技發展有限公司

**China Information Technology Development Limited**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8178)

ANNUAL REPORT

2010



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# Corporate Information

## EXECUTIVE DIRECTORS

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## COMPANY SECRETARY

Mr. Tse Chi Wai

## COMPLIANCE OFFICER

Dr. Yu Xiaoyang

## AUTHORISED REPRESENTATIVES

Mr. Hu Zhuoer  
Mr. Tse Chi Wai

## REMUNERATION COMMITTEE

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

## AUDIT COMMITTEE

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

## AUDITORS

Ernst & Young

## LEGAL ADVISORS

Conyers Dill & Pearman

## PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite no. 5A, 9/F., Sino Plaza  
255-257 Gloucester Road  
Hong Kong

## REGISTERED OFFICE

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

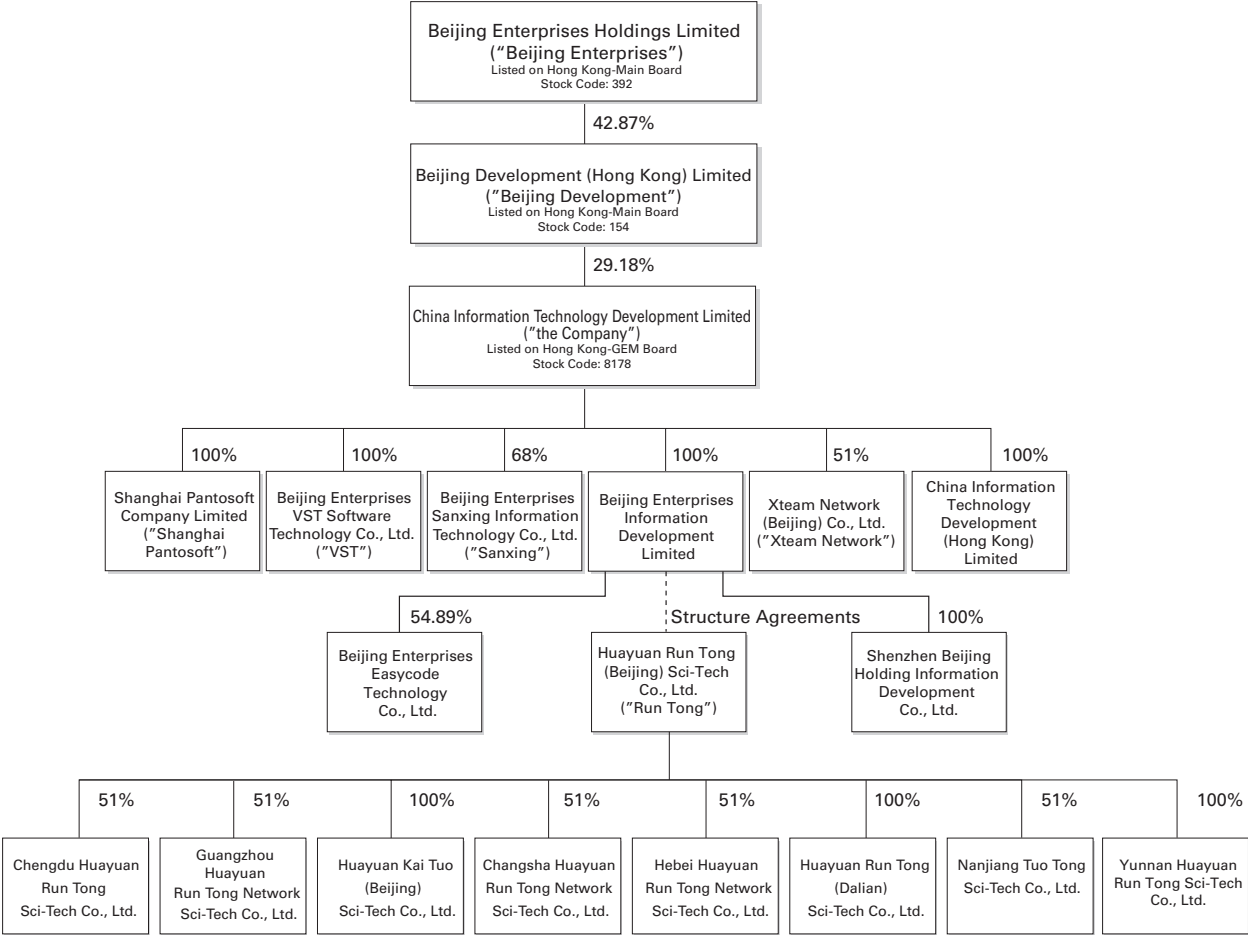
## GEM STOCK CODE

8178

## WEB-SITE ADDRESS

[www.chinainfotech.com.hk](http://www.chinainfotech.com.hk)

# Corporate Structure



Note: Place of operations:

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

As at 28 March 2011

# CEO's Statement

I am presenting to the shareholders the annual report of China Information Technology Development Limited (the "Company") and its subsidiaries (thereinafter collectively referred to as the "Group") for the year ended 31 December 2010. The Group's revenue for 2010 amounted to HK\$122,098,000, an increase of 12.5% from HK\$108,571,000 in 2009. The gross profit was HK\$55,839,000, representing an increase of 27.4% compared with HK\$43,844,000 in 2009. Loss for the year was significantly narrowed down from HK\$56,246,000 in 2009 to HK\$26,531,000. The business operations of the Company have been substantially improving.

Trading in the shares of the Company has been suspended since 29 January 2009. The Company's decision of suspension of trading was based on concerns about the genuineness of the results of one of the Group's subsidiaries. According to the relevant rules of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Hong Kong Stock Exchange requires the Company to fully address these matters before a resumption of trading of shares can be considered. In response, the Company has carried out an in-depth internal investigation on the genuineness of the results of that subsidiary, and has engaged Tanrich Capital Limited as its financial adviser in respect of the resumption of a share trading status of the Company. The Company submitted its formal application to the Hong Kong Stock Exchange for the resumption of trading of shares on 25 August 2010.

In 2010, the Company has further standardised its internal control measures to improve its internal supervision as well as risk prevention ability. The result has been well recognised by a professional institution which is a third party. The measures to expand the Company's businesses are also underway. The board of directors wishes the approval of resumption of trading of shares can be granted in the early part of 2011.

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

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

By Order of the Board  
*Executive Director / Chief Executive Officer*  
**Hu Zhuoer**

Hong Kong, 28 March 2011

# Management Discussion and Analysis

## BUSINESS REVIEW

In year 2010, the Group's operation was on a steady increase. The Group continued to strengthen its internal control and accounting reporting systems. The Group submitted a resumption of share trading proposal to the Stock Exchange and is now waiting for the reply from the Stock Exchange.

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

## FINANCIAL REVIEW

### Revenue

The Group's revenue for 2010 amounted to HK\$122,098,000, increased by 12.5% from HK\$108,571,000 in 2009. This was mainly due to the increase in turnover of software development and system integration and sale of computer hardware.

### Cost of sales and services

The Group had a total cost of sales and services of HK\$66,259,000 for 2010, which increased by 2.4% compared with HK\$64,727,000 in 2009. The increase was primarily due to the increase of salaries paid to the technical staff involved.

### Gross profit

The gross profit of the Group in 2010 amounted to HK\$55,839,000 which increased by HK\$11,995,000 compared with HK\$43,844,000 in 2009. The gross profit margin was 45.7% compared with 40.4% in 2009. The increase was mainly attributed to increase in turnover of software development and system integration and the sale of computer hardware both of which bore a higher gross margin.

### Other income and gains

During the financial year ended 31 December 2010, the Group generated other incomes which comprised of: (i) income received from the sales agents amounted to HK\$38,000; (ii) bank interest income amounted to HK\$1,587,000; and (iii) government grants amounted to HK\$2,119,000; (iv) gain on disposal of a golf club membership amounted to HK\$664,000, and (vi) others in an aggregate amount of HK\$639,000.

### Selling and distribution costs

The Group's selling and distribution costs in 2010 amounted to HK\$17,508,000, which decreased by 10.9% compared with HK\$19,651,000 in 2009. The decrease was mainly due to the decrease of staff costs.

### Administrative expenses

Administrative expenses of the Group in 2010 were HK\$55,102,000, decreased by 26.8% comparing to HK\$75,325,000 in 2009. The decrease was mainly due to the Group had implemented certain effective enforcement of cost control measures.

# Management Discussion and Analysis

## Other expenses

Other expenses of the Group was HK\$3,341,000 for 2010 compared to HK\$2,951,000 for the previous year. The increase was mainly due to impairment provisions made on trade receivables.

## Finance costs

Finance costs of the Group in 2010 were HK\$6,462,000, increased by 74.6% comparing to HK\$3,701,000 in 2009. The increase was mainly due to the imputed interest on promissory notes.

## Income tax expense

The Group's tax expenses in 2010 were HK\$5,004,000, compared with HK\$4,093,000 in 2009. The increase was mainly attributed to recognition of certain deferred tax liabilities.

## Loss attributable to shareholders

The Group's loss attributable to shareholders was HK\$29,189,000 for 2010 comparing to loss of HK\$57,396,000 in 2009.

## FINANCIAL POSITION

### Liquidity and financial resource

As at 31 December 2010, cash and bank balances held by the Group increased from HK\$131,197,000 to HK\$134,826,000. As at 31 December 2010, the Group's total borrowings amounted to HK\$78,425,000, represented by interest-free promissory notes issued in replacement of the matured convertible bonds and are repayable by 28 May 2012. The gearing ratio (calculated as total borrowings over total equity) of the Group was 0.69 (2009: 0.67).

For the year ended 31 December 2010, the Group had capital expenditure of HK\$2,589,000 (2009: HK\$3,836,000).

### Exposures to exchange rate fluctuation and hedging activities

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

### Employees and remuneration policies

As at 31 December 2010, the Group had 617 (2009: 547) full-time employees, including directors. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Other benefits include contributions to the statutory mandatory provident fund scheme for its employees in Hong Kong and social insurance for its employees in the PRC, and are paid at appropriate levels.

# Biographical Information of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. HU Zhuoer**, aged 45, chief executive officer, graduated from Shanghai University of Finance and Economics with a bachelor's degree in science in 1986 and obtained a master's degree in Finance from Peking University in 2000 and obtained the qualification of Senior Engineer in 2007. Mr. Hu served on the Ministry of Finance and was a deputy director and then director of the State Administration of Taxation and a party constitution member and deputy director of the Chengdu Municipal Office of the State Administration of Taxation. During his term of office in the State Administration of Taxation, he mainly engaged in technology and equipment management, IT construction and planning, international exchanges on technology, etc. During his service in the Chengdu Municipal Office of the State Administration of Taxation, he was mainly responsible for tax audit, the Golden Taxation project, tax collection for large enterprises, etc. Mr. Hu has extensive experiences in eGovernment planning and construction, tax reform implementation and governance and government affair restructuring and innovation. Mr. Hu joined the Group on 25 August 2009.

**Dr. YU Xiaoyang**, aged 57, was graduated from Peking University with a Bachelor's degree in Philosophy in 1982 and a Master's degree in Philosophy in 1984. Dr. Yu earned his Ph.D. and MBA degrees from Southern Illinois University, USA, in 1991 and 1993. Dr. Yu worked for international consulting and telecommunication corporations in software system development and information technology management for 12 years, and worked for Chinese high tech corporations as an executive director and a vice president over five years. Dr. Yu was the executive director of Beijing Development from March 2005 to February 2008. Dr. Yu joined the Group on 13 September 2007.



# Biographical Information of Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. MA Yuhua**, aged 62, graduated from Beijing Financial College. Ms. Ma was the general manager of Beijing International Trust and Investment Co., Ltd. and the president of Guodu Securities Company Limited. Ms. Ma has over 30 years' extensive experiences in financial management and investment and she is currently the chief controller of Guodu Securities Company Limited. Ms. Ma joined the Group in December 2004.

**Ms. LIANG Yeping**, aged 62, studied at the Party School of the CPC Central Committee and School of Economics and Management of Tsinghua University. Ms. Liang is currently the president of Beijing Academy of Management Sciences, a senior consultant and lecturer of Beijing Guru Management Training Co., Ltd. Ms. Liang has for years held top level management positions in various companies such as China Xingfa Group Co., Ltd., Beijing Guoxinan IC Design Co., Ltd., Nanjing Jiangning Digital Harbor Co., Ltd., etc., in which she has accumulated extensive experiences in corporate operations, management and information technology. Ms. Liang joined the Group in December 2004.

**Dr. ZHOU Chunsheng**, aged 44, was graduated from Princeton University, USA with a doctoral degree in Economics, focusing on Economics and Finance. He is currently a Professor of Cheung Kong Graduate School of Business. Dr Zhou has worked as an economist for Federal Reserve of the United States, an officer of China Securities Regulation Commission, an associate professor of School of Business of Hong Kong University, a professor of Peking University and a member of the Listing Committee of Shenzhen Stock Exchange. He is also an independent non-executive director of Centennial Brilliance Science & Technology Co., Ltd., Daqin Railway Co., Ltd., Anhui Koyo(Group) Co., Ltd., Zhuguang Holding Group Company Limited., Starlake Bioscience Co., Inc. Zhaqing Guangdong, etc. Dr. Zhou has rich experiences in corporate management in the listed companies. Dr. Zhou joined the Group on 13 September 2007.

**Dr. SUN Guofu**, aged 41, graduated from Shanxi Mining Institute (山西礦業學院) in 1991 and obtained a bachelor's degree in engineering. He obtained a master's degree in engineering from Beijing Institute of Technology in 1997 and a doctor's degree in engineering from Tsinghua University in 2001. He worked at Shanxi Mining Institute and Communication Equipment Company (通訊設備公司) and was vice president of Founder Technology Group Corp. He is currently the general manager of the technology management department of Peking University Founder Group Company Limited, vice chairman of the China Communications Industry Association, a standing member of the China Electronic Chamber of Commerce and a member of the China Computer Users Association. Dr. Sun has extensive experience in management and research & development. Dr. Sun joined the Group on 25 August 2009.

# Biographical Information of Directors and Senior Management

## SENIOR MANAGEMENT

**Ms. ZHENG Shaohua**, aged 54, is the Company's vice president and the general manager of Sanxing. Ms. Zheng graduated from Beihang University in 1983. She has over 20 years of experience in project management and information technology. Ms. Zheng joined the Group in August 2004.

**Mr. LI Jicheng**, aged 46, is the chief executive of VST. He graduated from Tianjin University with a bachelor's degree and obtained a master's degree in 1988. Mr. Li was a university lecturer and has over 15 years of experience in project management and information technology. Mr. Li joined the Group in August 2004.

**Mr. PENG Wensheng**, aged 42, is the chairman of Shanghai Pantosoft. Mr. Peng graduated from the Engineering Faculty of Nanjing University of Science & Technology in 1987 with a bachelor degree in Science. He also obtained a master degree in Science in Huazhong University of Technology in 1994. He joined the Group in December 2002.

**Mr. TSE Chi Wai**, aged 44, is the financial controller and company secretary of the Company. Mr. Tse graduated from the University of Hong Kong in 1989 with a bachelor degree in Social Science Studies. Mr. Tse is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tse has over 20 years of experience in auditing, accounting and finance gained from working with various international accounting firms and listed companies. He joined the Group in May 2010.

# Report of the Directors

The directors present their report and the audited financial statements of China Information Technology Development Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

## RESULTS AND DIVIDENDS

The Group’s loss for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 111.

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

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 112. This summary does not form part of the audited financial statements.

## EQUIPMENT

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

## SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

There were no movements in either the Company’s authorised or issued share capital during the year. Details of movements in the share options and convertible bonds of the Company during the year are set out in notes 32 and 28 to the financial statements, respectively.

## PRE-EMPTIVE RIGHTS

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

# Report of the Directors

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 33(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## **DISTRIBUTABLE RESERVES**

The Company had no reserve available for cash distribution/or distribution in specie as at 31 December 2010. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business, in accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for 69% of the total sales for the year and sales to the largest customer included therein amounted to 38%. Purchases from the Group's five largest suppliers accounted for 83% of the total purchases for the year and purchase from the largest supplier included therein amounted to 35%.

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

## **DIRECTORS**

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

### **Executive directors:**

Mr. Hu Zhuoer  
Dr. Yu Xiaoyang

# Report of the Directors

## **DIRECTORS** *(Continued)*

### **Non-executive director:**

Mr. Zhang Honghai (resigned on 20 September 2010)

### **Independent non-executive directors:**

Ms. Ma Yuhua

Ms. Liang Yeping

Dr. Zhou Chunsheng

Dr. Sun Guofu

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

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

## **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 7 to 9 of the annual report.

## **DIRECTORS' SERVICE CONTRACTS**

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

## **DIRECTORS' REMUNERATION**

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on page 22 of the annual report.

# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACTS

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

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2010, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), were as follows:—

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

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

### (2) Long positions in share options of the Company:

Name of director	Nature of interest	Number of underlying shares	Exercise period of the share options	Exercise price per share	Approximate percentage of shareholding
<b>Executive director</b>					
Dr. Yu Xiaoyang	Beneficial owner	32,400,000	13 March 2008 to 12 September 2012	HK\$0.79	0.50% (Note 1)
<b>Independent non-executive directors</b>					
Ms. Ma Yuhua	Beneficial owner	4,000,000	13 March 2008 to 12 September 2012	HK\$0.79	0.06% (Note 1)
Ms. Liang Yeping	Beneficial owner	4,000,000	13 March 2008 to 12 September 2012	HK\$0.79	0.06% (Note 1)
Dr. Zhou Chunsheng	Beneficial owner	4,000,000	13 March 2008 to 12 September 2012	HK\$0.79	0.06% (Note 1)

# Report of the Directors

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

*Note:*

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

Save as disclosed above, as at 31 December 2010, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Hong Kong Stock Exchange.

## **SHARE OPTION SCHEME**

The Company operates the share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 32 to the financial statements.

# Report of the Directors

## SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Notes	Number of Share Options		
		At 1 January 2010	Forfeited during the year	At 31 December 2010
<b>Executive director:</b>				
Dr. Yu Xiaoyang	(a)	32,400,000	–	32,400,000
<b>Non-executive director:</b>				
Mr. Zhang Honghai	(b)	20,000,000	(20,000,000)	–
<b>Independent non-executive directors:</b>				
Ms. Ma Yuhua	(a)	4,000,000	–	4,000,000
Ms. Liang Yeping	(a)	4,000,000	–	4,000,000
Dr. Zhou Chunsheng	(a)	4,000,000	–	4,000,000
Other employees	(a)	70,475,000	(16,575,000)	53,900,000
Advisers and consultants	(a)	4,000,000	–	4,000,000
		138,875,000	(36,575,000)	102,300,000



# Report of the Directors

## SHARE OPTION SCHEME *(Continued)*

*Notes:*

- a. These options were granted on 13 September 2007 at an exercise price of HK\$0.79\* per share. The options may be exercised at any time commencing on 13 March 2008 and, if not otherwise exercised, will lapse on 12 September 2012. The exercise of the option is subject to an annual cap of 25% of the share options granted. Subject to the approval of the Share Option Committee and the Remuneration Committee, executive directors and independent non-executive directors are entitled to exercise all the share options within three months from the date of termination of their employment.
- b. These options were granted on 11 February 2008 at an exercise price of HK\$0.53\* per share. The closing price of the Company's ordinary shares on the Hong Kong Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK\$0.52. The options may be exercised at any time commencing on 11 August 2008 and, if not otherwise exercised, will lapse on 10 February 2013. The exercise of the options is subject to an annual cap of 25% of the share options granted. The options were all cancelled during the year.
- \* The exercise price of these share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

Saved as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

# Report of the Directors

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

At 31 December 2010, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions in ordinary shares of the Company:

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

# Report of the Directors

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

Notes:

- (a) Beijing Development (Hong Kong) Limited was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in its wholly owned subsidiaries, Prime Technology Group Limited and E-Tron Limited.
- (b) Beijing Enterprises Holdings Limited was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in Beijing Development (Hong Kong) Limited.
- (c) Beijing Enterprises Group Company Limited was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in Beijing Enterprises Investments Limited and Beijing Enterprises Holdings Limited.
- (d) Mr. Xia Xiaoman was deemed to be interested in the 1,120,000,000 shares by virtue of his controlling interests in Carford Holdings Limited and Getwin Investment Limited.

Save as disclosed above, as at 31 December 2010, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **CONTINUING CONNECTED TRANSACTION**

The Group entered into the following continuing connected transaction (other than the continuing connected transactions that are exempted under Rule 20.33 of the Listing Rules) during the year ended 31 December 2010:

In connection with the subcontracting service contracts entered into between the Company's subsidiaries and certain subsidiaries of Beijing Development (Hong Kong) Limited, the Group received service income amounting to HK\$4,062,000 during the year. Further details of the transaction are included in note 36 to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 20.38 of the GEM Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

# Report of the Directors

## EVENT AFTER THE REPORTING PERIOD

Detail of significant event after the reporting period of the Group is set out in note 39 to the financial statements.

## COMPETING INTERESTS

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## CORPORATE GOVERNANCE

The Company's corporate governance report is set out on pages 20 to 24.

## AUDITORS

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

ON BEHALF OF THE BOARD

**Hu Zhuoer**

*Director*

Hong Kong

28 March 2011

# Corporate Governance Report

## INTRODUCTION

The Company has complied with all the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the “Code”) for the year ended 31 December 2010.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the director’s securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Directors have confirmed that they have complied with the Listing Rules throughout the year ended 31 December 2010.

## BOARD OF DIRECTORS

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

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

# Corporate Governance Report

## BOARD MEETING

During the year of 2010, the board held totally five meetings. The attendance of each director at board meetings are as follows:

<b>Name of director</b>	<b>Attendance/ Number of meetings held</b>
<i>Chairman and Non-executive director:</i>	
Mr. Zhang Honghai (resigned on 20 September 2010)	0/5
<i>Executive directors:</i>	
Mr. Hu Zhuoer ( <i>Chief executive officer</i> )	5/5
Dr. Yu Xiaoyang	5/5
<i>Independent non-executive directors:</i>	
Ms. Ma Yuhua	5/5
Ms. Liang Yeping	4/5
Dr. Zhou Chunsheng	2/5
Dr. Sun Guofu	5/5

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has complied with Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Zhang Honghai (the chairman and a non-executive director upto his resignation on 20 September 2010) was responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Mr. Hu Zhuoer is the chief executive officer of the Company and is responsible for the day-to-day operations of the Group. Upon the resignation of Mr. Zhang Honghai, the Company has not elected a chairman replacement. Chairman at a board meeting is currently elected on an ad-hoc basis at each board meeting.

# Corporate Governance Report

## NON-EXECUTIVE DIRECTORS

The Board fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules. It met the requirement of having at least one of the independent non-executive directors with appropriate professional qualifications or accounting or related financial management expertise. The independent non-executive directors have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders.

None of the non-executive directors is appointed for a specific term, which constitutes a deviation from Code Provision A4.1 which stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Nonetheless, in accordance with the articles of association of the Company, all non-executive directors are subject to retirement by rotation. The Company considers that there are sufficient measures to ensure the corporate governance standard of the Company is not less exacting than the Code.

## REMUNERATION COMMITTEE

The remuneration committee of the Group was established in 2006. During the year under review, members of the remuneration committee are Ms. Ma Yuhua (committee chairman), Mr. Zhang Honghai, (upto his resignation on 20 September 2010) Ms. Liang Yeping, Dr. Zhou Chunsheng and Dr. Sun Guofu. Subsequent to the resignation of Mr. Zhang Honghai, all of the remuneration committee members are independent non-executive directors.

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

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

During the year of 2010, one remuneration committee meeting was held and the attendance of each member is set out below:

<b>Name of member</b>	<b>Attendance/ Number of meetings held</b>
Ms. Ma Yuhua	1/1
Ms. Liang Yeping	1/1
Dr. Zhou Chunsheng	0/1
Dr. Sun Guofu	1/1
Mr. Zhang Honghai (resigned on 20 September 2010)	0/1

# Corporate Governance Report

## NOMINATION OF DIRECTORS

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

## AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the auditors' remuneration for audit services paid to Ernst & Young is approximately HK\$980,000.

## AUDIT COMMITTEE

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

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

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

During the year under review, five audit committee meetings will held and the attendance of each member is set out below:

<b>Name of member</b>	<b>Attendance/ Number of meetings held</b>
Ms. Ma Yuhua	5/5
Ms. Liang Yeping	4/5
Dr. Zhou Chunsheng	3/5
Dr. Sun Guofu	5/5



# Corporate Governance Report

## **DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

The directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 25 to 26. The directors of the Company have confirmed that the preparation of the Group's financial statements is in compliance with the relative regulations and applicable accounting standards.

## **INTERNAL CONTROL**

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

In year 2010, the Board conducts reviews of the system of internal control with the assistance of Ernst and Young Advisory Services Limited ("Advisor"). The review is completed and the related improvement measures are positively received by the Advisor.

# Independent Auditors' Report



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To the shareholders of

**China Information Technology Development Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Information Technology Development Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 27 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

## **AUDITORS' RESPONSIBILITY**

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

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

# Independent Auditors' Report (Continued)

## **AUDITORS' RESPONSIBILITY** *(Continued)*

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

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

## **OPINION**

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

### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

28 March 2011

# Consolidated Income Statement

Year ended 31 December 2010

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
REVENUE	6	<b>122,098</b>	108,571
Cost of sales and services		<b>(66,259)</b>	(64,727)
Gross profit		<b>55,839</b>	43,844
Other income and gains, net	6	<b>5,047</b>	5,631
Selling and distribution costs		<b>(17,508)</b>	(19,651)
Administrative expenses		<b>(55,102)</b>	(75,325)
Other expenses		<b>(3,341)</b>	(2,951)
Finance costs	8	<b>(6,462)</b>	(3,701)
Share of results of an associate	18(b), 25(a)	–	–
LOSS BEFORE TAX	7	<b>(21,527)</b>	(52,153)
Income tax	11	<b>(5,004)</b>	(4,093)
LOSS FOR THE YEAR		<b>(26,531)</b>	(56,246)
Attributable to:			
Shareholders of the Company	12	<b>(29,189)</b>	(57,396)
Non-controlling interests		<b>2,658</b>	1,150
		<b>(26,531)</b>	(56,246)
LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
– Basic and diluted		<b>HK(0.45) cents</b>	HK(0.88) cents

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
LOSS FOR THE YEAR	<b>(26,531)</b>	(56,246)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX OF NIL		
– Exchange differences on translation of foreign operations	<b>4,751</b>	576
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<b>(21,780)</b>	(55,670)
Attributable to:		
Shareholders of the Company	<b>(25,057)</b>	(56,861)
Non-controlling interests	<b>3,277</b>	1,191
	<b>(21,780)</b>	(55,670)

# Consolidated Statement of Financial Position

31 December 2010

		<b>31 December 2010 HK\$'000</b>	31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
	<i>Notes</i>			
<b>NON-CURRENT ASSETS</b>				
Equipment	14	<b>13,624</b>	15,055	18,033
Goodwill	15	<b>34,000</b>	34,000	34,000
Other intangible assets	16	<b>1,076</b>	2,475	2,798
Investments in an associate	18	–	20,000	20,000
<b>Total non-current assets</b>		<b>48,700</b>	71,530	74,831
<b>CURRENT ASSETS</b>				
Inventories	19	<b>1,295</b>	18,142	7,169
Amounts due from contract customers	20	<b>33,700</b>	16,690	13,511
Trade receivables	21	<b>10,538</b>	16,820	17,570
Prepayments, deposits and other receivables	22	<b>21,444</b>	15,666	32,430
Cash and bank balances	24	<b>134,826</b>	131,197	156,164
<b>Total current assets</b>		<b>201,803</b>	198,515	226,844
Investments in an associate held for sale	25	<b>20,000</b>	–	–
<b>Total current assets</b>		<b>221,803</b>	198,515	226,844
<b>CURRENT LIABILITIES</b>				
Trade payables	26	<b>5,937</b>	5,568	7,003
Amounts due to contract customers	20	<b>19,276</b>	16,925	12,161
Other payables and accruals	27	<b>28,023</b>	25,893	26,410
Income tax payables		<b>23,196</b>	21,978	20,578
Convertible bonds	28	–	80,292	–
<b>Total current liabilities</b>		<b>76,432</b>	150,656	66,152

# Consolidated Statement of Financial Position

31 December 2010

<i>Notes</i>	<b>31 December 2010 HK\$'000</b>	31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
	<b>145,371</b>	47,859	160,692
NET CURRENT ASSETS			
	<b>194,071</b>	119,389	235,523
TOTAL ASSETS LESS CURRENT LIABILITIES			
NON-CURRENT LIABILITIES			
Convertible bonds	28	–	76,591
Promissory notes	29	–	–
Deferred tax liability	30	–	–
	<b>80,253</b>	–	76,591
Total non-current liabilities			
Net assets	<b>113,818</b>	119,389	158,932
EQUITY			
<b>Equity attributable to shareholders of the Company</b>			
Issued capital	31	64,949	64,949
Reserves	33(a)	31,366	40,214
	<b>96,315</b>	105,163	145,897
<b>Non-controlling interests</b>	<b>17,503</b>	14,226	13,035
	<b>113,818</b>	119,389	158,932
Total equity			

**Hu Zhuoer**  
Director

**Yu Xiaoyang**  
Director

# Consolidated Statement of Changes In Equity

Year ended 31 December 2010

	Attributable to shareholders of the Company										
	Issued capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000 <i>(note 33 (a)(iii))</i>	Capital reserve HK\$'000	Convertible bond equity reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000 <i>(note 33 (a)(iii))</i>	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2009	64,949	1,176,781	42,931	-	10,411	24,600	22,338	(1,196,113)	145,897	13,035	158,932
Profit/(loss) for the year	-	-	-	-	-	-	-	(57,396)	(57,396)	1,150	(56,246)
Other comprehensive income for the year – Exchange differences on translation of foreign operations	-	-	-	-	-	535	-	-	535	41	576
Total comprehensive income/(loss) for the year	-	-	-	-	-	535	-	(57,396)	(56,861)	1,191	(55,670)
Equity-settled share option arrangements	32(c)	-	16,127	-	-	-	-	-	16,127	-	16,127
Transfer of share option reserve upon the forfeiture of share options	-	-	(10,948)	-	-	-	-	10,948	-	-	-
At 31 December 2009 and 1 January 2010	64,949	1,176,781*	48,110*	-*	10,411*	25,135*	22,338*	(1,242,561)*	105,163	14,226	119,389
Profit/(loss) for the year	-	-	-	-	-	-	-	(29,189)	(29,189)	2,658	(26,531)
Other comprehensive income for the year – Exchange differences on translation of foreign operations	-	-	-	-	-	4,132	-	-	4,132	619	4,751
Total comprehensive income/(loss) for the year	-	-	-	-	-	4,132	-	(29,189)	(25,057)	3,277	(21,780)
Issue of promissory notes	29	-	-	8,329	-	-	-	-	8,329	-	8,329
Cancellation of convertible bonds	28	-	-	-	(10,411)	-	-	10,411	-	-	-
Equity-settled share option arrangements	32(c)	-	7,880	-	-	-	-	-	7,880	-	7,880
Transfer of share option reserve upon the forfeiture of share options	-	-	(11,293)	-	-	-	-	11,293	-	-	-
Transfer to reserves	-	-	-	-	-	-	3,340	(3,340)	-	-	-
<b>At 31 December 2010</b>	<b>64,949</b>	<b>1,176,781*</b>	<b>44,697*</b>	<b>8,329*</b>	<b>-*</b>	<b>29,267*</b>	<b>25,678*</b>	<b>(1,253,386)*</b>	<b>96,315</b>	<b>17,503</b>	<b>113,818</b>

\* These reserve accounts comprise the consolidated reserves of HK\$31,366,000 (2009: HK\$40,214,000) in the consolidated statement of financial position.



# Consolidated Statement of Cash Flows

Year ended 31 December 2010

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		<b>(21,527)</b>	(52,153)
Adjustments for:			
Finance costs	8	<b>6,462</b>	3,701
Bank interest income	6	<b>(1,587)</b>	(1,141)
Loss on disposal of items of equipment	7	<b>54</b>	1,734
Gain on disposal of a golf club membership	6	<b>(664)</b>	–
Depreciation	7	<b>4,384</b>	4,319
Amortisation of other intangible assets	7	<b>188</b>	323
Impairment of equipment	7	<b>14</b>	–
Impairment of inventories	7	<b>517</b>	–
Impairment of amounts due from contract customers	7	<b>750</b>	–
Impairment of trade receivables	7	<b>1,044</b>	–
Impairment of prepayments, deposits and other receivables, net	7	<b>452</b>	421
Equity-settled share option expense	32	<b>7,880</b>	16,127
		<b>(2,033)</b>	(26,669)
Decrease/(increase) in inventories		<b>17,358</b>	(10,950)
Increase in amounts due from contract customers		<b>(17,450)</b>	(3,136)
Decrease in trade receivables		<b>6,009</b>	806
Decrease/(increase) in prepayments, deposits and other receivables		<b>(5,740)</b>	16,446
Increase/(decrease) in trade payables		<b>162</b>	(1,457)
Increase in amounts due to contract customers		<b>1,745</b>	4,725
Decrease in other payables and accruals		<b>(3,780)</b>	(588)
Exchange adjustments		<b>141</b>	22
		<b>(3,588)</b>	(20,801)
Cash used in operations		<b>(2,830)</b>	(2,693)
		<b>(6,418)</b>	(23,494)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		<b>1,587</b>	1,141
Deposits received for the disposal of an associate	25	<b>5,000</b>	–
Purchases of items of equipment	14	<b>(2,589)</b>	(3,836)
Proceeds from disposal of items of equipment		<b>72</b>	812
Proceeds from disposal of other intangible assets		<b>1,875</b>	–
Increase in time deposits with maturity of more than three months when acquired		<b>(14,062)</b>	(6,876)
		<b>(8,117)</b>	(8,759)
Net cash flows used in investing activities		<b>(8,117)</b>	(8,759)

# Consolidated Statement of Cash Flows

Year ended 31 December 2010

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in amount due to a shareholder		–	(9)
Net cash flows used in financing activities		–	(9)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>101,709</b>	133,552
Effect of foreign exchange rate changes, net		<b>4,102</b>	419
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>91,276</b>	101,709
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances other than time deposits	24	<b>91,076</b>	101,500
Time deposits	24	<b>43,750</b>	29,697
Cash and cash equivalents as stated in the consolidated statement of financial position		<b>134,826</b>	131,197
Less: Time deposits with maturity of more than three months when acquired		<b>(43,550)</b>	(29,488)
Cash and cash equivalents as stated in the consolidated statement of cash flows		<b>91,276</b>	101,709

# Statement of Financial Position

31 December 2010

	<i>Notes</i>	<b>31 December 2010 HK\$'000</b>	31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
<b>NON-CURRENT ASSETS</b>				
Other intangible assets	16	<b>1,076</b>	2,475	2,798
Investments in subsidiaries	17	<b>92,042</b>	145,583	155,407
<b>Total non-current assets</b>		<b>93,118</b>	148,058	158,205
<b>CURRENT ASSETS</b>				
Due from subsidiaries	17	<b>16,452</b>	6,442	6,442
Prepayments, deposits and other receivables	22	<b>153</b>	153	242
Cash and bank balances	24	<b>2,716</b>	6	225
<b>Total current assets</b>		<b>19,321</b>	6,601	6,909
<b>CURRENT LIABILITIES</b>				
Due to subsidiaries	17	<b>13,000</b>	11,382	9,241
Other payables and accruals	27	<b>1,891</b>	4,062	5,209
Convertible bonds	28	–	80,292	–
<b>Total current liabilities</b>		<b>14,891</b>	95,736	14,450
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>4,430</b>	(89,135)	(7,541)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>97,548</b>	58,923	150,664
<b>NON-CURRENT LIABILITIES</b>				
Convertible bonds	28	–	–	76,591
Promissory notes	29	<b>78,425</b>	–	–
<b>Total non-current liabilities</b>		<b>78,425</b>	–	76,591
<b>Net assets</b>		<b>19,123</b>	58,923	74,073
<b>EQUITY</b>				
Issued capital	31	<b>64,949</b>	64,949	64,949
Reserves	33(b)	<b>(45,826)</b>	(6,026)	9,124
		<b>19,123</b>	58,923	74,073

**Hu Zhuoer**  
Director

**Yu Xiaoyang**  
Director

# Notes to Financial Statements

31 December 2010

## 1. CORPORATE INFORMATION

China Information Technology Development Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and the shares of which are listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively the "Group") were principally engaged in the development and sale of computer software and hardware, the provision of system integration and related support services and the provision of Internet, mobile and telecommunication value-added services in Mainland China, the People's Republic of China (the "PRC").

## 2. BASIS OF PRESENTATION

The Group and the Company incurred losses of HK\$26,531,000 and HK\$56,009,000 for the year ended 31 December 2010, respectively, and the Group had net cash flows used in operating activities of HK\$6,418,000 for the year.

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

- (a) the Group and the Company will control and tighten up administrative expenses;
- (b) the Group will realise assets to improve the liquidity and meet the Group's future working capital and financial requirements; and
- (c) the Group will repatriate funds from the Company's subsidiaries to the Company.

Provided that these measures are successful and can effectively improve the liquidity position of the Group and the Company, the directors are satisfied that the Group and the Company will have sufficient financial resources to meet their financial obligations as they fall due in the foreseeable future. Accordingly, these financial statements have been prepared on the going concern basis.

Should the Group and the Company be unable to achieve the above and continue in business as going concerns, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

# Notes to Financial Statements

31 December 2010

## 3.1 BASIS OF PREPARATION

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

### **Basis of consolidation**

#### *Basis of consolidation from 1 January 2010*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits/accumulated losses, as appropriate.

# Notes to Financial Statements

31 December 2010

## 3.1 BASIS OF PREPARATION (Continued)

### Basis of consolidation (Continued)

#### *Basis of consolidation prior to 1 January 2010*

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

## 3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
HKFRS 5 Amendments included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
Improvements to HKFRSs 2009	<i>Amendments to a number of HKFRSs issued in May 2009</i>
HK Interpretation 4 Amendment	<i>Amendment to HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK Interpretation 5	<i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i>

# Notes to Financial Statements

31 December 2010

## 3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised) and amendments to HKFRS 8, HKAS 1, HKAS 7, HKAS 36 and HKAS 38 included in *Improvements to HKFRSs 2009*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

- (a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limit to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

- (b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 8 *Operating Segments*: Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- HKAS 1 *Presentation of Financial Statements*: States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

# Notes to Financial Statements

31 December 2010

## 3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(b) *(Continued)*

- *HKAS 7 Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.
- *HKAS 36 Impairment of Assets*: Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 before aggregation for financial reporting purposes.
- *HKAS 38 Intangible Assets*: Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented in the standard for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.



# Notes to Financial Statements

31 December 2010

## 3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> <sup>2</sup>
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> <sup>4</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> <sup>4</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>6</sup>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> <sup>5</sup>
HKAS 24 (Revised)	<i>Related Party Disclosures</i> <sup>3</sup>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> <sup>1</sup>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2013

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

# Notes to Financial Statements

31 December 2010

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

Further information about those changes that are expected to significantly affect the Group is as follows:

- (a) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

- (b) HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

# Notes to Financial Statements

31 December 2010

## 3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(c) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- *HKFRS 3 Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- *HKAS 1 Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- *HKAS 27 Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any accumulated impairment losses.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Associate

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

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

When the investments in an associate are classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Investments in an associate are classified as held for sale if the investments will be recovered principally through a sales transaction rather than through continuing investments. For this to be the case, the investments must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such investments and its sale must be highly probable. Investments in an associate classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

### Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a member of the key management personnel of the Group;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Business combinations and goodwill**

#### *Business combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in the income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Business combinations and goodwill** *(Continued)*

#### *Business combinations from 1 January 2010 (Continued)*

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

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

#### *Business combinations prior to 1 January 2010 but after 1 January 2005*

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Equipment and depreciation

Equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Furniture, fixtures and equipment	18% – 30%
Motor vehicles	10% – 20%

Where parts of an item of equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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



# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Operating leases**

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

### **Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are all assessed to be finite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

#### *Golf club memberships, computer software, computer systems and trademarks*

These intangible assets are stated at cost less any accumulated impairment losses and are amortised on the straight-line basis over their estimated useful life of 10 to 20 years.

#### *Research and development costs*

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

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

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Intangible assets (other than goodwill)** *(Continued)*

#### *Research and development costs (Continued)*

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

### **Impairment of non-financial assets**

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

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

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

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments and other financial assets**

#### *Initial recognition and measurement*

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

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

#### *Subsequent measurement*

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

### **Impairment of financial assets**

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

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Impairment of financial assets** *(Continued)*

#### *Financial assets carried at amortised cost*

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

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

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

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

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### **Financial liabilities**

#### *Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are all classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value less directly attributable transaction costs.

#### *Subsequent measurement*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in “Finance costs” in the income statement.

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial liabilities** *(Continued)*

#### *Convertible bonds*

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

Upon the exercise of the conversion options, the resulting ordinary shares issued are recorded by the Company as additional share capital at the nominal value of the ordinary shares issued, and the excess of the total carrying amount of the liability and equity components of the convertible bonds over the nominal value of the ordinary shares issued is recorded in the share premium account. When the convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in the income statement. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in the income statement upon conversion or expiration of the conversion option.

### **Derecognition of financial liabilities**

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

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

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis.

### **Inventories**

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

### **Contracts for services**

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction, or completion of a physical proportion of the contract work, as appropriate. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Cash and cash equivalents

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

### Provisions

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

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

### Income tax

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

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

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



# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Income tax** *(Continued)*

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Income tax** *(Continued)*

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

### **Government subsidies**

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

### **Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for “Contracts for services” above;
- (c) from value-added services, when the services have been rendered;
- (d) rental income, on a time proportion basis over the lease terms; and
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer.

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

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

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

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

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

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Share-based payment transactions** *(Continued)*

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapsed are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits/accumulated losses as a movement in reserves.

### **Other employee benefits**

#### *Pension schemes*

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

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

### **Borrowing costs**

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

# Notes to Financial Statements

31 December 2010

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

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

The functional currency of the subsidiaries established in Mainland China is Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

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

# Notes to Financial Statements

31 December 2010

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The major judgements, estimates and assumptions that have the most significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2010 was HK\$34,000,000 (2009: HK\$34,000,000), details of which are set out in note 15 to the financial statements.

### Impairment of non-financial assets (other than goodwill)

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

# Notes to Financial Statements

31 December 2010

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

*(Continued)*

### **Provision for impairment of trade receivables and other receivables**

The policy for provision for impairment of trade receivables and other receivables of the Group is based on the evaluation of collectability and the ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of trade receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2010 were HK\$10,538,000 (2009: HK\$16,820,000) and HK\$21,444,000 (2009: HK\$15,666,000), respectively, details of which are set out in notes 21 and 22 to the financial statements.

### **Percentage of completion of service contracts**

The Group recognises revenue according to the percentage of completion of the individual contract of services. The Group's management estimates the percentage of completion of service contracts based on the actual cost incurred over the total budgeted cost, or completion of a physical portion of the contract work, as appropriate, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each service contract as the contract progresses.

### **Current tax and deferred tax**

The Group is subject to income taxes in Hong Kong and Mainland China. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current income tax payables carried as a liability in the consolidated statement of financial position as at 31 December 2010 was HK\$23,196,000 (2009: HK\$21,978,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact on the recognition of deferred tax assets and tax in the periods in which such estimates have been changed. The carrying amount of deferred tax assets carried as assets in the consolidated statement of financial position as at 31 December 2010 was HK\$1,828,000 (2009: Nil), details of which are set out in note 30 to the financial statements.

# Notes to Financial Statements

31 December 2010

## 5. OPERATING SEGMENT INFORMATION

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

- (a) the software development and system integration segment engages in (i) the sale of computer hardware; (ii) the provision of software development services; (iii) the provision of system integration services; and (iv) the provision of technical support and maintenance services;
- (b) the Internet, mobile and telecommunication segment engages in the provision of Internet, mobile and telecommunication value-added services; and
- (c) the in-house developed products segment engages in the sale and leasing of in-house developed computer hardware.

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

Segment assets exclude investments in an associate, amounts due from related companies, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude amount due to a related company, promissory notes, convertible bonds, income tax payables, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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



# Notes to Financial Statements

31 December 2010

## 5. OPERATING SEGMENT INFORMATION *(Continued)*

### Reportable Operating Segment information

#### Group

	Software development and system integration		Internet, mobile and telecommunication		In-house developed products		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue:</b>								
Sales to external customers	118,060	105,924	3,724	1,599	314	1,048	122,098	108,571
Intersegment sales	20,628	1,296	-	-	-	-	20,628	1,296
Other income and gains	2,360	1,189	84	3,199	-	-	2,444	4,388
	<b>141,048</b>	<b>108,409</b>	<b>3,808</b>	<b>4,798</b>	<b>314</b>	<b>1,048</b>	<b>145,170</b>	<b>114,255</b>
Reconciliation:								
Elimination of intersegment sales							(20,628)	(1,296)
Bank interest income							1,587	1,141
Unallocated gains							1,016	102
Revenue, other income and gains, net							<b>127,145</b>	<b>114,202</b>
<b>Segment results</b>	<b>11,360</b>	<b>3,238</b>	<b>(9,554)</b>	<b>(21,951)</b>	<b>(2,487)</b>	<b>(2,063)</b>	<b>(681)</b>	<b>(20,776)</b>
Reconciliation:								
Elimination of intersegment results							1,343	(333)
Bank interest income							1,587	1,141
Unallocated gains							1,016	102
Corporate and other unallocated expenses							(18,330)	(28,586)
Finance costs							(6,462)	(3,701)
Loss before tax							<b>(21,527)</b>	<b>(52,153)</b>

# Notes to Financial Statements

31 December 2010

## 5. OPERATING SEGMENT INFORMATION (Continued)

### Reporting Segment information (Continued)

#### Group

	Software development and system integration		Internet, mobile and telecommunication		In-house developed products		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Segment assets</b>	<b>232,199</b>	212,538	<b>4,914</b>	25,211	<b>1,810</b>	3,398	<b>238,923</b>	241,147
Reconciliation:								
Corporate and other unallocated assets							<b>31,580</b>	28,898
Total assets							<b>270,503</b>	270,045
<b>Segment liabilities</b>	<b>(40,652)</b>	(34,425)	<b>(2,910)</b>	(4,798)	<b>(1,485)</b>	(1,643)	<b>(45,047)</b>	(40,866)
Reconciliation:								
Corporate and other unallocated liabilities							<b>(111,638)</b>	(109,790)
Total liabilities							<b>(156,685)</b>	(150,656)
<b>Other segment information:</b>								
Depreciation on:								
Segment assets	<b>3,190</b>	2,955	<b>805</b>	841	<b>126</b>	259	<b>4,121</b>	4,055
Corporate and other unallocated assets							<b>263</b>	264
							<b>4,384</b>	4,319
Amortisation of other intangible assets on:								
Segment assets	-	-	-	-	-	-	-	-
Corporate and other unallocated assets							<b>188</b>	323
							<b>188</b>	323
Impairment of equipment	-	-	-	-	<b>14</b>	-	<b>14</b>	-
Impairment of inventories	<b>306</b>	-	-	-	<b>211</b>	-	<b>517</b>	-
Impairment of amounts due from contract customers	<b>750</b>	-	-	-	-	-	<b>750</b>	-
Impairment of trade receivables	<b>408</b>	-	-	-	<b>636</b>	-	<b>1,044</b>	-
Impairment of prepayments, deposits and other receivables, net	<b>147</b>	-	<b>39</b>	421	<b>266</b>	-	<b>452</b>	421
Investments in an associate							-	20,000
Investments in an associate held for sale							<b>20,000</b>	-
Capital expenditure* on:								
Segment assets	<b>1,065</b>	2,921	<b>1,513</b>	914	-	1	<b>2,578</b>	3,836
Corporate and other unallocated assets							<b>11</b>	-
							<b>2,589</b>	3,836

\* Capital expenditure consists of additions to equipment.

# Notes to Financial Statements

31 December 2010

## 5. OPERATING SEGMENT INFORMATION *(Continued)*

### Geographical information

Geographic information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the assets of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

### Information about major customers

During the year ended 31 December 2010, the Group had transactions with one (2009: two) single external customer of the software development and system integration segment which contributed over 10% of the Group's total revenue for the year. The revenue derived from sale transactions with the one (2009: two) single external customer of the software development and system integration segment for the year ended 31 December 2010 amounted to HK\$46,616,000 (2009: HK\$15,134,000 and HK\$11,702,000, respectively).

## 6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents (1) an appropriate proportion of contract revenue from the provision of software development and system integration services, net of value-added tax, business tax and government surcharges; (2) the aggregate of the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for returns and trade discounts; (3) an appropriate proportion of contract revenue from the provision of the technical support and maintenance services, net of business tax and government surcharges; (4) the service income received from the provision of Internet, mobile and telecommunication value-added services, net of business tax; and (5) the rental income received and receivable from the lease of in-house developed products during the year.

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

	Group	
	2010 HK\$'000	2009 HK\$'000
<b>Revenue</b>		
Provision of software development and system integration services	<b>36,487</b>	25,159
Sale of computer hardware	<b>37,971</b>	21,260
Provision of technical support and maintenance services	<b>43,602</b>	59,505
Provision of Internet, mobile and telecommunication value-added services	<b>3,724</b>	1,599
Sale and lease of in-house developed products	<b>314</b>	1,048
	<b>122,098</b>	108,571

# Notes to Financial Statements

31 December 2010

## 6. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

	Group	
	2010 HK\$'000	2009 HK\$'000
<b>Other income</b>		
Bank interest income	1,587	1,141
Government grants*	2,119	1,189
Income received from sales agents	38	3,199
Consultancy income	257	–
Others	310	102
	<b>4,311</b>	5,631
<b>Gains, net</b>		
Gain on disposal of a golf club membership	664	–
Foreign exchange differences, net	72	–
	<b>736</b>	–
<b>Other income and gains, net</b>	<b>5,047</b>	5,631

\* The government grants represented a government subsidy and value-added tax refunds, which impose no restriction on usage.

# Notes to Financial Statements

31 December 2010

## 7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	Group	
		2010 HK\$'000	2009 HK\$'000
Cost of inventories sold		<b>28,421</b>	16,960
Cost of services provided		<b>37,838</b>	47,767
Depreciation	14	<b>4,384</b>	4,319
Amortisation of other intangible assets*	16	<b>188</b>	323
Minimum lease payments under operating leases in respect of land and buildings		<b>8,435</b>	10,775
Auditors' remuneration		<b>980</b>	950
Employee benefit expense (including directors' remuneration (note 9)):			
Wages and salaries		<b>41,766</b>	39,243
Equity-settled share option expense		<b>7,880</b>	16,127
Pension scheme contributions		<b>4,856</b>	3,659
		<b>54,502</b>	59,029
Loss on disposal of items of equipment		<b>54</b>	1,734
Impairment of equipment**		<b>14</b>	–
Impairment of inventories**		<b>517</b>	–
Impairment of amounts due from contract customers**	20(b)	<b>750</b>	–
Impairment of trade receivables**	21(c)	<b>1,044</b>	–
Impairment of prepayments, deposits and other receivables, net**		<b>452</b>	421
Foreign exchange differences, net		<b>(72)</b>	640

\* The amortisation of other intangible assets is included in "Administrative expenses" on the face of the consolidated income statement.

\*\* These items are included in "Other expenses" on the face of the consolidated income statement.

# Notes to Financial Statements

31 December 2010

## 8. FINANCE COSTS

	Group	
	2010	2009
	HK\$'000	HK\$'000
Imputed interest on convertible bonds (note 28)	2,016	3,701
Imputed interest on promissory notes	4,446	–
	<b>6,462</b>	3,701

## 9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2010	2009
	HK\$'000	HK\$'000
Fees	600	600
Other emoluments:		
Salaries, allowances and benefits in kind	1,299	1,584
Equity-settled share option expense	3,562	10,909
Pension scheme contributions	39	22
	<b>4,900</b>	12,515
	<b>5,500</b>	13,115

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company. The fair values of such options, which have been recognised in the income statement over the vesting period, were determined as at the respective dates of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.

# Notes to Financial Statements

31 December 2010

## 9. DIRECTORS' REMUNERATION (Continued)

An analysis of directors' remuneration, on a named basis, for the year is as follows:

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity- settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<b>2010</b>					
<b>Executive directors</b>					
Mr. Hu Zhuoer	100	799	-	27	926
Dr. Yu Xiaoyang	100	500	2,232	12	2,844
	200	1,299	2,232	39	3,770
<b>Non-executive director</b>					
Mr. Zhang Honghai	-	-	505	-	505
<b>Independent non-executive directors</b>					
Ms. Ma Yuhua	100	-	275	-	375
Ms. Liang Yeping	100	-	275	-	375
Dr. Zhou Chunsheng	100	-	275	-	375
Dr. Sun Guofu	100	-	-	-	100
	400	-	825	-	1,225
<b>Total</b>	<b>600</b>	<b>1,299</b>	<b>3,562</b>	<b>39</b>	<b>5,500</b>

# Notes to Financial Statements

31 December 2010

## 9. DIRECTORS' REMUNERATION (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity- settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2009					
Executive directors					
Mr. Wang Zhenyu	65	514	–	8	587
Mr. Hu Zhuoer	35	254	–	–	289
Dr. Yu Xiaoyang	100	483	4,014	7	4,604
Mr. Zhang Zhihong	65	333	4,014	7	4,419
	265	1,584	8,028	22	9,899
Non-executive director					
Mr. Zhang Honghai	–	–	1,393	–	1,393
Independent non-executive directors					
Ms. Ma Yuhua	100	–	496	–	596
Ms. Liang Yeping	100	–	496	–	596
Dr. Zhou Chunsheng	100	–	496	–	596
Dr. Sun Guofu	35	–	–	–	35
	335	–	1,488	–	1,823
<b>Total</b>	<b>600</b>	<b>1,584</b>	<b>10,909</b>	<b>22</b>	<b>13,115</b>

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



# Notes to Financial Statements

31 December 2010

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2009: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2009: two) non-director, highest paid employees for the year are as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
Salaries, allowances and benefits in kind	2,338	1,736
Equity-settled share option expense	–	1,858
Pension scheme contributions	41	29
	<b>2,379</b>	<b>3,623</b>

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

	Number of employees	
	2010	2009
Nil to HK\$1,000,000	3	1
HK\$2,500,001 to HK\$3,000,000	–	1
	<b>3</b>	<b>2</b>

In prior years, share options were granted to a non-director, highest paid former employee who resigned in 2010 in respect of her services to the Group, under the share option scheme of the Company. The fair value of such options, which had been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements was included in the above non-director, highest paid employees' remuneration disclosures for the year ended 31 December 2009.

# Notes to Financial Statements

31 December 2010

## 11. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2010 as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil).

The PRC corporate income tax provision in respect of operations in Mainland China is calculated at applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries enjoy income tax reduction, by reason that these subsidiaries are certified as High-New Technology Enterprises in Mainland China.

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Current – PRC:		
Hong Kong	–	–
Mainland China	<b>3,065</b>	4,093
Underprovision in prior years	<b>160</b>	–
Deferred ( <i>note 30</i> )	<b>1,779</b>	–
Total tax charge for the year	<b>5,004</b>	4,093

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

# Notes to Financial Statements

31 December 2010

## 11. INCOME TAX (Continued)

### Group – 2010

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Profit/(loss) before tax</b>	<b>(22,319)</b>		<b>792</b>		<b>(21,527)</b>	
Tax at the statutory tax rate	(3,683)	16.5	198	25.0	(3,485)	16.2
Lower tax rate for specific provinces or enacted by local authority	–	–	(2,106)	(265.9)	(2,106)	9.8
Adjustments in respect of current tax of previous periods	–	–	160	20.2	160	(0.7)
Income not subject to tax	(418)	1.9	(181)	(22.9)	(599)	2.8
Expenses not deductible for tax	4,101	(18.4)	181	22.9	4,282	(19.9)
Effect of withholding tax at 10% on the distributable profits of a PRC subsidiary	–	–	1,779	224.6	1,779	(8.3)
Tax losses not recognised	–	–	8,600	1,085.9	8,600	(39.9)
Tax losses utilised from previous periods	–	–	(3,627)	(458.0)	(3,627)	16.8
<b>Tax charge at the Group's effective rate</b>	<b>–</b>	<b>–</b>	<b>5,004</b>	<b>631.8</b>	<b>5,004</b>	<b>(23.2)</b>

### Group – 2009

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Loss before tax</b>	<b>(32,203)</b>		<b>(19,950)</b>		<b>(52,153)</b>	
Tax at the statutory tax rate	(5,313)	16.5	(4,988)	25.0	(10,301)	19.8
Lower tax rate for specific provinces or enacted by local authority	–	–	(2,283)	11.4	(2,283)	4.3
Income not subject to tax	(14)	–	(120)	0.6	(134)	0.3
Expenses not deductible for tax	5,327	(16.5)	6,512	(32.6)	11,839	(22.7)
Tax losses not recognised	–	–	4,972	(24.9)	4,972	(9.5)
<b>Tax charge at the Group's effective rate</b>	<b>–</b>	<b>–</b>	<b>4,093</b>	<b>(20.5)</b>	<b>4,093</b>	<b>(7.8)</b>

# Notes to Financial Statements

31 December 2010

## 12. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to shareholders of the Company for the year ended 31 December 2010 includes a loss of HK\$20,537,000 (2009: HK\$27,464,000) which has been dealt with in the financial statements of the Company.

A reconciliation of the above amount to the Company's loss for the year is as follows:

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
Amount of consolidated loss for the year attributable to shareholders of the Company dealt with in the financial statements of the Company		<b>20,537</b>	27,464
Impairment of investment in a subsidiary recognised during the year in the income statement	17(b)	<b>1,686</b>	–
Impairment of amounts due from subsidiaries recognised during the year in the income statement, net	17(c)	<b>33,786</b>	3,813
Company's loss for the year	33(b)	<b>56,009</b>	31,277

## 13. LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on the loss for the year attributable to shareholders of the Company, and the weighted average number of 6,494,906,368 (2009: 6,494,906,368) ordinary shares in issue during the year.

In respect of the diluted loss per share amounts, no adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2010 and 2009 as the impact of the share options and convertible bonds outstanding during these years had either no diluting effect or an anti-dilutive effect on the basic loss per share amounts presented.

# Notes to Financial Statements

31 December 2010

## 14. EQUIPMENT

### Group

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Year ended 31 December 2010</b>				
<b>At 31 December 2009 and 1 January 2010:</b>				
Cost	2,238	16,895	9,472	28,605
Accumulated depreciation	(1,091)	(9,143)	(3,316)	(13,550)
<b>Net carrying amount</b>	<b>1,147</b>	<b>7,752</b>	<b>6,156</b>	<b>15,055</b>
<b>Net carrying amount:</b>				
At 1 January 2010	1,147	7,752	6,156	15,055
Additions	510	1,932	147	2,589
Depreciation provided during the year	(462)	(2,762)	(1,160)	(4,384)
Impairment during the year recognised in the income statement	–	(14)	–	(14)
Disposals	–	(126)	–	(126)
Exchange realignment	40	259	205	504
<b>At 31 December 2010</b>	<b>1,235</b>	<b>7,041</b>	<b>5,348</b>	<b>13,624</b>
<b>At 31 December 2010:</b>				
Cost	2,828	19,047	9,980	31,855
Accumulated depreciation and impairment	(1,593)	(12,006)	(4,632)	(18,231)
<b>Net carrying amount</b>	<b>1,235</b>	<b>7,041</b>	<b>5,348</b>	<b>13,624</b>

# Notes to Financial Statements

31 December 2010

## 14. EQUIPMENT (Continued)

### Group

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Year ended 31 December 2009</b>				
At 1 January 2009:				
Cost	4,097	16,473	8,789	29,359
Accumulated depreciation	(1,199)	(7,727)	(2,400)	(11,326)
<b>Net carrying amount</b>	<b>2,898</b>	<b>8,746</b>	<b>6,389</b>	<b>18,033</b>
Net carrying amount:				
At 1 January 2009	2,898	8,746	6,389	18,033
Additions	527	2,105	1,204	3,836
Depreciation provided during the year	(830)	(2,337)	(1,152)	(4,319)
Disposals	(1,454)	(787)	(305)	(2,546)
Exchange realignment	6	25	20	51
<b>At 31 December 2009</b>	<b>1,147</b>	<b>7,752</b>	<b>6,156</b>	<b>15,055</b>

# Notes to Financial Statements

31 December 2010

## 15. GOODWILL

	Group	
	2010 HK\$'000	2009 HK\$'000
At 1 January and 31 December:		
Cost	1,285,711	1,285,711
Accumulated impairment	(1,251,711)	(1,251,711)
Net carrying amount	34,000	34,000

### Impairment testing of goodwill

The net carrying amount of goodwill as at 31 December 2010 acquired through acquisitions has been allocated to the following cash-generating units of the Group for impairment testing, which is summarised as follows:

	Net carrying amount	
	2010 HK\$'000	2009 HK\$'000
Astoria Innovations Limited and its subsidiaries (the "Astoria Group")	19,000	19,000
Wisdom Elite Holdings Limited and its subsidiaries (the "Wisdom Elite Group")	15,000	15,000
	34,000	34,000

# Notes to Financial Statements

31 December 2010

## 15. GOODWILL *(Continued)*

### **Impairment testing of goodwill** *(Continued)*

The recoverable amounts of the cash-generating units of the Astoria Group and the Wisdom Elite Group are determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets covering a five-year period approved by management. The discount rate used for the value-in-use calculation is 13% (2009: 13%). Management determined the budgeted gross margins based on past performances and the average growth rate used is comparable with the forecast of the information technology market in Mainland China.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no additional impairment provision is considered necessary for the Group's goodwill as at 31 December 2010.

#### *Key assumptions used in the value-in-use calculations*

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

- (i) Budgeted turnover – Budgeted turnover is based on the expected growth rate of the market in which the assessed entity operates and the expected market share of the assessed entity.
- (ii) Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, and adjusted for the expected market development.
- (iii) Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.
- (iv) Raw materials/labour price inflation – The basis used to determine the value assigned to raw materials/labour price inflation is the forecast price indices during the budget year in the Mainland China.
- (v) Operating expenses – The bases used to determine the value assigned are staff head counts and price inflation. The value assigned to the key assumption reflects past experience and management's commitment to maintain its operating expenses to an acceptable level.



# Notes to Financial Statements

31 December 2010

## 16. OTHER INTANGIBLE ASSETS

### Group

	Deferred development costs HK\$'000	Trademarks HK\$'000	Computer software and computer systems HK\$'000	Golf club memberships HK\$'000	Total HK\$'000
<b>Year ended 31 December 2010</b>					
<b>At 31 December 2009 and 1 January 2010:</b>					
Cost	2,336	5,159	45,827	3,229	56,551
Accumulated amortisation and impairment	(2,336)	(5,159)	(45,827)	(754)	(54,076)
<b>Net carrying amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,475</b>	<b>2,475</b>
<b>Net carrying amount:</b>					
At 1 January 2010	-	-	-	2,475	2,475
Amortisation provided during the year	-	-	-	(188)	(188)
Disposal	-	-	-	(1,211)	(1,211)
<b>At 31 December 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,076</b>	<b>1,076</b>
<b>At 31 December 2010:</b>					
Cost	2,424	5,353	47,563	1,614	56,954
Accumulated amortisation and impairment	(2,424)	(5,353)	(47,563)	(538)	(55,878)
<b>Net carrying amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,076</b>	<b>1,076</b>
<b>Year ended 31 December 2009</b>					
<b>At 1 January 2009:</b>					
Cost	2,328	5,142	45,682	3,229	56,381
Accumulated amortisation and impairment	(2,328)	(5,142)	(45,682)	(431)	(53,583)
<b>Net carrying amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,798</b>	<b>2,798</b>
<b>Net carrying amount:</b>					
At 1 January 2009	-	-	-	2,798	2,798
Amortisation provided during the year	-	-	-	(323)	(323)
<b>At 31 December 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,475</b>	<b>2,475</b>

# Notes to Financial Statements

31 December 2010

## 16. OTHER INTANGIBLE ASSETS (Continued)

### Company

	Golf club memberships	
	2010 HK\$'000	2009 HK\$'000
At 1 January:		
Cost	3,229	3,229
Accumulated amortisation	(754)	(431)
<b>Net carrying amount</b>	<b>2,475</b>	2,798
Net carrying amount:		
At 1 January	2,475	2,798
Amortisation provided during the year	(188)	(323)
Disposal	(1,211)	–
<b>At 31 December</b>	<b>1,076</b>	2,475
At 31 December:		
Cost	1,614	3,229
Accumulated amortisation	(538)	(754)
<b>Net carrying amount</b>	<b>1,076</b>	2,475

# Notes to Financial Statements

31 December 2010

## 17. INTERESTS IN SUBSIDIARIES

	Notes	31 December 2010 HK\$'000	Company	
			31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
Investments in subsidiaries, included in non-current assets				
Unlisted shares, at cost		<b>1,351,453</b>	1,351,453	1,351,453
Due from subsidiaries	(a)	<b>110,303</b>	194,095	200,106
Impairment of unlisted shares	(b)	<b>(1,262,372)</b>	(1,260,686)	(1,260,686)
Impairment of amounts due from subsidiaries	(c)	<b>(107,342)</b>	(139,279)	(135,466)
		<b>92,042</b>	145,583	155,407
Due from subsidiaries, included in current assets	(a)	<b>16,452</b>	6,442	6,442
Due to subsidiaries, included in current liabilities	(a)	<b>(13,000)</b>	(11,382)	(9,241)
Interests in subsidiaries		<b>95,494</b>	140,643	152,608

Notes:

- (a) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The amounts due from subsidiaries included in non-current assets above are, in the opinion of the directors, considered as quasi-equity loans to the subsidiaries.

- (b) At 31 December 2010, an impairment was recognised for certain unlisted shares with an aggregate carrying amount of HK\$1,323,553,000 (before deducting the impairment loss) (2009: HK\$1,323,553,000, before deducting the impairment loss) as at the end of the reporting period because these subsidiaries have been loss-making for some time.

The movement in the provision for impairment of the unlisted shares during the year is as follows:

	Company	
	2010 HK\$'000	2009 HK\$'000
At 1 January	<b>1,260,686</b>	1,260,686
Impairment during the year recognised in the income statement	<b>1,686</b>	–
At 31 December	<b>1,262,372</b>	1,260,686

# Notes to Financial Statements

31 December 2010

## 17. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(c) The movements in the provision for impairment of the amounts due from subsidiaries during the year are as follows:

	Company	
	2010 HK\$'000	2009 HK\$'000
At 1 January	139,279	135,466
Impairment during the year recognised in the income statement, net	33,786	3,813
Amount written off as uncollectible	(65,723)	–
At 31 December	107,342	139,279

(d) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Beijing Enterprises Sanxing Information Technology Co., Ltd.#	PRC/ Mainland China	RMB10,000,000	–	68	Development and sale of computer software, and provision of system integration and related services
Beijing Enterprises VST Software Technology Co., Ltd.#	PRC/ Mainland China	RMB20,000,000	–	100	Development and sale of computer software, and provision of system integration and related services
China Information Technology Development (Hong Kong) Limited	Hong Kong	HK\$100	–	100	Office management

# Notes to Financial Statements

31 December 2010

## 17. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(d) (Continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Shanghai Pantosoft Company Limited#	PRC/ Mainland China	HK\$10,000,000	–	100	Development and sale of computer software, and provision of system integration and related services
Xteam Network (Beijing) Co., Ltd.#	PRC/ Mainland China	US\$1,220,000	–	51	Development and sale of Internet equipment and provision of related services
北京控股信息發展 有限公司#	PRC/ Mainland China	US\$5,000,000	–	100	Office management, development, and sale of Internet equipment and provision of related services
廣州華源潤通網絡 科技有限公司*	PRC/ Mainland China	RMB5,000,000	–	51	Provision of system integration, Internet and mobile communication services
Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd. ("Run Tong")*	PRC/ Mainland China	RMB10,000,000	–	100	Provision of system integration, Internet and mobile communication services
China Luck International Limited ("China Luck")	British Virgin Islands	US\$100	100	100	Investment holding
北控易碼通(北京)科技 有限公司Ω	PRC/ Mainland China	RMB6,650,000	–	55	Provision of Internet and mobile communication services

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

Ω Registered as a limited liability company under PRC law

\* Registered as Sino-foreign joint ventures under PRC law

# Notes to Financial Statements

31 December 2010

## 17. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(d) (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 18. INVESTMENTS IN AN ASSOCIATE

		Group	
	Notes	2010 HK\$'000	2009 HK\$'000
Share of net assets	(a), (b)	–	–
Loan to an associate	(a), (c)	–	20,000
		–	20,000

Notes:

(a) The associate of the Group as at 31 December 2009 is Business Net (Hong Kong) Limited ("Business Net"), a company incorporated in Hong Kong and in which the Group holds a 40% equity interest. The Group's investments in Business Net as at 31 December 2010 have been reclassified to "Investments in an associate held for sale" after the Group entered into a sale and purchase agreement with a third party during the year for the disposal of its entire equity interest in Business Net, as further detailed in note 25 to the financial statements.

(b) In respect of the prior year, the Group did not recognise its share of loss of the associate for that year because the share of the losses of the associate cumulatively has already exceeded the Group's investment in the associate in prior years. The amounts of the Group's unrecognised share of losses of this associate for the prior year and cumulatively were HK\$2,376,000 and HK\$4,048,000, respectively.

The summarised financial information of the Group's associate for the year and the prior year, as extracted from its unaudited consolidated management accounts, are set out in note 25(a) to the financial statements.

(c) The loan to an associate as at 31 December 2009 is unsecured, interest-free and has no fixed terms of repayment. Such loan is considered by the directors as a quasi-equity investment in the associate.

# Notes to Financial Statements

31 December 2010

## 19. INVENTORIES

	Group	
	2010 HK\$'000	2009 HK\$'000
Raw materials	40	559
Finished goods and merchandise	1,255	17,583
	<b>1,295</b>	18,142

## 20. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

		Group		
	Notes	31 December 2010 HK\$'000	31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
Gross amounts due from contract customers	(a)	34,470	16,690	13,511
Less: Impairment	(b)	(770)	-	-
		<b>33,700</b>	16,690	13,511
Amounts due to contract customers	(c)	(19,276)	(16,925)	(12,161)
		<b>14,424</b>	(235)	1,350
Contract costs incurred plus recognised profits less recognised losses to date		92,160	68,438	76,188
Less: Progress billings		(76,966)	(68,673)	(74,838)
Less: Impairment	(b)	(770)	-	-
		<b>14,424</b>	(235)	1,350

# Notes to Financial Statements

31 December 2010

## 20. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS *(Continued)*

Notes:

- (a) Included in the Group's amounts due from contract customers as at 31 December 2010 are amounts due from a subsidiary of a major shareholder of HK\$207,000 (2009: HK\$6,865,000) in aggregate, which are repayable on similar credit terms to those offered to the major customers of the Group.
- (b) The movements in the provision for impairment of amounts due from contract customers during the year are as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
At 1 January	–	–
Impairment during the year recognised in the income statement <i>(note 7)</i>	750	–
Exchange realignment	20	–
At 31 December	770	–

The above provision for impairment of amounts due from contract customers is the provision for individually impaired amounts due from contract customers. The Group does not hold any collateral or other credit enhancement over these balances.

- (c) Included in the Group's amounts due to contract customers as at 31 December 2010 is an amount due to a subsidiary of a major shareholder of HK\$119,000 (2009: Nil), which is repayable on similar credit terms to those offered by it to its major customers.

## 21. TRADE RECEIVABLES

	Notes	31 December 2010 HK\$'000	Group	
			31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
Trade receivables due from:				
Third parties		21,499	23,381	28,130
Subsidiaries of a major shareholder	<i>(b)</i>	1,601	4,600	566
Impairment	<i>(c)</i>	23,100 (12,562)	27,981 (11,161)	28,696 (11,126)
		10,538	16,820	17,570



# Notes to Financial Statements

31 December 2010

## 21. TRADE RECEIVABLES (Continued)

Notes:

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

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

	31 December 2010 HK\$'000	Group	
		31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
Within 1 month	6,245	10,875	3,761
1 to 2 months	1,067	545	962
2 to 3 months	316	1,918	333
Over 3 months	2,910	3,482	12,514
	<b>10,538</b>	<b>16,820</b>	<b>17,570</b>

- (b) The balances with the subsidiaries of a major shareholder are repayable on similar credit terms to those offered to the major customers of the Group.

- (c) The movements in the provision for impairment of trade receivables during the year are as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
At 1 January	11,161	11,126
Impairment during the year recognised in the income statement (note 7)	1,044	–
Amount written off as uncollectible	(93)	–
Exchange realignment	450	35
At 31 December	<b>12,562</b>	<b>11,161</b>

The above provision for impairment of trade receivables is the provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

# Notes to Financial Statements

31 December 2010

## 21. TRADE RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

An aged analysis of the trade receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired is as follows:

	31 December 2010 HK\$'000	Group	
		31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
Neither past due nor impaired	937	446	–
Less than 1 month past due	5,308	10,429	3,761
1 to 3 months past due	1,383	2,396	1,295
Over 3 months past due	2,910	3,549	12,514
	<b>10,538</b>	<b>16,820</b>	<b>17,570</b>

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

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

# Notes to Financial Statements

31 December 2010

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	Group		Company		
		31 December 2010 HK\$'000	31 December 2009 HK\$'000	31 December 2010 HK\$'000	31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
Prepayments		1,101	426	150	150	150
Deposits and other receivables		8,288	8,878	3	3	92
Advances to suppliers		37,533	30,758	-	-	-
Due from related companies	23	5,292	4,806	-	-	-
		<b>52,214</b>	44,868	<b>153</b>	153	242
Impairment (note)		<b>(30,770)</b>	(29,202)	-	-	-
		<b>21,444</b>	15,666	<b>153</b>	153	242

Note: The movements in the provision for impairment of prepayments, deposits and other receivables during the year are as follows:

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
At 1 January	29,202	28,689	-	-
Impairment during the year recognised in the income statement (note 7)	739	421	-	-
Reversal of impairment during the year recognised in the income statement (note 7)	(287)	-	-	-
Exchange realignment	1,116	92	-	-
At 31 December	<b>30,770</b>	29,202	-	-

The above provision for impairment of prepayments, deposits and other receivables is the provision for individually impaired prepayments, deposits and other receivables. The Group and the Company do not hold any collateral or other credit enhancements over these balances.

# Notes to Financial Statements

31 December 2010

## 23. BALANCES WITH A SHAREHOLDER AND RELATED COMPANIES

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

## 24. CASH AND BANK BALANCES

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Cash and bank balances other than time deposits	91,076	101,500	2,716	6
Time deposits	43,750	29,697	–	–
Cash and bank balances	134,826	131,197	2,716	6

At 31 December 2010, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$127,029,000 (2009: HK\$126,523,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Bank balances other than time deposits earn interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

## 25. INVESTMENTS IN AN ASSOCIATE HELD FOR SALE

	2010 HK\$'000	2009 HK\$'000
Unlisted shares, at cost	–	–
Loan to an associate (note 18)	20,000	–
	20,000	–

# Notes to Financial Statements

31 December 2010

## 25. INVESTMENTS IN AN ASSOCIATE HELD FOR SALE (Continued)

On 15 December 2010, China Luck, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with a third party, pursuant to which the third party will purchase from China Luck the Group's 40% equity interest in Business Net (an associate) for a total cash consideration of HK\$20,000,000, of which HK\$5,000,000 has been received as at 31 December 2010. Further details of the disposal transaction are set out in the Company's announcement dated 16 December 2010.

At 31 December 2010 and at the date of approval of these financial statements, the disposal transaction has not yet been completed and is expected to be completed in 2011. Accordingly, the Group's investments in Business Net and the partial consideration of HK\$5,000,000 received prior to the end of the reporting period were classified as "Investments in an associate held for sale" and included in "Other payables and accruals" in the consolidated statement of financial position as at 31 December 2010, respectively.

Notes:

- (a) The Group did not recognise its share of loss of the associate for the year because the share of the losses of the associate cumulatively has already exceeded the Group's investments in the associate in prior years. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were HK\$2,323,000 and HK\$6,371,000, respectively.

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

	2010 HK\$'000	2009 HK\$'000
Assets	36,526	41,147
Liabilities	50,536	50,776
Revenues	657	2,433
Loss	(5,808)	(5,939)

- (b) The loan to an associate is unsecured, interest-free and has no fixed terms of repayment. Such loan is considered by the directors as a quasi-equity investment in the associate.

Taking into account the disposal transaction as mentioned above, in the opinion of the directors, no impairment provision against the loan to the associate as at 31 December 2010 is considered necessary.

# Notes to Financial Statements

31 December 2010

## 25. INVESTMENTS IN AN ASSOCIATE HELD FOR SALE *(Continued)*

*Notes: (Continued)*

(c) Particulars of the associate are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital	Percentage of		Voting right	Profit sharing	Principal activity
			Ownership interest attributable to the Group				
Business Net (Hong Kong) Limited	Hong Kong	HK\$100	40		40	40	Investment holding

## 26. TRADE PAYABLES

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

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

	Group	
	2010 HK\$'000	2009 HK\$'000
Within 1 month	2,151	2,182
1 to 2 months	439	167
2 to 3 months	242	39
Over 3 months	3,105	3,180
	<b>5,937</b>	5,568

# Notes to Financial Statements

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## 27. OTHER PAYABLES AND ACCRUALS

	Note	Group			Company	
		31 December 2010 HK\$'000	31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)	31 December 2010 HK\$'000	31 December 2009 HK\$'000
Accruals		8,328	9,196	13,112	1,724	2,809
Receipts in advance		5,223	630	2,074	-	-
Other payables		13,276	12,470	7,625	167	894
Due to a shareholder	23	1,196	1,196	1,205	-	-
Due to a related company	23	-	2,401	2,394	-	359
		<b>28,023</b>	<b>25,893</b>	<b>26,410</b>	<b>1,891</b>	<b>4,062</b>

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

## 28. CONVERTIBLE BONDS

The Company had two batches of convertible bonds outstanding during the years ended 31 December 2010 and 2009. The summary information of which is set out as follows:

### Group and Company

	First Convertible Bonds* (note (a))	Second Convertible Bonds* (note (a))
Issuance date	18 September 2007	18 September 2007
Maturity date	28 May 2010	28 May 2010
Original principal amount	HK\$83,585,250	HK\$116,660,750
Coupon rate	Zero	Zero
Conversion price per ordinary share (HK\$)	0.19215	0.19215

\* As defined in the circular of the Company dated 13 August 2007 in connection with the issuance of the convertible bonds

Each batch of these convertible bonds is bifurcated into a liability component and an equity component for accounting purposes as further described in the accounting policy for "Convertible bonds" set out in note 3.4 to the financial statements. The following tables summarise the movements in the principal amounts, and the liability and equity components of the Company's convertible bonds during the years ended 31 December 2010 and 2009:

# Notes to Financial Statements

31 December 2010

## 28. CONVERTIBLE BONDS (Continued)

### Group and Company

	<b>Total HK\$'000</b>
<hr/>	
<i>Principal amount outstanding</i>	
At 1 January 2009, 31 December 2009 and 1 January 2010	82,260
Cancellation of convertible bonds (note (b))	(82,260)
<hr/>	
At 31 December 2010	–
<hr/>	
<i>Liability component</i>	
At 1 January 2009	76,591
Imputed interest expense (note 8)	3,701
<hr/>	
At 31 December 2009 and 1 January 2010	80,292
Imputed interest expense (note 8)	2,016
Cancellation of convertible bonds (note (b))	(82,308)
<hr/>	
At 31 December 2010	–
<hr/>	
<i>Equity component (included in the convertible bond equity reserve)</i>	
At 1 January 2009, 31 December 2009 and 1 January 2010	10,411
Cancellation of convertible bonds (note (b))	(10,411)
<hr/>	
At 31 December 2010	–
<hr/>	



# Notes to Financial Statements

31 December 2010

## 28. CONVERTIBLE BONDS *(Continued)*

*Notes:*

- (a) The First Convertible Bonds and the Second Convertible Bonds were issued by the Company on 18 September 2007 as part of the consideration paid for the acquisition of equity interest in Full Trump International Limited ("Full Trump"), pursuant to a share transfer agreement entered into between, inter alia, the Group and the then shareholder of Full Trump on 29 May 2007. Further details of these convertible bonds are set out in the Company's circular dated 13 August 2007.
- (b) Pursuant to three undertaking agreements entered into between the Company and each of the three convertible bondholders (the "Bondholders", which are also shareholders of the Company) on 28 May 2010, the Company cancelled the then outstanding First Convertible Bonds and Second Convertible Bonds with aggregate principal amounts of HK\$18,324,000 and HK\$63,936,000, respectively. Further details of the arrangement are set out in note 29 to the financial statements.

## 29. PROMISSORY NOTES

On 28 May 2010, the Company entered into an undertaking agreement with each of the Bondholders, pursuant to which, the Company cancelled the then outstanding First Convertible Bonds and Second Convertible Bonds with aggregate principal amounts of HK\$18,324,000 and HK\$63,936,000, respectively; and issued three promissory notes with an aggregate principal amount of HK\$82,260,000 to the Bondholders on the same date. Since the promissory notes are unsecured, interest-free and would mature on 28 May 2011. The Bondholders are shareholders of the Company, for accounting purposes, the benefit of the interest-free promissory notes of HK\$8,329,000, representing the difference between the aggregate principal amount and the initial fair value of the promissory notes of HK\$73,931,000, as estimated by the directors of the Company with reference to the present value of all future cash payments of the promissory notes prior to their maturity date of 28 May 2011 discounted using the then prevailing market rate of interest for similar loans of 11%, was accounted for as deemed capital contributions from certain shareholders of the Company and recognised in the capital reserve at the inception of the promissory notes.

Subsequently, pursuant to an extension confirmation entered into between the Company and each of the Bondholders on 22 November 2010, the maturity date of the promissory notes was extended to 28 May 2012 with all other terms remain unchanged. Accordingly, the promissory notes are recognised as non-current liabilities as at 31 December 2010. In the opinion of the directors, this alteration did not constitute a substantial modification of the terms of the promissory notes and hence was not accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

# Notes to Financial Statements

31 December 2010

## 30. DEFERRED TAX LIABILITY

The movements in the deferred tax liability of the Group, which is wholly attributable to withholding tax on unremitted earnings of a subsidiary established in Mainland China, during the year are as follows:

	<b>Group</b> HK\$'000
At 1 January 2009, 31 December 2009 and 1 January 2010	–
Deferred tax charged to the income statement during the year ( <i>note 11</i> )	1,779
Exchange realignment	49
At 31 December 2010	<b>1,828</b>

The Group has tax losses arising in Hong Kong of approximately HK\$10,770,000 (2009: HK\$10,770,000) that are available indefinitely, and in Mainland China of HK\$84,010,000 (2009: HK\$59,504,000) that are available for a maximum of five years, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is considered not probable that taxable profits will be available against which tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that were subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it was not probable that these subsidiaries would distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$20,929,000 (2009: HK\$26,940,000) as at 31 December 2010.

# Notes to Financial Statements

31 December 2010

## 31. SHARE CAPITAL

### Shares

	2010 HK\$'000	2009 HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid:		
6,494,906,368 ordinary shares of HK\$0.01 each	64,949	64,949

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

## 32. SHARE OPTION SCHEME

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

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

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

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

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

# Notes to Financial Statements

31 December 2010

## 32. SHARE OPTION SCHEME (Continued)

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

	2010		2009	
	Weighted average exercise price (HK\$ per share)	Number of options '000	Weighted average exercise price (HK\$ per share)	Number of options '000
At 1 January	0.75	138,875	0.76	183,800
Forfeited during the year	0.65	(36,575)	0.79	(44,925)
At 31 December	0.79	102,300	0.75	138,875

Notes:

- (a) No share options were exercised during the year (2009: Nil).
- (b) The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2010	Number of options '000	Exercise price * (HK\$ per share)	Exercise period
	102,300	0.79	13-3-2008 to 12-9-2012

2009	Number of options '000	Exercise price * (HK\$ per share)	Exercise period
	118,875	0.79	13-3-2008 to 12-9-2012
	20,000	0.53	11-8-2008 to 10-2-2013
	138,875		

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

# Notes to Financial Statements

31 December 2010

## 32. SHARE OPTION SCHEME *(Continued)*

*Notes: (Continued)*

- (c) The Group recognised equity-settled share option expense of HK\$7,880,000 (2009: HK\$16,127,000) during the year ended 31 December 2010 in respect of share options granted in prior years.
- (d) At 31 December 2010 and at the date of approval of these financial statements, the Company had 102,300,000 share options outstanding under the Scheme, which represented approximately 1.6% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 102,300,000 additional ordinary shares of the Company and additional share capital of HK\$1,023,000 and share premium of HK\$79,794,000 (before issue expenses and without taking into account any transfer of share option reserve to share premium account).

## 33. RESERVES

### (a) Group

- (i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (ii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy for "Share-based payment transactions" in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits/accumulated losses should the related share options expire or be forfeited.
- (iii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries. None of the Group's PRC reserve funds as at 31 December 2010 were distributable in the form of cash dividends.

# Notes to Financial Statements

31 December 2010

## 33. RESERVES (Continued)

### (b) Company

	Share premium account	Share option reserve	Convertible Capital reserve	Convertible bond equity reserve	Accumulated losses	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	1,165,914	42,931	-	10,411	(1,210,132)	9,124
Loss for the year and total comprehensive loss for the year	-	-	-	-	(31,277)	(31,277)
Equity-settled share option arrangements	32(c)	16,127	-	-	-	16,127
Transfer of share option reserve upon the forfeiture of share options	-	(10,948)	-	-	10,948	-
At 31 December 2009 and 1 January 2010	1,165,914	48,110	-	10,411	(1,230,461)	(6,026)
Loss for the year and total comprehensive loss for the year	-	-	-	-	(56,009)	(56,009)
Issue of promissory notes	29	-	8,329	-	-	8,329
Cancellation of convertible bonds	28	-	-	(10,411)	10,411	-
Equity-settled share option arrangements	32(c)	7,880	-	-	-	7,880
Transfer of share option reserve upon the forfeiture of share options	-	(11,293)	-	-	11,293	-
At 31 December 2010	1,165,914	44,697	8,329	-	(1,264,766)	(45,826)

# Notes to Financial Statements

31 December 2010

## 34. CONTINGENT LIABILITIES

### (a) Termination of Mingsuo's business

In June 2009, the Group ceased all the corporate information enquiry services of Mingsuo business which was operated by Run Tong. A total of RMB2,686 (equivalent to approximately HK\$3,200) was refunded during the year ended 31 December 2010 to certain customers who previously purchased from Run Tong certain prepaid cards. However, the management is not able to ascertain the number of outstanding Mingsuo prepaid cards in issue, the unutilised stored values and their expiry dates. Accordingly, the management is not able to ascertain the Group's liabilities in respect of the services not yet provided for unutilised cards sold up to 31 December 2010 and 2009. However, in the opinion of the directors, the possibility of the Group being claimed by the customers holding unutilised cards is low.

### (b) Violation of the PRC law

On 25 April 2008, the PRC government imposed a new law 《政府信息公開條件》 (the "Regulation") which governs the uses of open government information since 1 May 2008. Run Tong maintained the operation of the Mingsuo Internet Platform for providing the search services on companies which were registered with the Beijing Administration for Industry and Commerce ("BAIC") after May 2008. As such, Run Tong and the Group would potentially be exposed to the risk of being sued for the violation of the Regulations.

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

Accordingly, in the opinion of the directors, the potential risk exposure of being claimed against the violation of the Regulation is remote.

# Notes to Financial Statements

31 December 2010

## 35. COMMITMENTS

### (a) Capital commitment

The Group had the following capital commitment as at the end of the reporting period:

	<b>Group</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Contracted, but not provided for in respect of the purchase of information system	–	540

At 31 December 2010, the Company did not have any significant capital commitments (2009: Nil).

### (b) Operating lease commitments

The Group leases an office equipment and certain of its office properties under operating lease arrangements, with the leases negotiated for terms ranging from one to three years (2009: one to three years).

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>3,288</b>	3,849
In the second to fifth years, inclusive	<b>3,072</b>	837
	<b>6,360</b>	4,686

At 31 December 2010, the Company did not have any significant operating lease commitments (2009: Nil).



# Notes to Financial Statements

31 December 2010

## 36. RELATED PARTY DISCLOSURES

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

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
Subsidiaries of a major shareholder of the Company:			
Service fee income	<i>(i)</i>	<b>4,062</b>	15,134
Service fee paid	<i>(ii)</i>	<b>229</b>	–
Sale of a golf club membership to a major shareholder of the Company	<i>(ii), (iii)</i>	<b>1,875</b>	–

*Notes:*

- (i) The service fees were determined with reference to the fees charged to third parties by the Group. The transactions also constitute continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.
- (ii) These transactions were conducted in terms and conditions mutually agreed between the parties. These transactions also constitute connected transactions as defined in Chapter 20 of the GEM Listing Rules.
- (iii) On 17 March 2010, Beijing Development (Hong Kong) Limited (“BDHK”), a major shareholder of the Company, entered into an agreement with the Company, pursuant to which, the Company sold a golf club membership to BDHK for a cash consideration of HK\$1,875,000. The sale transaction was completed in September 2010 and the gain on disposal of HK\$664,000 was recognised in the consolidated income statement during the year ended 31 December 2010. The transaction also constitutes a connected transaction as defined in Chapter 20 of the GEM Listing Rules.

### (b) Other transactions with related parties

Upon the expiry of the convertible bonds on 28 May 2010, all the outstanding convertible bonds with a then total outstanding principal amount of approximately HK\$82,260,000 were cancelled and replaced by the promissory notes with the same principal amount. The promissory notes are issued to certain shareholders of the Company, as further detailed in note 29 to the financial statements.

# Notes to Financial Statements

31 December 2010

## 36. RELATED PARTY DISCLOSURES *(Continued)*

### (c) Outstanding balances with related parties

Other than the balances detailed in notes 18, 20, 21, 22, 23, 25, 27, 28 and 29 to the financial statements, the Group had no other outstanding balances with related parties as at the end of the reporting period.

### (d) Compensation of key management personnel of the Group

	2010 HK\$'000	2009 HK\$'000
Short term employee benefits	5,564	7,677
Equity-settled share option expense	2,232	11,737
Pension scheme contributions	314	305
Total compensation paid to key management personnel	8,110	19,719

Further details of directors' emoluments and remuneration of the five highest paid employees are included in notes 9 and 10 to the financial statements, respectively.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise cash and bank balances and promissory notes. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and amounts due from/to contract customers, which arise directly from its operations.

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

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each reporting period. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

# Notes to Financial Statements

31 December 2010

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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

### (a) Business risk

The Group conducts most of its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, inter alia, changes in the political, economic and legal environment in Mainland China.

### (b) Interest rate risk

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total HK\$'000	Effective interest rate %
<b>At 31 December 2010</b>				
Floating rate:				
Bank balances	91,076	–	91,076	0.36%
Fixed rate:				
Time deposits	43,750	–	43,750	2.08%
Promissory notes	–	78,425	78,425	3.40%
<b>At 31 December 2009</b>				
Floating rate:				
Bank balances	101,500	–	101,500	0.36%
Fixed rate:				
Time deposits	29,697	–	29,697	1.88%
Convertible bonds	80,292	–	80,292	5.15%

# Notes to Financial Statements

31 December 2010

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### (b) Interest rate risk *(Continued)*

At 31 December 2010, it is estimated that a general decrease/increase of 100 basis points in the interest rates of average balances of bank balances and time deposits during the year, with all other variables held constant, would increase/decrease the Group's loss before tax for the year ended 31 December 2010 by approximately HK\$1,330,000 (2009: HK\$1,437,000).

The sensitivity analysis above has been determined assuming that the change in the interest rate had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

### (c) Foreign currency risk

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

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

	<b>Increase/ (decrease) in RMB rate</b>	<b>(Increase)/ decrease in loss before tax</b>
	%	HK\$'000
<b>2010</b>		
If Hong Kong dollar weakens against RMB	<b>5</b>	<b>39</b>
If Hong Kong dollar strengthens against RMB	<b>(5)</b>	<b>(39)</b>
<b>2009</b>		
If Hong Kong dollar weakens against RMB	5	(998)
If Hong Kong dollar strengthens against RMB	(5)	998

# Notes to Financial Statements

31 December 2010

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### (d) Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The carrying amount of trade receivables, other receivables and cash included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group places its cash deposits with major international banks in Hong Kong and state-owned banks in Mainland China. This investment policy limits the Group's exposure to the concentration of credit risk.

### (e) Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the promissory notes and funding from the shareholders.

The liquidity risk of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations.

The financial liabilities of the Group and the Company included in current liabilities as at the end of the reporting period either had no fixed terms of repayment or were due for repayment in two years.

# Notes to Financial Statements

31 December 2010

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### (e) Liquidity risk *(Continued)*

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

#### Group

#### 31 December 2010

	On demand or within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	Total HK\$'000
Trade payables	5,937	–	5,937
Other payables	13,276	–	13,276
Due to a shareholder	1,196	–	1,196
Promissory notes	–	82,260	82,260
	<b>20,409</b>	<b>82,260</b>	<b>102,669</b>

#### 31 December 2009

	On demand or within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	Total HK\$'000
Trade payables	5,568	–	5,568
Other payables	12,470	–	12,470
Due to a related company	2,401	–	2,401
Due to a shareholder	1,196	–	1,196
Convertible bonds	82,260	–	82,260
	<b>103,895</b>	<b>–</b>	<b>103,895</b>

# Notes to Financial Statements

31 December 2010

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (e) Liquidity risk (Continued)

#### Company

31 December 2010

	On demand or within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	Total HK\$'000
Other payables	167	–	167
Due to subsidiaries	13,000	–	13,000
Promissory notes	–	82,260	82,260
	<b>13,167</b>	<b>82,260</b>	<b>95,427</b>

31 December 2009

	On demand or within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	Total HK\$'000
Other payables	894	–	894
Due to a related company	359	–	359
Due to subsidiaries	11,382	–	11,382
Convertible bonds	82,260	–	82,260
	<b>94,895</b>	<b>–</b>	<b>94,895</b>

### (f) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern. The Group does not have specific policies for managing capital and it is not subject to any externally imposed capital requirements. The Group will continue to maintain healthy capital ratios in order to support its business and maximise shareholders' value. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

# Notes to Financial Statements

31 December 2010

## 38. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group and the Company as at 31 December 2010 and 2009 were loans and receivables and financial liabilities stated at amortised cost, respectively.

## 39. EVENT AFTER THE REPORTING PERIOD

On 4 March 2011, the Company entered into a master services agreement (the "Agreement") with B E Information Technology Group Limited ("B E Information"; a subsidiary of BDHK and a connected person of the Group as defined under the GEM Listing Rules), pursuant to which, the Group will provide information technology related services, on a non-exclusive basis, to B E Information and its subsidiaries for the period from 4 March 2011 to 31 December 2012 with an annual cap of HK\$10 million for each of the years ending 31 December 2011 and 2012. The transactions constitute continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules. Further details of the Agreement are set out in the Company's announcement dated 7 March 2011.

## 40. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform to the current year's presentation, and a third statement of financial position as at 1 January 2009 has been presented. The effects of the reclassification of comparative amounts are summarised as follows:

	Group		Company	
	31 December 2009	1 January 2009	31 December 2009	1 January 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decrease in interests				
in subsidiaries	–	–	(5,000)	(5,000)
Increase in amounts due from subsidiaries	–	–	6,442	6,442
Increase in amounts due from				
contract customers	16,690	13,511	–	–
Decrease in trade receivables	(16,690)	(13,511)	–	–
Decrease in prepayments, deposits				
and other receivables	–	–	(1,442)	(1,442)
Increase in amounts due to				
contract customers	16,925	12,161	–	–
Decrease in other payables				
and accruals	(16,925)	(12,161)	–	–

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2011.



# Five Year Financial Summary

31 December 2010

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements is set out below:

	Year ended 31 December				
	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>RESULTS</b>					
REVENUE	<b>122,098</b>	108,571	93,657	135,814	42,075
PROFIT/(LOSS) BEFORE TAX	<b>(21,527)</b>	(52,153)	(1,189,885)	20,000	(220,297)
Income tax	<b>(5,004)</b>	(4,093)	(26,981)	(3,947)	(2,066)
PROFIT/(LOSS) FOR THE YEAR	<b>(26,531)</b>	(56,246)	(1,216,866)	16,053	(222,363)
Attributable to:					
Shareholders of the Company	<b>(29,189)</b>	(57,396)	(1,212,313)	16,310	(220,247)
Non-controlling interests	<b>2,658</b>	1,150	(4,553)	(257)	(2,116)
	<b>(26,531)</b>	(56,246)	(1,216,866)	16,053	(222,363)
<b>ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS</b>					
	As at 31 December				
	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
TOTAL ASSETS	<b>270,503</b>	270,045	301,675	1,574,605	168,004
TOTAL LIABILITIES	<b>(156,685)</b>	(150,656)	(142,743)	(285,384)	(27,611)
NET ASSETS	<b>113,818</b>	119,389	158,932	1,289,221	140,393
Equity attributable to:					
Shareholders of the Company	<b>96,315</b>	105,163	145,897	1,276,419	130,027
Non-controlling interests	<b>17,503</b>	14,226	13,035	12,802	10,366
	<b>113,818</b>	119,389	158,932	1,289,221	140,393