Annual Report 2010

中國農業生態有限公司
China Eco-Farming Limited

(Continued into Bermuda with limited liability)
(Stock Code: 8166)

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

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

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

This report, for which the directors of the China Eco-Farming Limited (the "Company") (the "Director(s)") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

This report will remain on the Company's website at http://www.aplushk.com/clients/8166chinaeco-farming/index.html and "the Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Tsang Chi Hin *(Chief Executive Officer)*
Mr. Chu Yu Man, Philip

Independent Non-executive Directors

Mr. Chau Chi Ming
(appointed on 12 May 2010)
Mr. Cheung Tak Shum
Mr. Lau Tin Cheung
Mr. Yeung Chi Tat
(resigned on 12 May 2010)

AUTHORISED REPRESENTATIVES

Mr. Tsang Chi Hin
Mr. Chu Yu Man, Philip

AUDIT COMMITTEE

Mr. Chau Chi Ming *(Chairman)*
(appointed on 12 May 2010)
Mr. Cheung Tak Shum
Mr. Lau Tin Cheung
Mr. Yeung Chi Tat
(resigned on 12 May 2010)

NOMINATION COMMITTEE

Mr. Tsang Chi Hin *(Chairman)*
Mr. Chau Chi Ming
(appointed on 12 May 2010)
Mr. Cheung Tak Shum
Mr. Lau Tin Cheung
Mr. Yeung Chi Tat
(resigned on 12 May 2010)

REMUNERATION COMMITTEE

Mr. Cheung Tak Shum *(Chairman)*
Mr. Chau Chi Ming
(appointed on 12 May 2010)
Mr. Lau Tin Cheung
Mr. Yeung Chi Tat
(resigned on 12 May 2010)

COMPLIANCE OFFICER

Mr. Tsang Chi Hin

COMPANY SECRETARY

Mr. Cheung Yuk Chuen

AUDITORS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1301, 13/F., The Centre Mark,
287-299 Queen's Road Central,
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

GEM STOCK CODE

8166

WEBSITE ADDRESS

www.aplushk.com/clients/8166chinaeco-farming/index.html

Profile of the Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tsang Chi Hin ("Mr. Tsang") (曾志謙先生), aged 52, was appointed as an executive Director on 30 September 2008 and chief executive officer on 13 October 2008. Mr. Tsang is also the chairman of nomination committee of the Company and is also a director of the subsidiaries of the Company. Mr. Tsang resigned as executive director, chairman and chief executive officer of China Railway Logistics Limited on 16 October 2007 and remained as a non-executive director until 17 October 2008 which is listed on the GEM of the Stock Exchange. He is the co-founder of China Railway Logistics Limited and its subsidiaries and he was responsible for corporate strategic planning and management. Mr. Tsang holds a bachelor degree in economics and a higher certificate in electronic engineering with over 24 years of experience in telecommunications and electronic industries. Mr. Tsang started his marketing career in 1984. He then joined Hongkong Telecom as a consultant in marketing data communication services in 1987 and his last position in Hongkong Telecom was account director.

Save as disclosed above, Mr. Tsang does not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Tsang does not hold any other position in the Company or its subsidiaries and does not hold any directorships in other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Tsang does not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the Securities and Futures Ordinance ("SFO").

Mr. Chu Yu Man, Philip ("Mr. Chu") (朱裕民先生), aged 53, was appointed as an executive Director on 30 September 2008. He is also a director of the subsidiaries of the Company. Mr. Chu has over 27 years of extensive experience in sales and development of electronic and telecommunication products. Mr. Chu previously served as the sales and marketing director for a United States of America based company which is engaged in businesses in United States of America, Europe and the People's Republic of China.

Save as disclosed above, Mr. Chu does not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Chu does not hold any other position in the Company or any of its subsidiaries and does not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Chu does not interested or deemed to be interest in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Chi Ming ("Mr. Chau")（鄒志明先生）, aged 47, was appointed as an independent non-executive Director on 12 May 2010. Mr. Chau is also the chairman of audit committee, members of remuneration committee and nomination committee of the Company. Mr. Chau holds a bachelor degree in business administration, majoring in finance. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Chau is currently a director, finance and treasury of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), responsible for daily financial management and treasury functions. Mr. Chau had 10 years of corporate banking experience before joining Yue Yuen in 1993.

Save as disclosed above, Mr. Chau does not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Chau does not hold any other positions in the Company or any of its subsidiaries and does not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Chau does not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

Mr. Cheung Tak Shum ("Mr. Cheung")（張德深先生）, aged 53, was appointed as an independent non-executive Director on 30 September 2008. Mr. Cheung is also the chairman of remuneration committee, members of audit committee and nomination committee of the Company. Mr. Cheung holds a diploma in sociology and has over 22 years of experience in trading of engineering and related chemical products in the People's Republic of China (the "PRC").

Save as disclosed above, Mr. Cheung does not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Cheung does not hold any other positions in the Company or any of its subsidiaries and does not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Cheung does not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

Mr. Lau Tin Cheung ("Mr. Lau")（劉天祥先生）, aged 47, was appointed as an independent non-executive Director on 30 December 2008. Mr. Lau is also the members of audit committee, nomination committee and remuneration committee of the Company. He has been educated and worked in Hong Kong and United Kingdom. He holds a bachelor of engineering degree at the University of Nottingham and a master of science degree in structural engineering at the University of Manchester Institutional of Science and Technology. Mr. Lau has about 22 years of experience in investment and project management of public and private companies in Hong Kong and the PRC. He is currently working for Tianjin Development Holdings Limited as an investment director, a company listed on the Main Board of the Stock Exchange.

Save as disclosed above, Mr. Lau does not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Lau does not hold any other positions in the Company or any of its subsidiaries and does not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the date of this report, Mr. Lau does not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

Profile of the Directors and Senior Management

SENIOR MANAGEMENT

Mr. Lam Raymond Shiu Cheung ("Mr. Lam") (林兆昌先生), aged 44, graduated from the Victoria University of Melbourne, Australia with a bachelor of business degree majoring in banking and finance. He also earned a master degree in applied finance from Macquarie University of Australia. Mr. Lam has 18 years extensive experience in business development and corporate finance. He started his career in corporate banking, he then joined one of the biggest oil companies in the United States of America specializing in the area of business development. Currently he is the deputy chief executive officer of the Company. He is also an independent non-executive director of China Oriental Culture Group Limited (Stock Code: 2371), a company listed on the Main Board of the Stock Exchange. He was an independent non-executive director of China Bio-Med Regeneration Technology Limited (Stock Code: 8158) ("China Bio-Med") during the period from 23 June 2008 to 26 June 2009 and China Railway Logistics Limited (Stock Code: 8089) ("China Railway") during the period from 22 December 2008 to 17 June 2009. Both China Bio-Med and China Railway are listed on the GEM of the Stock Exchange.

Management Discussion and Analysis

BUSINESS OVERVIEW

The Company and its subsidiaries (collectively, the "Group") is principally engaged in the provision of one-stop value chain services to telecommunications, information technology and advanced manufacturing industries, health care business and real property investment.

2010 was a challenging year for the Group. Apart from experiencing the aftermath of the global financial crisis, keen competition in the telecommunication markets in Hong Kong and the People's Republic of China ("PRC") also affected the Group's profit adversely. The Group had adopted a positive, but prudent approach in evaluating business opportunities in Hong Kong and the PRC which, as transpired, has been important in preserving the competitiveness of the Group and in alleviating adverse impact brought by market volatility and economic uncertainty.

IT and Telecommunications Business

The IT and telecommunications business of the Group recorded a revenue of approximately HK$19,376,000 for this year (2009: HK$35,844,000), representing a decrease of approximately 46% as compared to that of last year. This decrease was mainly due to uncertainties in the global external environment and keen competition in the telecommunication markets in Hong Kong and the PRC.

Real Property Investment

The Group held real properties in Hong Kong for investment purpose amounted to approximately HK$10,770,000 as at 31 December 2010.

During the year ended 31 December 2010, the Group acquired two real properties in Hong Kong for investment purpose at the respective purchase price of approximately HK$4 million and HK$4.1 million. Details of these two acquisitions are set out in the "Material Acquisitions and Disposals of Subsidiaries and Properties" section below.

A revaluation gain of approximately HK$2,666,000 was recorded pursuant to the property revaluation conducted by an independent professional valuer at the end of the year. Further, a rental income of approximately HK$37,000 was recorded for this year.

Health Care Business

In the fourth quarter of the year under review, the Group had been retained to manage a health care business in Hong Kong. This new business segment contributed a revenue of approximately HK$3,858,000, representing approximately 17% of the Group's revenue for this year.

Investments

On 13 July 2010, Golden Jack Development Limited ("Golden Jack"), a wholly-owned subsidiary of the Company, entered into a framework agreement with China Coalmines (Overseas) Group Limited, a company incorporated in Hong Kong with limited liability (the "Target Company"), and the sole legal and beneficial owner of the Target Company (the "Vendor"), with the Vendor being an independent third party (collectively, the "Framework Agreement"). Under the Framework Agreement, Golden Jack may invest in the Target Company and/or its related companies as set out in the Framework Agreement (the "Proposed Investment").

In fact, the Target Company had, on 7 July 2010, entered into a joint venture agreement with two other companies both of which were incorporated in the PRC (the "SFEJV Agreement") for an equity investment in a Sino-foreign equity joint venture (the "SFEJV"). The principal businesses of the SFEJV include, among others, investment in the power industry; chemical industry; advanced and innovative technology industry; coal mining-related business; transportation of coal; and wholesale, retail and maintenance of mining-related equipment. The holding company of the SFEJV is a mega state-owned enterprise group which engages in coal mining and sales in various provinces in the PRC, a subsidiary of which is listed on the Main Board of the Stock Exchange.

On 16 August 2010, the sale and purchase agreement (the "Sale and Purchase Agreement") was entered into between the Company, Golden Jack (as the purchaser), the Target Company and the Vendor pursuant to which Golden Jack has conditionally agreed to buy from the Vendor and the Vendor has conditionally agreed to sell to Golden Jack the shares in the Target Company (the "Sale Shares") (collectively referred to as the "Proposed Acquisition"). The Proposed Acquisition constituted a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules.

As divulged in the announcement of the Company published on 13 December 2010, during the vetting process of the draft announcement in relation to the Proposed Acquisition, the Stock Exchange ruled that the Proposed Acquisition constituted a reverse takeover transaction for the Company under Chapter 19 of the GEM Listing Rules. Eventually, in view that (i) the Sale and Purchase Agreement lapsed on 31 October 2010, (ii) the Company would need to address the additional requirements for and in relation to the reverse takeover, and (iii) any prolonged suspension in trading of the shares of the Company (the "Shares") would not be in the interests of the Company and that of its shareholders as a whole, the Company, Golden Jack, the Target Company and the Vendor mutually agreed not to extend the long stop date of the Sale and Purchase Agreement. Accordingly, the Company's obligations to purchase the Sale Shares pursuant to the Sale and Purchase Agreement lapsed. The Company and the Vendor will continue to discuss the revised terms of the Proposed Investment in the Target Company and will seek further advice from professionals and regulators. Further announcement(s) will be made if it shall no longer proceed with the Proposed Investment.

FINANCIAL REVIEW

For the year ended 31 December 2010, the Group recorded a revenue of approximately HK$23,271,000 (2009: HK$35,844,000) representing a decrease of approximately 35% as compared to that of last year. This decrease was mainly due to uncertainties in the global external environment and keen competition in the telecommunication markets in Hong Kong and the PRC.

Cost of sales for the year under review was approximately HK$21,328,000 (2009: HK$34,940,000), representing a decrease of approximately 39% as compared to that of last year. This decrease was in line with the decrease in revenue for the year.

Administrative expenses for the year under review was approximately HK$19,204,000 (2009: HK$11,379,000), representing an increase of approximately 69% as compared to that of last year. This increase was mainly due to increased professional fee in assessing potential investments and the expansion into the business of health care services and real property investment.

Finance cost for the year under review was approximately HK$911,000 (2009: HK$2,083,000), representing a decrease of approximately 56% as compared to that of last year. This decrease was mainly due to the decrease in interest expense as a result of the decrease in the number of issued convertible preference shares of the Company pursuant to the exercise of conversion right attached thereto during the year ended 31 December 2010.

The Group recorded a loss attributable to owners of the Company in the amount of approximately HK$15,201,000 as compared to the loss attributable to owners of the Company of approximately HK$8,838,000 last year. As a result, basis loss per share of the Company was decreased from HK1.1 cents for the year ended 31 December 2009 to HK0.7 cent for the year ended 31 December 2010.

Liquidity and Financial Resources

The Group financed its business operations with internally generated resources and a loan from former fellow subsidiaries of the Group. As at 31 December 2010, the bank balances and cash of the Group was approximately HK$3,404,000 (2009: HK$23,985,000).

As at 31 December 2010, the net liabilities of the Group was approximately HK$4,769,000 (2009: HK$4,015,000). The Group maintained net current assets of approximately HK$2,105,000 (2009: HK$23,410,000) as at 31 December 2010.

Gearing Ratio

As at 31 December 2010, the total liabilities of the Group amounted to approximately HK$25,872,000 (2009: HK$32,459,000), which mainly comprised other payables and accruals, secured bank loan, a loan from former fellow subsidiaries and liability component of convertible preference shares of the Company.

As at 31 December 2010, the Group had total assets of approximately HK$21,103,000 (2009: HK$28,444,000). The gearing ratio of the Group, expressed as the ratio of total liabilities to total assets, remained stable and stood at 1.2 as at 31 December 2010 (2009: 1.1).

Segmental Information

An analysis of the Group's performance for the year by business segment is set out in Note 8 to this report.

Employees and Remuneration Policies

As at 31 December 2010, the Group had 16 (2009: 15) full-time employees in Hong Kong. Staff costs, including Directors' emoluments of the Company for the year ended 31 December 2010 were approximately HK$5,710,000 in total (2009: HK$6,239,000). The Group decides the remuneration and compensation payable to its staff based on individual performance and expertise. Apart from basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution. Other benefits include retirement schemes.

Capital Structure

As at 31 December 2010, the Company's issued ordinary share capital was HK$24,245,996.90 divided into 2,424,599,690 shares of HK$0.01 each (2009: HK$9,125,996.90 divided into 912,599,690 Shares). The issued convertible preference share capital was HK$2,612,000 divided into 26,120,000 convertible preference shares of HK$0.10 each ("CP Shares") (2009: HK$20,000,000 divided into 200,000,000 CP Shares). During the year under review, CP Shares in the aggregate nominal value of HK$17,388,000 were converted into 1,512,000,000 new Shares.

Fund Raising Activities

Reference is made to the Company's announcements dated 20 July 2010 and 21 December 2010, respectively, in which the Board announced, among others, the placing of existing Shares (the "Share Placing"), the subscription of new Shares (the "Subscription") and the placing of convertible bonds (the "CB Placing"). In the Share Placing, up to 135,000,000 existing Shares (the "Placing Shares") held by Top Status International Limited ("Top Status"), may be placed at HK$0.46 per Share. Under the Subscription, a maximum of 135,000,000 new Shares, the exact number of which shall be equivalent to the number of the Placing Shares actually placed under the Share Placing (the "Subscription Shares"), may be subscribed by Top Status at HK$0.46 per Share. As Top Status, being a substantial shareholder, is a connected person to the Company, the Subscription constitutes a connected transaction and is subject to the independent shareholders' approval to be sought at a special general meeting of the Company (the "SGM"). The estimated maximum gross and net proceeds from the Subscription, if fully subscribed, are approximately HK$62.1 million and HK$61 million, respectively.

Insofar as the CB Placing is concerned, the placing agent has conditionally agreed to procure, on a best-effort basis, the subscription of convertible bonds up to a principal amount of US$12 million (approximately HK$93.4 million) (the "Convertible Bonds"). Based on the initial conversion price of HK$0.62 per Conversion Share, 150,580,645 new Shares (the "Conversion Shares") will be issued upon full and complete exercise of the conversion rights. The estimated maximum gross and net proceeds from the CB Placing, if fully placed, are approximately US$12 million (approximately HK$93.4 million) and HK$90 million, respectively.

As at the date hereof, an aggregate of approximately 38,500,000 Placing Shares have been placed out by the placing agent.

Reference is also made to the Company's announcements dated 13 December 2010 and 21 December 2010 in which the Board announced, among others, the placing, on a best-effort basis, of a maximum of 150,000,000 new Shares at the placing price of HK$0.149, which these new Shares will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 7 May 2010 (the "Placing"). Assuming the placing Shares are fully placed, the gross proceeds and the net proceeds from the Placing will be approximately HK$22.4 million and HK$21.7 million, respectively. The Company intends to use the net proceeds for repayment of debt and for the working capital of the Group. On 7 March 2011, the Company and the Placing Agent entered into a second supplemental placing agreement to change the Placing from a best-effort basis to a fully-underwritten basis and to extend the placing period by three months from 31 March 2011 to 30 June 2011. Save for the aforesaid, all other terms and conditions of the placing agreement (as amended) remain unchanged. Completion of the Placing is subject to, among others, satisfaction of the conditions precedent set out in the placing agreement (as amended). As at the date hereof, the Placing has not completed. The details of the Placing are set out in the announcements of the Company dated 13 December 2010, 21 December 2010 and 7 March 2011, respectively.

Other Disclosure

On 29 April 2010, the Company entered into an agreement (the "Agreement") with Daewoo Securities (Hong Kong) Limited ("Daewoo Securities") pursuant to which the latter was retained and engaged as the financial adviser to the Company for a term of no longer than 12 months from the execution of the agreement (the "Engagement Period"). Furthermore, during the Engagement Period, Daewoo Securities will also act as placement agent to the Company in the private placement of securities, issuance of convertible bonds or bonds with warrants or exchangeable bonds (collectively, the "Securities"). It was contemplated that such Securities will be issued by the Company or affiliates of the Company in an aggregate principal amount of up to US$100 million in a single transaction (the "Private Placement"). Details of the Private Placement had been set out in the announcement published by the Company on 29 April 2010.

Material Acquisitions and Disposals of Subsidiaries and Properties

On 28 September 2010, Grand Protection Holdings Limited ("Grand Protection"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with First Perfect Worldwide Limited ("First Perfect"), a company incorporated in the British Virgin Islands with limited liability, in relation to, among others, (i) the acquisition of the entire 100% equity interest in Watson China Limited ("Watson China"), a company incorporated in Hong Kong with limited liability, the holding company of a property located at Flat A, 7th Floor, Springfield Court, Nos. 50-56 Flower Market Road, Mongkok, Kowloon, Hong Kong and (ii) the sale loan of HK$3,888,598.54, representing the amount of indebtedness payable by the Watson China to First Perfect as at the date of the agreement, at an aggregate consideration of HK$4,000,000. This acquisition constituted a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules and completed on 12 October 2010. Watson China thereafter became a wholly-owned subsidiary of the Company.

On 11 November 2010, Grand Protection entered into a conditional sale and purchase agreement with Master Access Holdings Limited ("Master Access"), a company incorporated in the British Virgin Islands with limited liability, in relation to, among others, (i) the acquisition of the entire 100% equity interest in Alpaco Company Limited ("Alpaco"), a company incorporated in the British Virgin Islands, the holding company of a property located at Flat C, 29/F, Tower 3, Sky Tower, No. 38 Sung Wong Toi Road, To Kwa Wan, Kowloon, Hong Kong, together with a car-parking space, No. R206, on the second floor of the same building and (ii) the sale loan of HK$5,073,939, representing the amount of indebtedness payable by the Alpaco to Master Access as at the date of the agreement, at an aggregate consideration of HK$4,100,000. This acquisition constituted a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules and completed on 25 November 2010. Alpaco thereafter became a wholly-owned subsidiary of the Company.

The Group holds the above two real properties for investment purpose.

Significant Investments

Save as disclosed above, as at 31 December 2010, the Group did not possess any significant investment in properties, listed securities and financial instruments (2009: Nil).

Charges on Group's Assets

Investment properties with a carrying value of approximately HK$4,900,000 (2009: Nil) was pledged as security for the banking facilities granted to the Group.

Contingent Liabilities

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

Capital Commitments

As at 31 December 2010, the Group did not have any significant capital commitments (2009: Nil).

Exposure to Fluctuation in Exchange Rates

All of the Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollars or Renminbi. The Directors do not consider that the Group is exposed to any material foreign currency exchange risk. Therefore, no hedging devices or other alternative have been implemented.

OUTLOOK AND PROSPECTS

With the PRC's strong economy growth in 2010 and the trend that the PRC will continue to open up its economy and financial markets while global investors keep their focus on PRC investment opportunities, the Group is optimistic that it will benefit from such positive trends.

The Group intends to diversify its revenue source both in terms of business segments and geographical locations. With a continual surge in the global demand for coal, the Group intends to explore corresponding business opportunities in coal businesses in China. As reported under the section headed "Investments" above, the Company and the Vendor will continue to discuss the revised terms of the Proposed Investment in the Target Company and will seek further advice from professionals and regulators. Further announcement(s) will be made if it shall no longer proceed with the Proposed Investment. In line with this, the Board believes that, if this equity investment materialises, not only will such coal business likely become an important focus of the Group, but also strengthen the Group's presence in the PRC, further the Group's participation in the PRC market where possible to seize other opportunities ahead.

The rising trend of the property market in Hong Kong has founded the promising prospect of the property market in Hong Kong. The Directors consider the Group's investments in real properties during the reporting period, as reported under the section headed "Material Acquisitions and Disposals of Subsidiaries and Properties" above, as good opportunities for the Group to expand its profit base in Hong Kong; and these real properties held by the Group for investment purposes will not only enable the Group to benefit from any appreciation in their value but also generate a stable and continual source of (rental) income for the Group.

In the fourth quarter of the reporting period, the Group had been retained to manage a healthcare business in Hong Kong, which management of healthcare business has since been generating stable income to the Group.

Despite of the net loss of the Group for the reporting period, the Board considers that the Group's overall financial position is healthy and the Board remains optimistic on the prospects of the Group. The Board will continue to adopt a positive but prudent approach in its investment strategy and will continue to seek other investment opportunities and to explore the feasibility of expansion into other business segments with a view to diversify the Group's business portfolio aiming to enhance the Group's profitability and the shareholders' value in the long run.

Directors' Report

The Directors are pleased to present the annual report and audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 40 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 25.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2010 (2009: Nil).

ANNUAL GENERAL MEETING

The 2011 annual general meeting of the Company (the "AGM") will be held on Friday, 6 May 2011. Shareholders should refer to details regarding the AGM in the circular of the Company dated 31 March 2011 and the notice of the AGM and form of proxy accompanying thereto.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on pages 80 to 81 in this report.

PLANT AND EQUIPMENT

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

MAJOR CUSTOMERS AND SUPPLIERS

The largest and the four largest customers accounted for approximately 56% (the largest in 2009: 50%) and 83% (the only three largest in 2009: 100%) of the Group's turnover, respectively, and the largest and the three largest suppliers accounted for approximately 61% (the largest in 2009: 75%) and 90% (the only three largest in 2009: 100%) of the Group's cost of sales, respectively, for the year ended 31 December 2010. To the best knowledge of the Directors, at no time during the year, any Director or his respective associates or any shareholder (who owned more than 5% of the Company's issued share capital) has any interest in the above-mentioned customers or suppliers.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in Note 29 to the consolidated financial statements.

REDEEMABLE CONVERTIBLE PREFERENCE SHARES

Details of the redeemable convertible preference shares issued by the Company are set out in Note 30 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group are presented in the consolidated statement of changes in equity on page 27 in this report.

DISTRIBUTABLE RESERVES

As at the end of the reporting period, the Company did not have any reserves available for cash/in specie dividend distribution to shareholders of the Company.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 24 January 2002, pursuant to which the Board may, at its discretion, grant options to Directors and other eligible persons (as defined in the Scheme) to enable them to subscribe for shares of the Company as incentives and/or rewards for their contribution to the success of the Group. Particulars of the Scheme are set out in Note 36 to the consolidated financial statements.

During the year ended 31 December 2010, no share option had been granted under the Share Option Scheme and no share option granted under the Share Option Scheme remained outstanding as at 31 December 2010.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year are:

Executive Directors

Mr. Tsang Chi Hin *(Chief Executive Officer)*
Mr. Chu Yu Man, Philip

Independent Non-executive Directors

Mr. Chau Chi Ming	(appointed on 12 May 2010)
Mr. Cheung Tak Shum	
Mr. Lau Tin Cheung	
Mr. Yeung Chi Tat	(resigned on 12 May 2010)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

Each independent non-executive Director has signed an appointment letter with the Company for a fixed term of two years, unless terminated by not less than three months prior notice in writing served by either party to the other or in accordance with the provisions set out in the respective appointment letter.

Each of the executive Directors has entered into a service agreement dated 6 October 2008 with the Company for an initial fixed term of two years commencing from 30 September 2008 and will continue thereafter until terminated by not less than six months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by the Board at its absolute discretion having regard to the operation results of the Company.

None of the Directors who are proposed for re-election at the AGM 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.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, namely Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all of the independent non-executive Directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party at any time during the year ended 31 December 2010.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2010, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed under the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above, at no time during the period ended 31 December 2010 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, so far as was known to the Directors, the following substantial shareholders of the Company, other than a Director or chief executive of the Company, had an interest or short position in the Shares and underlying Shares of the Company, which are recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of shareholding in the Company
China Railway Logistics Limited	Interest of controlled corporation	645,776,000 (L) *(Note 2)*	227,130,430 (L) *(Note 3)*	872,906,430 (L)	36.00%
		633,776,000 (S) *(Note 2)*		633,776,000 (S)	26.14%
Yiu Yat Hung	Interest of controlled corporation	537,276,000 (L) *(Note 4)*		537,276,000 (L)	22.16%

L: Long position
S: Short position

Notes:

1. As at 31 December 2010, the Company's issued ordinary share capital was HK$24,245,996.90 divided into 2,424,599,690 Shares of HK$0.01 each.

2. The Shares held directly by Top Status International Limited ("Top Status") (a company incorporated in the British Virgin Islands with limited liability). Top Status is in turn wholly owned by China Railway Logistics Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on GEM (Stock code: 8089) ("China Railway"), as such, China Railway is deemed to be interested in these Shares.

3. This is an interest in underlying Shares held directly by Top Status in respect of convertible preference shares of the Company in the aggregate nominal amount of HK$2,612,000, which may be converted into a maximum of 227,130,430 Shares upon full exercise of the conversion rights thereto at the initial conversion price of HK$0.0115. Top Status in turn is wholly owned by China Railway, as such, China Railway is deemed to be interested in this interest.

4. The Shares held directly by China Coalfields International Group Limited ("China Coalfields"), a company incorporated in Hong Kong with limited liability. China Coalfield is in turn owned by Yiu Yat Hung entirely, as such, Yiu Yat Hung is deemed to be interested in these Shares.

SUBSTANTIAL SHAREHOLDERS (continued)

Save as disclosed above, as at 31 December 2010, the Company had not been notified of any other person who had an interest or short position in the Shares or underlying Shares of the Company and was required to be recorded in the register required to be kept under section 336 of the SFO.

REPURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions during the year ended 31 December 2010 are set out in Note 38 to the consolidated financial statements.

COMPETING INTERESTS

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

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes are set out in Note 37 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there is no restriction against such under the laws in Bermuda.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this report.

EMOLUMENT POLICY

The emolument policy of the employees and senior management of the Group is set up by the remuneration committee of the Company on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to market competitiveness, individual performance and achievement.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in Note 36 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2010 as required under the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

On 7 March 2011, the Company and the Placing Agent entered into a second supplemental placing agreement, the details of which have been set out in the "Fund Raising Activities" section above.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 31 July 2001 with written terms of reference in compliance with GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee currently comprises three independent non-executive Directors namely, Mr. Chau Chi Ming (Chairman), Mr. Cheung Tak Shum and Mr. Lau Tin Cheung.

The audited financial results of the Group for the year ended 31 December 2010 have been reviewed by the Audit Committee.

AUDITORS

Shu Lun Pan Horwath Hong Kong CPA Limited, the previous auditors of the Company, resigned as auditors of the Company on 8 December 2008.

SHINEWING (HK) CPA Limited ("SHINEWING") was appointed as auditors of the Company on 18 December 2008 and subsequently re-appointed as auditors of the Company at the last two annual general meetings of the Company held on 8 May 2009 and 7 May 2010. The consolidated financial statements for the year ended 31 December 2010 of the Company was audited by SHINEWING. A resolution for the re-appointment of SHINEWING as auditors of the Company will be proposed at the forthcoming AGM.

By Order of the Board
Tsang Chi Hin
Chief Executive Officer and Executive Director

Hong Kong, 9 March 2011

Corporate Governance Report

INTRODUCTION

The Board of Directors (the "Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

The corporate governance principles of the Company emphasize a quality Board, sound internal controls, transparency and accountability to all shareholders of the Company.

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 to the GEM Listing Rules throughout the year under review except for the following deviation:

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

Mr. Tang Shun Lam resigned as chairman and non-executive director of the Company with effect from 13 August 2009 and no replacement of the post of chairman has been appointed since Mr. Tang's resignation.

The Board will keep reviewing the structure of the Board from time to time. If candidate with suitable knowledge, skills and experience is identified, the Company will make appointment to fill the post of chairman as appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in such code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2010.

BOARD OF DIRECTORS

The Board currently comprises five Directors, of whom two are executive Directors and three are independent non-executive Directors.

The Board members for the year ended 31 December 2010 and up to the date of this report were:

Executive Directors

Mr. Tsang Chi Hin *(Chief Executive Officer)*
Mr. Chu Yu Man, Philip

Independent Non-executive Directors

Mr. Chau Chi Ming	(appointed on 12 May 2010)
Mr. Cheung Tak Shum	
Mr. Lau Tin Cheung	
Mr. Yeung Chi Tat	(resigned on 12 May 2010)

The Directors' biographical information are set out on pages 3 to 4 of this report. All executive Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the Board.

The Company had appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the shareholders of the Company. Each independent non-executive Director has signed an appointment letter with the Company for an initial fixed term of two years, unless terminated by not less than three months prior notice in writing served by either party to the other or in accordance with the provisions set out in the respective appointment letter.

The Board considers that all of the independent non-executive Directors are independent and has received from each of them the annual confirmation of independence required by Rule 5.09 of the GEM Listing Rules.

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

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

BOARD MEETINGS AND BOARD PRACTICES

The Board meets regularly for at least four times a year to review the financial and operating performance of the Group.

Details of the attendance and the meetings of the Board are as follows:

		Number of Attendance
Executive Directors		
Mr. Tsang Chi Hin *(Chief Executive Officer)*		23/23
Mr. Chu Yu Man, Philip		23/23
Independent Non-executive Directors		
Mr. Chau Chi Ming	(appointed on 12 May 2010)	12/14
Mr. Cheung Tak Shum		20/23
Mr. Lau Tin Cheung		16/23
Mr. Yeung Chi Tat	(resigned on 12 May 2010)	9/9

Apart from the above mentioned regular Board meetings of the year ended 31 December 2010, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each Board meeting. The company secretary of the Company (the "Company Secretary") is responsible for distributing detailed documents to the Directors prior to the meetings of the Board to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings so that they may receive accurate, timely and clear information. All Directors have access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. The Company Secretary is also responsible for providing to the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions and roles of chairman of the Board and chief executive officer of the Company are held and performed separately by two individuals to ensure their respective independence, accountability and responsibility. The chief executive officer, being Mr. Tsang Chi Hin, is responsible for the day-to-day management of the Group's business.

The Company has not fully complied with the code provision A.2.1 to A.2.3 of the Code throughout the year under review. Mr. Tang Shun Lam resigned as chairman and non-executive director of the Company with effect from 13 August 2009 and no replacement for the office of chairman has been appointed since Mr. Tang's resignation.

The Board will keep reviewing the current structure from time to time. If candidate with suitable knowledge, skills and experience is identified, the Company will make appointment to fill the post as appropriate.

REMUNERATION OF DIRECTORS

The remuneration committee of the Company (the"Remuneration Committee") had been formed in 2005 pursuant to a resolution passed by the Board. Following the re-domicile of the Company from the Cayman Islands into Bermuda in October 2007, it was re-established pursuant to a resolution passed by the Board on 15 February 2008 and specific terms of reference were adopted. As at the date of this report, the Remuneration Committee comprises three members, of which majority are independent non-executive Directors, namely Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung. Mr. Cheung Tak Shum is the chairman of the Remuneration Committee.

The role and function of the Remuneration Committee are establishing and reviewing the policy and structure of the remuneration for the Directors and senior management of the Company.

Frequency of Meetings and Attendance

The Remuneration Committee has convened two meetings during the year ended 31 December 2010 to review the existing remuneration packages of each of the Directors and senior management of the Company and to discuss the terms of the service contract and the letter of appointment for the existing Directors. Details of the attendance of these meetings are as follows:

Name of member		Number of attendance
Mr. Cheung Tak Shum *(Chairman)*		2/2
Mr. Chau Chi Ming	(appionted on 12 May 2010)	0/0
Mr. Lau Tin Cheung		2/2
Mr. Yeung Chi Tat	(resigned on 12 May 2010)	2/2

NOMINATION OF DIRECTORS

The nomination committee of the Company (the"Nomination Committee") had been formed in 2005 pursuant to a resolution passed by the Board. Following the re-domicile of the Company from the Cayman Islands into Bermuda in October 2007, the Nomination Committee was re-established pursuant to a resolution passed by the Board on 15 February 2008 and specific terms of reference were adopted. As at the date of this report, the Nomination Committee comprises four members, of which majority are independent non-executive Directors, namely Mr. Tsang Chi Hin, Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung. Mr. Tsang Chi Hin is the chairman of the Nomination Committee .

The functions of the Nomination Committee are reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, including the independence status in the case of an independent non-executive Director, the Company's needs and other relevant statutory requirements and regulations.

Frequency of Meetings and Attendance

The Nomination Committee has convened two meetings during the year ended 31 December 2010 and details of the attendance of the meetings are as follows:

Name of member		Number of attendance
Mr. Tsang Chi Hin *(Chairman)*		2/2
Mr. Chau Chi Ming	(appointed on 12 May 2010)	0/0
Mr. Cheung Tak Shum		2/2
Mr. Lau Tin Cheung		2/2
Mr. Yeung Chi Tat	(resigned on 12 May 2010)	2/2

AUDIT COMMITTEE

The Company established the Audit Committee on 31 July 2001. It has written terms of reference in compliance with the code provisions of the Code. The Audit Committee currently comprises Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung, who are the independent non-executive Directors. The chairman of the Audit Committee is Mr. Chau Chi Ming.

The responsibilities of the Audit Committee include making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the quarterly, interim and annual reports and accounts of the Group; and supervising the financial reporting process and effectiveness of internal control system of the Group. The Audit Committee had during the year performed such functions and reviewed the unaudited quarterly and interim results and audited annual results during the year ended 31 December 2010.

Frequency of Meetings and Attendance

The Audit Committee has convened four meetings during the year ended 31 December 2010 and details of the attendance of the meetings are as follows:

Name of member		Number of attendance
Mr. Chau Chi Ming *(Chairman)*	(appointed on 12 May 2010)	2/2
Mr. Cheung Tak Shum		4/4
Mr. Lau Tin Cheung		3/4
Mr. Yeung Chi Tat	(resigned on 12 May 2010)	2/2

AUDITORS' REMUNERATION

An amount of approximately HK$355,000 (2009: approximately HK$300,000) was charged to the Group's statement of comprehensive income for the year ended 31 December 2010. There was no significant non-audit service assignment undertaken by the auditors during the year.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Group's account for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the audited consolidated financial statements for the year ended 31 December 2010, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The auditors of the Company acknowledge their responsibilities in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2010.

INTERNAL CONTROL

The Board and the Audit Committee have conducted a review of the effectiveness of the Group's internal control system. The internal control system is designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

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

The Board considered that the internal control system of the Group is effective and the Audit Committee have found no material deficiencies on the internal control system.

Independent Auditor's Report

信永中和 ShineWing

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

TO THE MEMBERS OF CHINA ECO-FARMING LIMITED

(Incorporated in the Cayman Islands and continued into Bermuda with limited liability)

We have audited the consolidated financial statements of China Eco-Farming Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 79, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

OPINION

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

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong, 9 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Continuing operations			
Revenue	6	**23,271**	35,844
Cost of sales		**(21,328)**	(34,940)
Gross profit		**1,943**	904
Other revenue	7	**305**	3
Administrative expenses		**(19,204)**	(11,379)
Finance costs	9	**(911)**	(2,083)
Net increase in fair value of investment properties	18	**2,666**	–
Loss before taxation		**(15,201)**	(12,555)
Taxation	10	**–**	–
Loss for the year from continuing operations		**(15,201)**	(12,555)
Discontinued operations			
Profit for the year from discontinued operations	11	**–**	3,717
Loss for the year and total comprehensive expense for the year	12	**(15,201)**	(8,838)
Loss for the year and total comprehensive expense for the year attributable to:			
Owners of the Company		**(15,201)**	(8,838)
Non-controlling interests		**–**	–
		(15,201)	(8,838)
Loss per share	16		
Basic and diluted *(HK cents)*			
From continuing and discontinued operations		**(0.7)**	(1.1)
From continuing operations		**(0.7)**	(1.6)

Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-current Assets			
Plant and equipment	17	3,473	1,123
Investment properties	18	10,770	–
Intangible assets	19	–	–
Goodwill	20	–	–
Investment in an associate	21	1	1
Available-for-sale investment	22	–	–
Deposit paid for operating right	35(b)	1,200	–
		15,444	1,124
Current Assets			
Trade and other receivables, deposits and prepayments	23	2,255	3,335
Bank balances and cash	24	3,404	23,985
		5,659	27,320
Current Liabilities			
Other payables and accruals		1,154	859
Amount due to a fellow subsidiary	25	–	51
Unsecured loans	26	–	3,000
Secured bank loan	27	2,400	–
		3,554	3,910
Net Current Assets		2,105	23,410
Total Assets less Current Liabilities		17,549	24,534
Non-current Liabilities			
Loan from former fellow subsidiaries/a fellow subsidiary	28	20,000	12,000
Convertible preference shares	30	2,318	16,549
		22,318	28,549
		(4,769)	(4,015)
Capital and reserves			
Share capital	29	24,246	9,126
Reserves		(29,015)	(13,141)
Equity attributable to owners of the Company		(4,769)	(4,015)
Non-controlling interests		–	–
		(4,769)	(4,015)

The consolidated financial statements on pages 25 to 79 were approved and authorised for issue by the board of directors on 9 March 2011 and are signed on its behalf by:

Chu Yu Man, Philip
Director

Tsang Chi Hin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company										
	Share capital HK$'000 *(Note 29)*	Share premium HK$'000	Capital reserve* HK$'000	Equity component of convertible preference shares HK$'000 *(Note 30)*	Special reserve HK$'000	Statutory reserve HK$'000	Foreign currency translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests** HK$'000	Total HK$'000
At 1 January 2009	7,726	–	3,970	4,121	6,026	3,029	3,664	(29,605)	(1,069)	–	(1,069)
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	–	–	–	(8,838)	(8,838)	–	(8,838)
Placing of new shares *(Note 29)*	1,400	8,400	–	–	–	–	–	–	9,800	–	9,800
Transaction costs attributable to placing of new shares	–	(244)	–	–	–	–	–	–	(244)	–	(244)
Transfer upon disposal of subsidiaries	–	–	(3,970)	–	–	(3,029)	(3,664)	6,999	(3,664)	–	(3,664)
At 31 December 2009	9,126	8,156	–	4,121	6,026	–	–	(31,444)	(4,015)	–	(4,015)
Loss for the year, representing total comprehensive expense for the year	–	–	–	–	–	–	–	(15,201)	(15,201)	–	(15,201)
Issue of shares upon conversion of convertible preference shares *(Note 29)*	15,120	2,910	–	(3,583)	–	–	–	–	14,447	–	14,447
At 31 December 2010	**24,246**	**11,066**	**–**	**538**	**6,026**	**–**	**–**	**(46,645)**	**(4,769)**	**–**	**(4,769)**

* *The capital reserve represents the Group's share of the contributions made by the minority shareholders to certain subsidiaries of the Group in the People's Republic of China ("PRC").*

** *The share of losses by non-controlling interests of the Group already up to their investments cost as at 31 December 2009 and the respective subsidiary was disposed of in 2009.*

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation:			
Continuing operations		(15,201)	(12,555)
Discontinued operations		–	3,717
		(15,201)	(8,838)
Adjustments for:			
Depreciation for plant and equipment		478	1,017
Loss on disposal of plant and equipment		128	–
Gain on disposal of subsidiaries		–	(4,812)
Wavier of unsecured loans		(300)	–
Interest income		(3)	(3)
Finance costs		911	2,083
Net increase in fair value of investment properties		(2,666)	–
Operating cash flows before movements in working capital		(16,653)	(10,553)
(Increase) decrease in trade and other receivables, deposits and prepayments		(115)	3,805
Increase in other payables and accruals		258	45
NET CASH USED IN OPERATING ACTIVITIES		(16,510)	(6,703)
INVESTING ACTIVITIES			
Proceeds from disposal of plant and equipment		13	–
Interest received		3	3
Net cash outflow from acquisition of assets	33	(8,100)	–
Purchases of plant and equipment		(2,941)	(904)
Net cash inflow from disposal of subsidiaries	34	–	210
Investment in an associate		–	(1)
NET CASH USED IN INVESTING ACTIVITIES		(11,025)	(692)
FINANCING ACTIVITIES			
Loan advance from former fellow subsidiaries/ a fellow subsidiary		8,000	12,000
New secured bank loan raised		2,400	–
Repayment of unsecured loans		(2,700)	–
Interest paid		(654)	(433)
Dividend paid to convertible preference shares		(92)	(1,200)
Proceeds from issue of new shares		–	9,800
Expenses on issue of new shares		–	(244)
NET CASH FROM FINANCING ACTIVITIES		6,954	19,923
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(20,581)	12,528
CASH AND CASH EQUIVALENTS AT 1 JANUARY		23,985	11,457
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		3,404	23,985

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL

China Eco-Farming Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Company Law of the Cayman Islands on 30 November 2000.

The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 5 February 2002. The addresses of the registered office and the principal place of business of the Company are disclosed in the corporate information section to the annual report. The directors of the Company (the "Directors") do not consider any company to be the ultimate holding company and parent company of the Company.

During the year ended 31 December 2007, the Company re-domiciled from the Cayman Islands into Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda. The change of domicile was approved by the shareholders of the Company on 15 October 2007 and the Company was continued into Bermuda with limited liability with effect from 29 October 2007.

The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the business of one-stop value chain services, health care services and property investment in 2010. In 2009, the Group is only engaged in one-stop value chain services.

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

2. BASIS OF PREPARATION

At 31 December 2010, the Group had net liabilities and capital deficiency of approximately HK$4,769,000 (2009: HK$4,015,000) respectively. The Group had incurred loss of approximately HK$15,201,000 (2009: HK$8,838,000) for the year ended 31 December 2010. These conditions indicate the existence of a material uncertainty which may significant doubt about the Group's ability to continue as a going concern. Nevertheless, these consolidated financial statements of the Group have been prepared on a going concern basis.

In the opinion of the Directors, the Group is able to maintain itself as a going concern in the coming year by taking into consideration the following:

(i) At 31 December 2010, the Group is principally engaged in provision of one-stop value chain services, health care services and property investment. The Directors are confident that these business will maintain positive cash position; and

2. BASIS OF PREPARATION (continued)

(ii) On 10 December 2010, 21 December 2010 and 7 March 2011, the Company entered into a placing agreement, a supplementary placing agreement and a second supplementary placing agreement respectively with Fortune (HK) Securities Limited (the "Placing Agent"), pursuant to which, the Placing Agent agreed to place, on fully-underwritten basis up to 150,000,000 shares at a price of HK$0.149 per share, for and on behalf of the Company. Under the terms of the placing agreement, the Placing Agent shall themselves place or take up (1) the placing shares in their entirety should the Placing Agent fail to place any of the Placing Shares or, alternatively, (2) (in the event that the placing shares are only partially placed) the remaining balance of the placing shares, upon the expiry of the placing date as at 30 June 2011. Upon the completion of placing of shares, the aggregate amount of approximately HK$21,791,000 with net of placing commission that expected to be received.

The Directors consider that the Group will have sufficient working capital to finance its operations for the next twelve months from 31 December 2010. Accordingly, the Directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

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

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

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

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

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

HKFRS 3 (Revised 2008) Business Combinations

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

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

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

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$2,400,000 (2009: Nil) have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities (see Note 32).

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

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

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

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

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

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

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

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

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

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

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principle accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Goodwill

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment

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

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

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

Investment properties

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

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

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Cash and cash equivalents

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets

The Group's its financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Impairment of financial assets (continued)

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

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

(ii) Financial liabilities and equity instruments

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including other payables and accruals, amount due to a fellow subsidiary, unsecured loans, secured bank loan and loan from former fellow subsidiaries/a fellow subsidiary are subsequently measured at amortised cost, using the effective interest method.

Convertible preference shares

Convertible preference shares issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Financial liabilities and equity instruments (continued)

Convertible preference shares (continued)

On initial recognition, liability component is measured at fair value. The difference between the gross proceeds of the issue of the convertible preference shares and the fair value assigned to the liability component, representing the conversion option for the holder to convert the preference shares into equity, is included in equity (equity component of convertible preference shares).

In subsequent periods, the liability component of the convertible preference shares is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in equity until the embedded option is exercised (in which case the balance stated in equity component of convertible preference shares will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in equity component of convertible preference shares will be released to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible preference shares are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible preference shares using the effective interest method.

Equity instruments

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

(iii) Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

Rental income from operating leases is recognised on a straight line basis over the terms of the relevant lease.

Service income is recognised when services are provided.

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

Taxation

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Retirement benefits scheme contributions

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

Share-based payment transactions

Share options granted to employees

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Share options granted to employees (continued)

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

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

Share options granted to consultants

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

Borrowing costs

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgement in applying the entity's accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the Directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Going concern consideration

The assessment of the going concern assumptions involve making judgement by the Directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors consider that the Group has ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumptions are set out in Note 2.

Key sources of estimation uncertainty

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

Allowance for doubtful debts

Allowance for doubtful debts is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires the Directors judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade receivables and other receivables and doubtful debt expenses/written back in the period in which the estimate has been changed. As at 31 December 2010, the carrying amounts of trade and other receivables were approximately HK$1,748,000 (2009: HK$3,092,000). No impairment loss recognised in both years.

Fair value of investment properties

Investment properties are carried in the consolidated statement of the financial position at 31 December 2010 at their fair value of approximately HK$10,770,000 (2009: Nil). The fair value was based on a valuation on these properties conducted by an independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of comprehensive income.

6. REVENUE

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

	2010 **HK$'000**	2009 HK$'000
Revenue:		
One-stop value chain services	**19,376**	35,844
Health care services	**3,858**	–
Rental income *(Note)*	**37**	–
	23,271	35,844

Note:

	2010 **HK$'000**	2009 HK$'000
Gross rental income	**37**	–
Less: outgoings (included in cost of sales)	**(1)**	–
Net rental income	**36**	–

7. OTHER REVENUE

Continuing operations

	2010 **HK$'000**	2009 HK$'000
Interest income	**3**	3
Wavier of unsecured loans *(Note 26)*	**300**	–
Others	**2**	–
	305	3

8. SEGMENT INFORMATION

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

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

1. One-stop value chain services – provision of total solution services including trading, packaging and logistic solutions

2. Health care services – provision of health care services

3. Property investment – generated rental income from operating leases of Group's investment properties

An operation regarding the provision of voice search engine portal and the sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology were discontinued during the year ended 31 December 2009. For the year ended 31 December 2010, there are two new reportable segments regarding health care services and property investment. The segment information reported below does not include any amounts for these discontinued operations, which was described in more details in Note 11.

Segment revenues and results

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

	One-stop value chain services		Health care services		Property investment		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
REVENUE								
External sales	**19,376**	35,844	**3,858**	–	**37**	–	**23,271**	35,844
Segment (loss)/profit	**(5,685)**	(5,364)	**1,659**	–	**2,702**	–	**(1,324)**	(5,364)
Unallocated corporate revenue							**305**	3
Unallocated corporate expenses							**(14,182)**	(7,194)
Loss before taxation (continuing operations)							**(15,201)**	(12,555)

The accounting policies of the reportable segment are the same as the Group's accounting policies described in Note 4. Segment profit/loss represents the profit earned by/loss from each segment without allocation of central administration costs, directors' emoluments, interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

8. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	2010 HK$'000	2009 HK$'000
Segment assets		
Continuing operations:		
One-stop value chain services	1,826	4,369
Health care services	4,471	–
Property investment	10,796	–
Total segment assets	17,093	4,369
Unallocated		
– other receivables, deposits and prepayments	605	89
– investment in an associate	1	1
– bank balances and cash	3,404	23,985
Consolidated assets	21,103	28,444
Segment liabilities		
Continuing operations:		
One-stop value chain services	86	259
Health care services	495	–
Property investment	55	–
Total segment liabilities	636	259
Unallocated		
– other payables and accruals	518	600
– amount due to a fellow subsidiary	–	51
– loan from former fellow subsidiaries/a fellow subsidiary	20,000	12,000
– unsecured loans	–	3,000
– secured bank loan	2,400	–
– convertible preference shares	2,318	16,549
Consolidated liabilities	25,872	32,459

8. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

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

- all assets are allocated to reportable segments other than investment in an associate, bank balances and cash and prepayments of the Company; and
- all liabilities are allocated to reportable segments other than amount due to a fellow subsidiary, unsecured loans, secured bank loan, loan from former fellow subsidiaries/a fellow subsidiary, liability component of convertible preference shares and other payables of the Company.

Other segment information

Continuing operations

	One-stop value chain services		Health care services		Property investment		Unallocated		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Amounts included in the measure of segment profit or loss or segment assets:										
Additions to non-current assets	**16**	904	**2,925**	–	**8,132**	–	**–**	–	**11,073**	904
Increase in fair value of investment properties	**–**	–	**–**	–	**2,666**	–	**–**	–	**2,666**	–
Loss on disposal of plant and equipment	**128**	–	**–**	–	**–**	–	**–**	–	**128**	–
Depreciation for plant and equipment	**253**	216	**221**	–	**4**	–	**–**	–	**478**	216
Amounts regularly provided to the chief operating decision marker but not included in the measure of segment profit or loss or segment assets:										
Investment in an associate	**1**	1	**–**	–	**–**	–	**–**	–	**1**	1
Interest income	**2**	2	**–**	–	**–**	–	**1**	1	**3**	3
Interest expense	**3**	–	**–**	–	**–**	–	**908**	2,083	**911**	2,083

8. SEGMENT INFORMATION (continued)

Geographical information

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

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**23,271**	35,844	**15,444**	1,124

Information about major customers

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

	2010	2009
	HK$'000	HK$'000
Customer A[1]	**13,102**	N/A[2]
Customer B[1]	**2,573**	N/A[2]
Customer C[1]	**N/A[2]**	17,632
Customer D[1]	**N/A[2]**	17,351

1 *Revenue from one-stop value chain services*

2 *The corresponding revenue did not contribute over 10% of the total sales of the Group in the respective year*

9. FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
Continuing operations		
Interest on bank loan, wholly repayable within five years	**3**	–
Effective interest expense on convertible preference shares *(Note 30)*	**308**	1,599
Interest on loan from former fellow subsidiaries/a fellow subsidiary *(Note 28)*	**600**	484
	911	2,083

10. TAXATION

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

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

	2010	2009
	HK$'000	HK$'000
Loss before taxation (from continuing operations)	**(15,201)**	(12,555)
Tax at the domestic income tax rate of 16.5% (2009: 16.5%)	**(2,508)**	(2,071)
Tax effect of expenses not deductible for tax purpose	**1,050**	304
Tax effect of income not taxable for tax purpose	**(490)**	(1)
Utilisation of tax losses previously not recognised	**–**	(16)
Tax effect of other temporary differences not recognised	**4**	76
Tax effect of tax losses not recognised	**1,944**	1,708
Tax charge for the year (relating to continuing operations)	**–**	–

At the end of the reporting period, the Group has unused tax losses of approximately HK$22,806,000 (2009: HK$11,023,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$817,000 (2009: HK$793,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

11. DISCONTINUED OPERATIONS

On 29 September 2009, the Group entered into a conditional sale and purchase agreement to dispose of its entire equity interest in Chineseroad Incorporated ("Chineseroad") and its subsidiaries ("Chineseroad Group") and the loan owing to the Company to Skycomm International Limited ("Skycomm"), an independent third party, at a consideration of HK$300,000. Chineseroad Group are principally engaged in the provision of voice search engine portal services as well as sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology. The disposal was effected in order to realise its investment in Chineseroad Group and concentrate on the development of the current one-stop value chain services and/or release resources for development of other business opportunities. The disposal was completed on 9 December 2009, on which date control of Chineseroad Group passed to Skycomm.

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

	2010 **HK$'000**	2009 HK$'000
Loss of provision of voice search engine portal services	–	(405)
Loss of knowledge management systems business	–	(690)
	–	(1,095)
Gain on disposal of provision of voice search engine portal services and knowledge management systems business *(Note 34)*	–	4,812
	–	3,717

The results of voice search engine portal services and knowledge management system operations for the period from January 2009 to December 2009, which has been included in the consolidated statement of comprehensive income, were as follows:

	Year ended **2010** **HK$'000**	Period ended 31/12/2009 HK$'000
Revenue	–	–
Administrative expenses	–	(1,095)
Loss for the year/period from discontinued operations	–	(1,095)
Loss for the year/period from discontinued operations include the following:		
Other staff costs	–	106
Retirement benefits scheme contributions	–	36
Depreciation for plant and equipment	–	801

11. DISCONTINUED OPERATIONS (continued)

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

During the year ended 31 December 2009, the segment of voice search engine portal services and knowledge management systems business paid approximately HK$90,000 in respect of operating cash flows. No cash flows in respect of investing and financing activities from discontinued operations.

The carrying amounts of the assets and liabilities of Chineseroad Group at the date of disposal are disclosed in Note 34.

12. LOSS FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Loss for the year has been arrived at after charging:		
Continuing operations		
Directors' emoluments *(Note 13)*	**2,605**	2,968
Other staff costs (excluding directors' emoluments)	**3,012**	3,188
Retirement benefits scheme contributions (excluding directors)	**93**	83
	5,710	6,239
Auditors' remuneration	**355**	300
Depreciation for plant and equipment	**478**	216
Loss on disposal of plant and equipment	**128**	–

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 6 (2009: 7) Directors were as follows:

	2010			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors:				
Chu Yu Man, Philip	–	884	12	896
Tsang Chi Hin	–	1,066	12	1,078
Independent non-executive Directors:				
Cheung Tak Shum	240	–	–	240
Yeung Chi Tat (Resigned on 12 May 2010)	96	–	–	96
Lau Tin Cheung	180	–	–	180
Chau Chi Ming (Appointed on 12 May 2010)	115	–	–	115
Total	631	1,950	24	2,605

	2009			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors:				
Chu Yu Man, Philip	–	884	12	896
Tsang Chi Hin	–	1,066	12	1,078
Non-executive Director:				
Tang Shun Lam (Resigned on 13 August 2009)	258	–	–	258
Independent non-executive Directors:				
Cheung Tak Shum	240	–	–	240
Yeung Chi Tat (Resigned on 12 May 2010)	264	–	–	264
Lau Tin Cheung	181	–	–	181
Chow Pui Mau, William (Resigned on 8 May 2009)	51	–	–	51
Total	994	1,950	24	2,968

No Director waived or agreed to waive any emoluments paid by the Group during the two years ended 31 December 2010 and 2009.

During the two years ended 31 December 2010 and 2009, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2009: two) were Directors whose emoluments are included in the disclosure in Note 13 above. The emoluments of the remaining three (2009: three) individuals were as follows:

	2010 HK$'000	2009 HK$'000
Basic salaries and allowances	1,755	1,302
Retirement benefits scheme contributions	36	19
	1,791	1,321

The emoluments of each of the above employees were less than HK$1,000,000 during each of the two years ended 31 December 2010 and 2009.

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

15. DIVIDEND

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

16. LOSS PER SHARE

For continuing and discontinued operations

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

	2010 HK$'000	2009 HK$'000
Loss		
Loss for the year attributable to owners of the Company	(15,201)	(8,838)

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	2,327,624,348	792,928,457

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the conversion of convertible preference shares during the year ended 31 December 2010 as detailed in Note 30.

16. LOSS PER SHARE (continued)

From continuing operations

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

Loss figures are calculated as follows:

	2010 **HK$'000**	2009 HK$'000
Loss for the year attributable to owners of the Company	**(15,201)**	(8,838)
Less: profit for the year from discontinued operations	**–**	(3,717)
Loss for the purpose of basic loss per share from continuing operations	**(15,201)**	(12,555)

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

From discontinued operations

Basic earnings per share for the discontinued operations for the year ended 31 December 2009 is HK0.5 cents per share (2010: Nil), based on the profit for the year ended 31 December 2009 from the discontinued operations of approximately HK$3,717,000 (2010: Nil) and the denominators detailed above for basic loss per share.

The basic and diluted earnings per share are the same as the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible preference shares since their exercise would result in a decrease in loss/earnings per share from continuing and discontinued operations.

17. PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Computer, network and related equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
COST						
At 1 January 2009	141	–	864	19,117	781	20,903
Additions	45	598	73	186	2	904
Disposal of subsidiaries *(Note 34)*	(127)	–	(841)	(19,054)	(431)	(20,453)
At 31 December 2009	59	598	96	249	352	1,354
Additions	2,534	–	384	23	–	2,941
Acquired on acquisition of subsidiaries *(Note 33)*	–	–	28	–	–	28
Disposals	–	–	–	(160)	–	(160)
At 31 December 2010	**2,593**	**598**	**508**	**112**	**352**	**4,163**
DEPRECIATION						
At 1 January 2009	116	–	837	18,256	443	19,652
Provided for the year	15	80	14	838	70	1,017
Disposal of subsidiaries *(Note 34)*	(116)	–	(837)	(19,054)	(431)	(20,438)
At 31 December 2009	15	80	14	40	82	231
Provided for the year	234	119	33	22	70	478
Eliminated on disposals	–	–	–	(19)	–	(19)
At 31 December 2010	**249**	**199**	**47**	**43**	**152**	**690**
CARRYING VALUES						
At 31 December 2010	**2,344**	**399**	**461**	**69**	**200**	**3,473**
At 31 December 2009	44	518	82	209	270	1,123

The above items of plant and equipment are depreciated over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line basis at the following rates per annum:

Leasehold improvements	50%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Computer, network and related equipment	20%
Motor vehicle	20%

18. INVESTMENT PROPERTIES

	2010 HK$'000	2009 HK$'000
FAIR VALUE		
At 1 January	–	–
Acquired on acquisition of subsidiaries *(Note 33)*	8,104	–
Net increase in fair value recognised in consolidated statement of comprehensive income	2,666	–
At 31 December	10,770	–

(a) The fair value of the Group's investment properties at 31 December 2010 have been arrived at on the basis of a valuation carried out on that date by Avista Valuation Advisory Limited, independent qualified professional valuer not connected with the Group. Avista Valuation Advisory Limited are members of the Institute of Valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

(b) All of the Group's investment properties are held under operating leases to earn rentals or for capital appreciation purposes and are measured using the fair value model.

(c) The investment properties shown above consist of long-term lease land and buildings held in the Hong Kong.

(d) At 31 December 2010, one of the Group's investment properties with a carrying value of HK$4,900,000 (2009: Nil) was pledged to secure the banking facilities granted to the Group.

19. INTANGIBLE ASSETS

	Computer software HK$'000
COST	
At 1 January 2009	7,804
Disposal of subsidiaries *(Note 34)*	(7,804)
At 31 December 2009 and 31 December 2010	–
AMORTISATION	
At 1 January 2009	7,804
Disposal of subsidiaries *(Note 34)*	(7,804)
At 31 December 2009 and 31 December 2010	–
CARRYING VALUES	
At 31 December 2010	–
At 31 December 2009	–

The above intangible assets were disposed of upon the disposal of certain subsidiaries during the year ended 31 December 2009.

20. GOODWILL

	HK$'000
COST	
At 1 January 2009	25,758
Disposal of subsidiaries *(Note 34)*	(25,758)
At 31 December 2009 and 31 December 2010	**–**
IMPAIRMENT	
At 1 January 2009	25,758
Disposal of subsidiaries *(Note 34)*	(25,758)
At 31 December 2009 and 31 December 2010	**–**
CARRYING VALUES	
At 31 December 2010	**–**
At 31 December 2009	–

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill is allocated to the voice portal business segment.

Upon the disposal of certain subsidiaries which were engaged in provision of voice search engine portal, the associated goodwill was disposed of accordingly during the year ended 31 December 2009.

21. INVESTMENT IN AN ASSOCIATE

	2010 HK$'000	2009 HK$'000
Cost of unlisted investment in an associate	1	1

At 31 December 2010 and 2009, the Group had interest in the following associate:

Name of entity	Form of entity	Place of incorporation and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2010	2009	Principal activity
FDC Limited	Limited liability	Samoa	Ordinary shares	49%	49%	Inactive

On 25 June 2009, the Group acquired 49 shares of FDC Limited ("FDC") of US$1.00 per share, which represents 49% of the entire issued share capital of FDC, a company incorporated in Samoa with limited liability, at the consideration of US$49.00.

FDC is still inactive as at the end of the reporting period. During the year ended 31 December 2009, it has entered into a framework agreement and a memorandum of understanding for proposed investments in livestock farming, construction and operation of abattoirs, processing workhouses as well as cold storage facilities in the PRC. During the year ended 31 December 2010, the framework agreement and memorandum of understanding are terminated and the proposed investments have not been completed.

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

	2010 HK$'000	2009 HK$'000
Current asset, representing net asset	1	1
Group's share of net asset of an associate	1	1

No result of the associate is presented for the year ended 31 December 2010 and 2009 as no income was earned and no expense was incurred. Accordingly, no share of profit or loss of associate for the year is accounted for.

22. AVAILABLE-FOR-SALE INVESTMENT

	2010 HK$'000	2009 HK$'000
Unlisted investment – cost	–	–

Pursuant to an agreement dated 28 February 2006, the Group agreed with an independent party whereby the independent party assumes full operational control of Ha Er Bin Runke Communication Technology Company Limited ("Runke"), a former subsidiary for a term of three years, in return for a fixed fee payable to the Group. The fee was fixed at RMB200,000 for the first year with an increment of 10% per annum for each of the subsequent two years. In addition, at the date of termination of the agreement, the independent party will receive a compensation calculated at 40% of the trade receivable balance as of that date (the "Old Agreement").

As the Group ceased to have control over Runke commencing from 28 February 2006, the Group accounted for the investment in Runke as an available-for-sale investment and the value of net assets shared by the Group as at 28 February 2006 was deemed as the cost of the investment.

On 27 March 2007, Runke changed its name to Harbin Dingming Shiji Communication and Technology Limited ("Dingming Shiji"). In August 2007, the Old Agreement was terminated. On 20 August 2007, the Group entered into another agreement with another independent party, pursuant to which the independent party assumes full operational control of Dingming Shiji for a term of three years, commencing from 1 September 2007. In return, a fixed fee of RMB140,000 is payable to the Group for the first year with an increment of 10% per annum for each of the subsequent two years. In addition, at the date of termination of the agreement, the independent party will also receive a compensation calculated at 40% of the trade receivable balance as of that termination date on 30 August 2010.

The available-for-sale investment was disposed of upon the disposal of certain subsidiaries during the year ended 31 December 2009.

23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010 HK$'000	2009 HK$'000
Trade receivables	1,205	3,090
Other receivables	543	2
Deposits and prepayments	507	243
	2,255	3,335

(i) The credit period granted to the Group's trade customers generally ranges from 30 days to 180 days.

23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

(ii) The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting date.

	2010 **HK$'000**	2009 HK$'000
0 to 30 days	**1,195**	3,090
31 to 90 days	**10**	–
	1,205	3,090

(iii) As at 31 December 2010, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$10,000 (2009: Nil) which are past due as at the end of the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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

	2010 **HK$'000**	2009 HK$'000
Less than 1 month past due	**10**	–

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

The Group's neither past due nor impaired trade receivables mainly represent sales made to creditworthy customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

24. BANK BALANCES AND CASH

Bank balances carry interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2010, the Group had bank balances and cash originally denominated in RMB of approximately HK$20,000 (2009: HK$20,000).

25. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount is unsecured, interest-free and repayable on demand. The amount is fully settled during the year.

26. UNSECURED LOANS

	2010 **HK$'000**	2009 HK$'000
Unsecured loans represent loans from the following parties:		
Mr. Dai Fan ("Mr. Dai") *(Note a)*	–	2,000
Ms. Lu Wen Bin ("Ms. Lu") *(Note b)*	–	1,000
	–	3,000

Notes:

(a) Mr. Dai was an ex-director of the Company and a director of a subsidiary of the Company as at 31 December 2008. He ceased to be a director of that subsidiary of the Company upon the disposal of that subsidiary during the year ended 31 December 2009.

(b) Ms. Lu was a director of a subsidiary of the Company as at 31 December 2008. She ceased to be a director of that subsidiary of the Company upon the disposal of that subsidiary during the year ended 31 December 2009.

The loans from Mr. Dai and Ms. Lu were unsecured, interest-free and fully settled during the year.

On 11 August 2009, the Company received a writ of summons against the Company by Mr. Dai and Ms. Lu in respect of alleged loan payments totaling HK$3,000,000 by Mr. Dai and Ms. Lu to the Company (the "Claim"). The Company has filed a defence and counterclaim against Mr. Dai and Ms. Liu in respect of the Claim on 16 October 2009.

Having reached an amicable settlement with Mr. Dai and Ms. Lu in respect of the payment on 5 February 2010, the High Court of Hong Kong granted an order discontinuing the proceedings with respect to the Claim against the Company. Mr. Dai and Ms. Lu accepted HK$2,700,000 as final settlement. The remaining balance of HK$300,000 has been waived and recognised as other revenue.

27. SECURED BANK LOAN

	2010 HK$'000	2009 HK$'000
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	2,400	–

At 31 December 2010, the secured bank loan carries interest at floating rates of prime rate less 1.75% and is not repayable within one year from the end of the reporting period but contain a repayable on demand clause. The effective interest rate is 3.5% per annum.

The secured bank loan is secured by the Group's investment property as set out in Note 18.

Secured bank loan is denominated in HK$.

28. LOAN FROM FORMER FELLOW SUBSIDIARIES/A FELLOW SUBSIDIARY

The amount represents loan with principal amount of HK$12,000,000 (2009: HK$12,000,000) and HK$8,000,000 (2009: Nil) due from Luck Bloom International Limited ("Luck Bloom") and Top Status International Limited ("Top Status"), respectively, wholly owned subsidiaries of China Railway Logistics Limited ("CRLL").

The loan amount of HK$12,000,000 is unsecured, bear interest at HK$ best lending rate quoted by the Hong Kong and Shanghai Banking Corporation Limited, which is 5% per annum for the year ended 31 December 2010 (2009: 5%) and not repayable within the next twelve months. The loan amount of HK$8,000,000 is unsecured, interest-free for the year ended 31 December 2010 (2009: Nil) and not repayable within the next twelve months. The loan is bearing interest at 6% per annum commence on 1 January 2011.

CRLL ceased to be the ultimate holding company of the Company on 29 January 2010 upon the completion of the conversion of convertible preference shares. Upon CRLL ceased to be the ultimate holding of the Company, Luck Bloom and Top Status no longer being fellow subsidiaries of the Company. The loan has been reclassified as loan from former fellow subsidiaries for the year ended 31 December 2010.

The loan is subject to variable interest rates which exposed the Group to cash flow interest rate risk. The loan are denominated in HK$ and hence no foreign currency risk exposure.

29. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares		
Authorised:		
At 1 January 2009, HK$0.10 each	326,086,957	32,609
Subdivision of shares of HK$0.10 each into ten shares of HK$0.01 each *(Note a)*	2,934,782,613	–
At 31 December 2009 and 31 December 2010, HK$0.01 each	**3,260,869,570**	**32,609**
Issued and fully paid:		
At 1 January 2009, HK$0.10 each	77,259,969	7,726
Subdivision of shares *(Note a)*	695,339,721	–
Placing of new shares *(Note b)*	140,000,000	1,400
At 31 December 2009, HK$0.01 each	912,599,690	9,126
Conversion of convertible preference shares *(Note c)*	1,512,000,000	15,120
At 31 December 2010, HK$0.01 each	**2,424,599,690**	**24,246**

Notes:

(a) Pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 12 October 2009, every ordinary share of HK$0.10 each in the issued and unissued share capital of the Company was subdivided into ten ordinary shares of HK$0.01 each (the "Share Subdivision"). The Share Subdivision becomes effective on 13 October 2009.

(b) On 29 May 2009, arrangements were made for a private placement to independent private investors of 14,000,000 shares of HK$0.10 each in the Company, at a price of HK$0.70 per share representing a discount of approximately 6.67% to the closing market price of the Company's shares on 29 May 2009.

Upon the subdivision of shares as disclosed in Note 29(a) as above, the number of new shares to be issued under the placement was adjusted to 140,000,000 shares of HK$0.01 each of which the aggregate nominal value remains unchanged at HK$1,400,000.

The placement was completed on 9 November 2009. The gross proceeds and net proceeds, after deducting all related expenses, were approximately HK$9,800,000 and HK$9,556,000, respectively. The net proceeds were used to provide additional general working capital for the Company and/or for future possible investment opportunities. These new shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 8 May 2009 and rank pari passu with other shares in issue in all respects.

(c) During the year ended 31 December 2010, 1,512,000,000 ordinary shares of HK$0.01 each were issued pursuant to the conversion of the convertible preference shares at a conversion price of HK$0.0115 per share and rank pari passu with other shares in issue in all respects. Details of which are set out in Note 30.

30. CONVERTIBLE PREFERENCE SHARES

	Number of shares	Amount
		HK$'000
Authorised:		
At 1 January 2009, 31 December 2009 and 31 December 2010, HK$0.10 each	173,913,043	17,391
Issued and fully paid:		
At 1 January 2009, 31 December 2009, HK$0.10 each	173,913,043	17,391
Conversion of convertible preference shares	(151,200,000)	(15,120)
At 31 December 2010, HK$0.10 each	**22,713,043**	**2,271**

Note: Following the Share Subdivision took effect on 13 October 2009, as detailed in Note 29(a) as above, the conversion price of the convertible preference shares was adjusted from HK$0.115 per share to HK$0.0115 per share.

The principal terms of the Convertible Preference Shares ("CP Shares") on the date of issue include the following:

(i) Dividend

A dividend of HK$92,000 calculated at 3% of par value of CP Shares was paid for the year ended 31 December 2010 (2009: HK$600,000). No dividends accrued or paid upon the CP Shares until 31 December 2007. An accrued dividend at the rate of 3% of par value will be paid annually.

(ii) Capital

On a return of capital on liquidation or otherwise (but not on conversion), the holders of the CP Shares ("CP Shareholders") shall have the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company up to an amount equal to the aggregate notional value of HK$20 million (equivalent to approximately HK$0.115 per CP Share *(Note)*).

(iii) Redemption

The Company shall redeem all of the CP Shares at par plus the accrued and unpaid dividends at the maturity date falling five years from the date of allotment and issue of CP Shares.

30. CONVERTIBLE PREFERENCE SHARES (continued)

(iv) Conversion rights

Each CP Shareholders shall have the right to convert at any time any CP Shares, which shall be deemed to have a value equal to the notional value thereof, into ordinary shares at the conversion price of HK$0.115 per share *(Note)*, subject to adjustment provisions which are standard terms for convertible securities of similar type.

Each CP Shareholders shall exercise the conversion right attaching to the CP Shares only if it has been confirmed by the Company in writing that the allotment and issue of the ordinary shares to such CP Shareholders and the Company will only issue the ordinary shares pursuant to an exercise of such conversion right if such issue will not cause the Company to be in breach of the minimum public float requirement of not less than 25% as stipulated under Rule 11.23 of the GEM Listing Rules.

(v) Transferability

The CP Shares may be freely transferable subject to the provision of the Company's Bye-laws relating to the transfer of shares and share certificates and provided that no transfer of a CP Shares shall be effected within a period of six months commencing on the date of issue of such CP Shares.

(vi) Voting

The CP Shareholders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if passed would vary or abrogate the rights or privileges of the CP Shareholders.

The net proceeds received from the issue of the CP Shares contain two components:

(i) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the effective interest rate of 10.27% per annum.

(ii) Equity component represents the difference between the proceeds of issue of the CP Shares and the fair value assigned to the liability component.

30. CONVERTIBLE PREFERENCE SHARES (continued)

The movement of the CP Shares for the year is as follows:

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2009	15,550	4,121	19,671
Interest charge *(Note 9)*	1,599	–	1,599
3% CP dividend	(600)	–	(600)
At 31 December 2009	16,549	4,121	20,670
Conversion during the year	(14,447)	(3,583)	(18,030)
Interest charge *(Note 9)*	308	–	308
3% CP dividend	(92)	–	(92)
At 31 December 2010	**2,318**	**538**	**2,856**

As at 31 December 2010, the total CP dividend paid as detailed above was HK$92,000 (2009: HK$600,000).

During the year ended 31 December 2010, 1,512,000,000 ordinary shares of HK$0.01 each were issued pursuant to the conversion of the convertible preference shares at a conversion price of HK$0.0115 per share.

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes unsecured loans, secured bank loan, loan from former fellow subsidiaries/a fellow subsidiary, and the liability component of CP Shares as disclosed in Notes 26, 27, 28, and 30, respectively, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital as disclosed in Note 29 and reserves as disclosed in the consolidated statement of changes in equity.

The Group's Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	6,469	27,181
Financial liabilities		
Amortised cost	25,872	32,459

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, deposits, bank balances and cash, available-for-sale investment, other payables and accruals, amount due to a fellow subsidiary, unsecured loans, secured bank loan, loan from former fellow subsidiaries/ a fellow subsidiary and liability component of CP Shares. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Currency risk refers to the risk associated with movements in foreign currency rates which will affect the Group's financial results and its cash flow. The Directors consider the Group is not exposed to significant foreign currency risk as the majority of its operating and transactions are in Hong Kong with their functional currency of HK$.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings arising from the liability component of CP Shares as detailed in Note 30. The Group historically has not used any financial instrument to hedge potential fluctuations in interest rates.

The Group is also exposed to cash flow interest rate risk in relation to its bank balances and variable-rate loan as detailed in Notes 24, 26, 27 and 28, respectively. It's the Group's policy to keep its loan at floating rate of interest so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the HK$ best lending rate and bank deposit rate arising from the Group's HK$ denominated loan and bank balances respectively.

32. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2009: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents Directors' assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2010 would increase/decrease by approximately HK$95,000 (2009: decrease/increase HK$60,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate loan and bank balances.

Credit risk

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

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

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

At the end of the reporting period, the Group has concentration of credit risk as 90% (2009: 100%) of the total trade receivables were due from the Group's five largest customers. No concentration of credit risk were due from the Group's largest customer for the years ended 31 December 2010 and 2009.

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

Liquidity risk

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

32. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

The Group is exposed to liquidity risk as the Group had net liabilities and capital deficiency of approximately HK$4,769,000 as at 31 December 2010. The liquidity of the Group primarily depends on the future funding being available and the ability of the Group to meet its financial obligations as they fall due. Details of which are set out in Note 2.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, secured bank loan with a repayment on demand clause are included in the earlier time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Carrying amount HK$'000	Total undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
2010					
Non-derivative financial liabilities					
Other payables and accruals	1,154	1,154	1,154	–	–
Loan from former fellow subsidiaries	20,000	21,430	1,080	20,350	–
Secured bank loan	2,400	2,484	2,484	–	–
Convertible preference shares	2,318	2,777	83	2,694	–
	25,872	27,845	4,801	23,044	–
2009					
Non-derivative financial liabilities					
Other payables and accruals	859	859	859	–	–
Amount due to a fellow subsidiary	51	51	51	–	–
Unsecured loans	3,000	3,000	3,000	–	–
Loan from a fellow subsidiary	12,000	12,625	600	12,025	–
Convertible preference shares	16,549	21,800	600	600	20,600
	32,459	38,335	5,110	12,625	20,600

32. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

Bank loan with a repayment on demand clause are included in the "within 1 year or on demand" time band in the above maturity analysis. As at 31 December 2010, the aggregate undiscounted principal amounts of these bank loan amounted to HK$2,484,000. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that such bank loan will be repaid two years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements.

(c) Fair value

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

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

The Directors consider that the fair value of the loan from former fellow subsidiaries/ a fellow subsidiary and convertible preference shares approximates to its carrying amount as the impact of discounting is not significant.

33. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 12 October 2010 and 25 November 2010, the Group acquired investment properties located in Hong Kong through the acquisition of the entire equity interest in Watson China Limited ("Watson") and Alpaco Company Limited ("Alpaco") from First Perfect Worldwide Limited and Master Access Holdings Limited, both are independent third parties to the Group, for a consideration of approximately HK$4,000,000 and HK$4,100,000, respectively. The principal activities of Watson and Alpaco are property holding investment and major assets are investment properties. Accordingly, the transaction was accounted for as the acquisition of their assets through acquisition of subsidiaries.

The relevant information about the acquisition is as follows:

	Watson HK$'000	**Alpaco** HK$'000	**Total** HK$'000
Net assets acquired:			
Plant and equipment	28	–	28
Investment properties	4,008	4,096	8,104
Deposits and other receivables	1	4	5
Other payables	(37)	–	(37)
Loan from a shareholder	(3,889)	(5,074)	(8,963)
	111	(974)	(863)
Assignment of debt	3,889	5,074	8,963
Total consideration satisfied by:			
Cash	4,000	4,100	8,100
Net cash outflow on acquisition:			
Cash consideration paid	4,000	4,100	8,100

34. DISPOSAL OF SUBSIDIARIES

As referred to in Note 11, on 9 December 2009, the Group discontinued its provision of voice search engine portal services and knowledge management systems business at the time of disposal of Chineseroad Group. The net liabilities of Chineseroad Group at the date of disposal were as follows:

	HK$'000
NET LIABILITIES DISPOSED OF	
Plant and equipment	15
Intangible assets	–
Goodwill	–
Available-for-sale investment	–
Trade and other receivables, deposits and prepayments	1,371
Bank balances and cash	90
Trade and other payables and accruals	(2,324)
Amount due to immediate holding company	(65,216)
	(66,064)
Assignment of debt	65,216
Release of foreign currency translation reserve upon disposal	(3,664)
	(4,512)
Gain on disposal	4,812
Total consideration	300
Satisfied by:	
Cash	300
Net cash inflow arising on disposal:	
Cash consideration	300
Bank balances and cash disposed of	(90)
	210

The impact of Chineseroad Group on the Group's results and cash flows in the prior periods as disclosed in Note 11.

35. OPERATING LEASES

(a) Commitments under operating lease

The Group as lessee

	2010 HK$'000	2009 HK$'000
Minimum lease payments paid under operating leases in respect of office premises during the year	1,244	320

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

	2010 HK$'000	2009 HK$'000
Within one year	4,118	294
In the second to fifth year inclusive	723	49
	4,841	343

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms of one to two years and rentals are fixed over the terms of the leases.

The Group as lessor

Property rental income earned during the year was HK$37,000 (2009: Nil) The properties are expected to generate rental yields of 0.3% (2009: Nil) on an on going basis. All of the properties held have committed tenants for the next 2 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:–

	2010 HK$'000	2009 HK$'000
Within one year	222	–
In the second to fifth year inclusive	148	–
	370	–

(b) Other commitments

On 5 October 2010, an operating right of health care services is contracted for a term up to 14 April 2012. Pursuant to the operating right, a refundable deposit of HK$1,200,000 had been paid during the year 31 December 2010 and the Group has to pay the owner, a monthly refreshment fee in sum of HK$100,000, payable at the end of each calendar month during the term.

36. SHARE OPTIONS

The Company has adopted a share option scheme on 24 January 2002 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to enable the Company to grant options to selected employees to subscribe for shares of the Company as incentives or rewards for their contributions to the Group. The Board may, at its discretion, invite any full-time or part-time employees of the Company or any member of the Group, including any executive and non-executive Directors, advisors, consultants of the Company or any subsidiary of the Company to take up options to subscribe for shares of the Company. The total number of shares of the Company available for issue under the Share Option Scheme was initially 10% of the issued share capital as at the date of adoption of the Share Option Scheme.

An ordinary resolution was passed by the shareholders of the Company at the annual general meeting held on 23 April 2003 approving the renewal of the 10% general limit under the Share Option Scheme. The refreshed 10% general scheme limit had been fully utilised in 2004.

The total number of shares of the Company available for issue under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time. An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Upon acceptance of the option, the employee should pay HK$1.00 to the Company by way of consideration for the grant. The subscription price for the shares of the Company will be a price to be determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet on the date of granting of the options; (ii) the average closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of granting of the options; and (iii) the nominal value of a share.

No share option has been granted under the Share Option Scheme by the Company during the years ended 31 December 2010 and 2009.

37. RETIREMENT BENEFITS SCHEMES

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefits operated by the relevant local government authorities. The Group is required to make contributions on behalf of employees who are registered permanent residents in the PRC. The Group's contributions for the year ended 31 December 2009 were based on 20% (2010: Nil) of the average wages of workers in Beijing, the city where the Group's PRC's staff are located, and amounted to approximately HK$36,000 (2010: Nil).

The Group's Hong Kong office implemented MPF in compliance with the applicable regulations in Hong Kong for its staff at the end of 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of comprehensive income 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 Group's contribution to the MPF in respect of current accounting period amounted to approximately HK$117,000 (2009: approximately HK$107,000).

38. RELATED PARTY TRANSACTIONS

(a) Amount due to a fellow subsidiary, unsecured loans and loan from former fellow subsidiaries/a fellow subsidiary are included in the consolidated statement of financial position. The terms are set out in Notes 25, 26, and 28, respectively.

(b) A final dividend of approximately HK$92,000 (2009: HK$600,000) was declared to CRLL in respect to the CP Shares during the year.

(c) Loan interest of approximately HK$600,000 (2009: approximately HK$433,000) was paid and approximately Nil (2009: HK$51,000) was payable to Luck Bloom International Limited, a former fellow subsidiary of the Company, in respect of the loan advanced during the year.

(d) Compensation of key management personnel

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

	2010	2009
	HK$'000	HK$'000
Short-terms benefits	**3,295**	3,325
Post-employment benefits	**36**	29
	3,331	3,354

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

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 HK$'000	2009 HK$'000
Non-current Asset		
Interests in subsidiaries *(Note a)*	144	1
Current Assets		
Other receivables, deposits and prepayments	292	89
Bank balances and cash	65	8,476
	357	8,565
Current Liabilities		
Other payables and accruals	437	600
Amount due to a fellow subsidiary *(Note b)*	–	51
Amount due to a subsidiary *(Note c)*	694	–
Unsecured loans	–	3,000
	1,131	3,651
Net current (Liabilities)/Assets	(774)	4,914
Total Assets less Current Liabilities	(630)	4,915
Non-current Liabilities		
Loan from former fellow subsidiaries/a fellow subsidiary *(Note b)*	20,000	12,000
Convertible preference shares	2,318	16,549
	22,318	28,549
	(22,948)	(23,634)
Capital and reserves		
Share capital	24,246	9,126
Reserves *(Note d)*	(47,194)	(32,760)
	(22,948)	(23,634)

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Notes:

(a) Interests in subsidiaries

	2010 HK$'000	2009 HK$'000
Investments in subsidiaries	1	1
Amount due from a subsidiary	143	–
	144	1

The amount due from a subsidiary is unsecured, interest-free and repayable on demand.

(b) Amount due to a fellow subsidiary, loan from former fellow subsidiaries/a fellow subsidiary are included in the consolidated statement of financial position. The terms are set out in Notes 25 and 28, respectively.

(c) The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

(d) Reserves

	Share premium HK$'000	Equity component of convertible preference shares HK$'000 *(Note 30)*	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	–	4,121	28,769	(45,331)	(12,441)
Loss for the year, representing total comprehensive expense for the year	–	–	–	(28,475)	(28,475)
Placing of new shares *(Note 29)*	8,400	–	–	–	8,400
Transaction costs attributable to placing of new shares	(244)	–	–	–	(244)
At 31 December 2009	8,156	4,121	28,769	(73,806)	(32,760)
Loss for the year, representing total comprehensive expense for the year	–	–	–	(13,761)	(13,761)
Issue of shares upon conversion of convertible preference shares *(Note 29)*	2,910	(3,583)	–	–	(673)
At 31 December 2010	**11,066**	**538**	**28,769**	**(87,567)**	**(47,194)**

The Company has no distribution reserves as at 31 December 2010 and 2009.

40. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Legal form of entity	Place of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company				Principal Activities
				Directly		Indirectly		
				2010	2009	2010	2009	
Kama Business Holdings Limited	Limited liability	BVI	Ordinary shares of US$1	100%	100%	–	–	One-stop value chain services
Anson Development Limited	Limited liability	Hong Kong	Ordinary shares of HK$100	100%	100%	–	–	Group administration
Goodlink Corporation Limited	Limited liability	Hong Kong	Ordinary shares of HK$1	–	–	100%	100%	Inactive
Golden Jack Development Limited	Limited liability	BVI	Ordinary shares of US$1	100%	–	–	–	Investment holding
Grand Protection Holdings Limited	Limited liability	BVI	Ordinary shares of US$1	100%	–	–	–	Investment holding
Watson China Limited	Limited liability	Hong Kong	Ordinary shares of HK$1	–	–	100%	–	Property holding
Alapco Company Limited	Limited liability	BVI	Ordinary shares of US$1	–	–	100%	–	Property holding
Kaley Development Limited	Limited liability	BVI	Ordinary shares of US$1	–	–	100%	–	Health care business

None of the subsidiaries has issued any debt securities at the end of the years.

41. EVENT AFTER THE REPORTING PERIOD

On 10 December 2010, 21 December 2010 and 7 March 2011, the Company entered into a placing agreement, a supplementary placing agreement and a second supplementary placing agreement, respectively with Fortune (HK) Securities Limited (the "Placing Agent"), pursuant to which, the Placing Agent agreed to place, on fully-underwritten basis up to 150,000,000 shares at a price of HK$0.149 per share, for and an behalf of the Company. Under the terms of the placing agreement, the Placing Agent shall themselves place or take up (1) the placing shares in their entirety should the Placing Agent fail to place any of the Placing Shares or, alternatively, (2) (in the event that the placing shares are only partially placed) the remaining balance of the placing shares, upon the expiry of the placing date as at 30 June 2011. Upon the completion of placing of shares, the aggregate amount of approximately HK$21,791,000 with net of placing commission that expected to be received.

The details are set out in the announcements of the Company dated 13 December 2010, 22 December 2010 and 7 March 2011, respectively.

Financial Summary

The following is a summary of the consolidated results and of the assets and liabilities of the Group:

For the year ended 31 December

	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000
		(Note 1)			
Revenue	**23,271**	35,844	10,832	1,460	4,788
Cost of sales	**(21,328)**	(34,940)	(8,896)	(929)	(2,329)
Gross profit	**1,943**	904	1,936	531	2,459
Other revenue	**305**	3	310	187	612
Gain on disposal of subsidiaries	**–**	4,812	–	–	–
Distribution costs	**–**	–	(6)	(22)	(1,617)
Administrative expenses	**(19,204)**	(12,474)	(8,062)	(7,113)	(7,660)
Impairment loss recognised in respect of goodwill on subsidiaries	**–**	–	(9,827)	(15,931)	–
Impairment loss recognised in respect of available-for-sale investment	**–**	–	(2,784)	–	–
Finance costs	**(911)**	(2,083)	(1,505)	(219)	–
Net increase in fair value of investment properties	**2,666**	–	–	–	–
Loss before taxation	**(15,201)**	(8,838)	(19,938)	(22,567)	(6,206)
Taxation	**–**	–	(83)	–	–
Loss for the year	**(15,201)**	(8,838)	(20,021)	(22,567)	(6,206)
Loss for the year attributable to:					
Owners of the Company	**(15,201)**	(8,838)	(20,021)	(22,567)	(4,972)
Non-controlling Interests	**–**	–	–	–	(1,234)
	(15,201)	(8,838)	(20,021)	(22,567)	(6,206)

Note 1: The consolidated results for the year ended 31 December 2009 included the results from continuing and discontinued operations.

Financial Summary

ASSETS AND LIABILITIES

As at 31 December

	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000
Non-current assets	**15,444**	1,124	1,251	15,288	30,848
Current assets	**5,659**	27,320	19,968	24,785	1,863
Current liabilities	**3,554**	3,910	6,738	6,876	4,474
Net current assets (liabilities)	**2,105**	23,410	13,230	17,909	(2,611)
Non-current liabilities	**22,318**	28,549	15,550	14,745	–
(Net liabilities) net assets	**(4,769)**	(4,015)	(1,069)	18,452	28,237