中國信息科技發展有限公司

China Information Technology Development Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8178)

ANNUAL REPORT 2011

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS

Mr. Hu Zhuoer *(Chief Executive Officer)*
Mr. Tse Chi Wai (appointed on 15 August 2011)
Dr. Yu Xiaoyang (resigned on 15 August 2011)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Sun Guofu
Mr. Ng Kwok Fai (appointed on 13 May 2011)
Mr. Chen Zhongfa (appointed on 15 August 2011)
Ms. Ma Yuhua (resigned on 15 August 2011)
Dr. Zhou Chunsheng (resigned on 9 June 2011)
Ms. Liang Yeping (resigned on 13 May 2011)

COMPANY SECRETARY

Mr. Tse Chi Wai

COMPLIANCE OFFICER

Mr. Tse Chi Wai (appointed on 15 August 2011)
Dr. Yu Xiaoyang (resigned on 15 August 2011)

AUTHORISED REPRESENTATIVES

Mr. Hu Zhuoer
Mr. Tse Chi Wai

NOMINATION COMMITTEE

Mr. Chen Zhongfa (Chairman)
(appointed on 15 August 2011)
Dr. Sun Guofu
Mr. Hu Zhuoer

REMUNERATION COMMITTEE

Mr. Ng Kwok Fai (Chairman)
(appointed on 13 May 2011)
Dr. Sun Guofu
Mr. Chen Zhongfa
(appointed on 15 August 2011)
Ms. Ma Yuhua
(resigned on 15 August 2011)
Dr. Zhou Chunsheng
(resigned on 9 June 2011)
Ms. Liang Yeping
(resigned on 13 May 2011)

AUDIT COMMITTEE

Mr. Ng Kwok Fai (Chairman)
(appointed on 13 May 2011)
Dr. Sun Guofu
Mr. Chen Zhongfa
(appointed on 15 August 2011)
Ms. Ma Yuhua (resigned on 15 August 2011)
Dr. Zhou Chunsheng
(resigned on 9 June 2011)
Ms. Liang Yeping
(resigned on 13 May 2011)

AUDITORS

Ernst & Young

LEGAL ADVISORS

Conyers Dill & Pearman

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

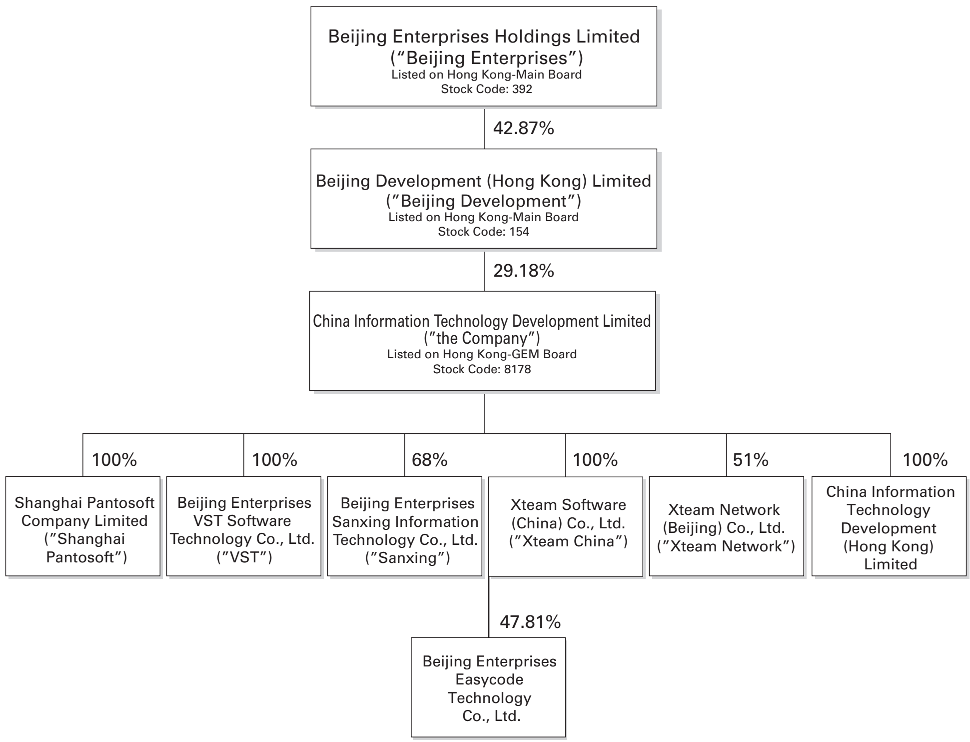
GEM STOCK CODE

8178

WEB-SITE ADDRESS

www.chinainfotech.com.hk

Corporate Structure



Note: Place of operations:

Beijing Enterprises VST Software Technology Co., Ltd.	:	Beijing
Beijing Enterprises Sanxing Information Technology Co., Ltd.	:	Beijing
Xteam Network (Beijing) Co., Ltd.	:	Beijing
Beijing Enterprises Easycode Technology Co., Ltd.	:	Beijing
Xteam Software (China) Co., Ltd	:	Beijing
Shanghai Pantosoft Company Limited	:	Shanghai
China Information Technology Development (Hong Kong) Limited	:	Hong Kong

As at 23 March 2012

CEO's Statement

I am pleased to present to the shareholders the annual report of China Information Technology Development Company Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The Group's revenue for continuing operations for 2011 amounted to HK$90,337,000, a decline of 23.7% from HK$118,374,000 in 2010. The gross profit was HK$30,014,000, representing a decline of 44.8% compared with HK$54,408,000 in 2010. Loss for the year was significantly reduced from HK$26,531,000 for the year of 2010 to HK$2,822,000 for the year of 2011, which includes loss from continuing operations of HK$30,862,000 and profit from discontinued operation of HK$28,040,000 for the year of 2010. The Company's business operations has shown significant signs of improvement.

The mainly reason for the decrease in revenue from the continuing operations was that there was a relatively huge phase of a multi-year project executed and recognised in the forth quarter of 2010.

The Company completed disposal of its entire equity interests in Full Trump Group during the year.

On 29 January 2009, the Company decided to suspend trading in its shares due to (suspected annual results of one subsidiary of the Group.) The Stock Exchange requested the Company to thoroughly deal with the matter before trading in the Company's share on the Stock Exchange to be resumed. Thereupon, the Company conducted a detailed internal investigation on the accuracy of the annual results of the subsidiary and had engaged Tanrich Capital Limited ("Tanrich") as financial adviser to help deal with the resumption application. On 25 August 2010 the Company submitted to the Stock Exchange a resumption proposal. During 2011 the Company has answered all the enquiries raised by the Stock Exchange proactively as well as seriously. The trading in shares of the Company has been resumed on 19 March 2012 and shortly, before the publishing of this set of annual result.

In 2011, the Company continued to follow up on the implementation of enhancements to the internal control measures. Thus, the capacity of the Company's internal supervision and risk prevention continued to improve. ANDA CPA Limited ("ANDA") was engaged by the Company to conduct a comprehensive review on the internal controls of the Company. ANDA expressed the opinion that the Company's financial reporting system and the system of internal controls were adequate and effective for the review period which enabled the Company to comply with its obligations under the GEM Listing Rules 15 and 16.

In 2011, the Company has completed the disposals of Full Trump Group and of its equity interests in Business Net (Hong Kong) Company Limited. The board of the directors ("the Board") considered the arrangements appropriate and necessary to reduce loss of the Group, achieved a healthy development and protected the shareholders' interests.

In 2012, the Company and its promissory note holders have reached a consensus on how to deal with the promissory notes upon their respective maturity. The Board considered the arrangement beneficial to the Company.

CEO's Statement

The Group has successively launched relevant measures of expansion to leverage on the move rapid growing economy of Mainland China. I believe that with the upgrading of the management of social affairs and improvement of public services by the mainland government, the construction and maintenance of e-government system, the main business of the Group, will be facing an increasingly higher demand market. Also, upon resumption of trading the Group will strive to carry out business restructuring, introduce high-quality projects and resources, so as to provide shareholders with better return on investment.

During this year and as of the date of this annual report, there had been certain changes in directorship.

On behalf of the Board, I want to take this opportunity to express appreciation to all the employees and those who have been supportive to the Group.

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

Hong Kong, 23 March 2012

Management Discussion and Analysis

BUSINESS REVIEW

During 2011, the Company continued to work actively with the Stock Exchange on its resumption of share trading application. An updated resumption proposal was submitted in August 2011. In March 2012, the Stock Exchange informed the Company that all the resumption conditions were fulfilled. Trading in the Company's shares was resumed on 19 March 2012.

In May 2011, the Group completed its disposal of interest in Business Net (Hong Kong) Limited. ("Business Net") This transaction enabled the Group to realize its investment in Business Net and brought in cash flow of approximately HK$15 million in 2011 which helped further strengthen the cash position of the Group.

In May 2011, the Group's interests in a former subsidiary, Beijing Enterprises EasyCode (Beijing) Technology Co., Ltd ("EasyCode") was diluted pursuant to an injection of capital by an independent third party into EasyCode. Since then EasyCode was accounted for as an associate instead of a subsidiary. The Group also recognized a net loss of approximately HK$2.9 million in relation to the deemed disposal. The Group is intended to dispose of its entire equity interests in EasyCode in 2012.

On 30 June 2011, Proud Stars Limited ("Proud Stars", a wholly-owned subsidiary of the Company), entered into a sale and purchase agreement and a supplementary agreement there to with a third party, pursuant to which, the third party agreed to purchase the entire equity interest in Full Trump International Limited ("Full Trump") for an aggregate cash consideration of RMB100,000 (equivalent to approximately HK$121,000), adjusted by certain contingent considerations and the consolidated net operating profit of Full Trump and its subsidiaries for the period from 1 January 2011 to the completion date of transaction. The transaction was completed on 25 October 2011 and the consideration for the transaction was finally determined to be RMB5,831,000 (equivalent to approximately HK$7,131,000).

FINANCIAL REVIEW

Decrease in revenue had led to an increase in loss from continuing operations. Nonetheless, taking into consideration the financial impact of disposal of Full Trump, loss for the year was significantly reduced from HK$26.5 million for 2010 to HK$2.8 million for 2011. The followings are the financial reviews on continuing operations.

Revenue

The Group's revenue from continuing operations for 2011 amounted to HK$90,337,000, decreased by 23.7% from HK$118,374,000 in 2010. The Group's revenue from continuing operations for the fourth quarter of 2011 amounted to HK$37,936,000 as compared to HK$71,388,000 for 2010. The decrease in revenue as compared to the same period of the year 2010 was mainly due to the fact that there was a relatively huge phase of a multi-year project executed in year 2010 which was not recurring in year 2011. The decrease in the turnover of software development and system integration led to a decrease in revenue in 2011.

Management Discussion and Analysis

Cost of sales and services

The Group had a total cost of sales and services from continuing operations of HK$60,323,000 for 2011, which decreased by 5.7% compared with HK$63,966,000 in 2010.

Gross profit

The gross profit of the Group from continuing operations in 2011 amounted to HK$30,014,000 which decreased by HK$24,394,000 compared with HK$54,408,000 in 2010. The gross profit margin was 33.3% compared with 46.0% in 2010. The decrease was mainly attributed to non-recurrence of multi-year project described in the above, which bore a relatively higher gross margin.

Other income and gains

During the financial year ended 31 December 2011, the Group generated other income and gains from continuing operations of HK$5,638,000 which comprised: (i) bank interest income amounted to HK$1,838,000; (ii) interest income from held-to-maturity investments amounted to HK$1,521,000; (iii) government grants amounted to HK$1,363,000; and (iv) others in an aggregate amount of HK$916,000.

Selling and distribution costs

The Group's selling and distribution costs from continuing operations in 2011 amounted to HK$14,643,000, which decreased by 8.9% compared with HK$16,080,000 in 2010.

Administrative expenses

Administrative expenses of the Group from continuing operations in 2011 were HK$39,868,000, decreased by 12.3% comparing to HK$45,445,000 in 2010. The decrease was mainly due to the Group had implemented certain effective enforcement of cost control measures.

Other expenses

Other expenses of the Group from continuing operations were HK$3,738,000 for 2011 compared to HK$3,357,000 for the previous year. The amount mainly comprised the impairment provision on both the trade receivables and the amount due from contract customers.

Finance costs

Finance costs of the Group in 2011 were HK$2,704,000, decreased by 58.2% comparing to HK$6,462,000 in 2010. The decrease was mainly due to the fact that imputed interest on convertible bonds was no longer required in 2011.

Income tax expense

Owing to a write back of over provision for prior years, the Group's tax expenses in 2011 were reduced to HK$2,620,000, as compared with HK$5,004,000 for 2010.

Management Discussion and Analysis

Loss attributable to shareholders

The Group's loss attributable to shareholders of the Company was HK$1,284,000 for 2011 comparing to loss of HK$29,189,000 for 2010.

FINANCIAL POSITION

Liquidity and financial resource

As at 31 December 2011, cash and bank balances held by the Group increased from HK$134,826,000 as of 31 December 2010 to HK$141,160,000 (which includes cash and cash equivalents of HK$133,821,000 and restricted cash of HK$7,339,000). As at 31 December 2011, the Group's total borrowings amounted to HK$81,129,000 (2010: HK$78,425,000), representing the interest-free promissory notes in issue. The gearing ratio (calculated as total borrowings over total equity) of the Group was 0.75 (2010: 0.69).

For the year ended 31 December 2011, the Group had capital expenditure of HK$1,516,000 (2010: HK$2,589,000).

Exposures to exchange rate fluctuation and hedging activities

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

Employees and remuneration policies

As at 31 December 2011, the Group had 525 (2010: 617) full-time employees, including directors. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Other benefits include contributions to the statutory mandatory provident fund scheme for its employees in Hong Kong and social insurance for its employees in the PRC, and are paid at appropriate levels.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Biographical Information of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. HU Zhuoer, aged 46, chief executive officer, graduated from Shanghai University of Finance and Economics with a bachelor's degree in science in 1986 and obtained a master's degree in Finance from Peking University in 2000 and obtained the qualification of Senior Engineer in 2007. Mr. Hu served on the Ministry of Finance and was a deputy director and then director of the State Administration of Taxation and a party constitution member and deputy director of the Chengdu Municipal Office of the State Administration of Taxation. During his term of office in the State Administration of Taxation, he mainly engaged in technology and equipment management, IT construction and planning, international exchanges on technology, etc. During his service in the Chengdu Municipal Office of the State Administration of Taxation, he was mainly responsible for tax audit, the Golden Taxation project, tax collection for large enterprises, etc. Mr. Hu has extensive experiences in eGovernment planning and construction, tax reform implementation and governance and government affair restructuring and innovation. Mr. Hu joined the Group on 25 August 2009.

Mr. TSE Chi Wai, aged 45, is appointed an executive director on 15 August 2011. He is also the financial controller and company secretary of the Company. Mr. Tse graduated from the University of Hong Kong in 1989 with a bachelor degree in Social Science Studies. Mr. Tse is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tse has over 20 years of experience in auditing, accounting and finance gained from working with various international accounting firms and listed companies. Mr. Tse is also an executive director of Jih Sun Financial Holding Company the shares of which are listed on the Taiwan Stock Exchange. He joined the Group in May 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwok Fai, aged 39, has extensive experience in the financial market of Hong Kong and the PRC and is mainly responsible for providing advices to various types of clients including private and institutional investors, Hong Kong listed companies and PRC enterprises in a comprehensive approach. He has originated and handled numerous corporate transactions throughout the Asia-Pacific region, including securities dealing, investment portfolio management and accounting and financial advisory. Mr. Ng's insight in these areas, along with his substantial experience in international business development, assisted the management of the clients in its oversight of their companies' businesses. He also has in-depth knowledge in due diligence review and internal control advisory which provides him with expertise of corporate governance. Mr. Ng is a member of American Institute of Certified Public Accountants, a member of the Hong Kong Institute of Certified Public Accountants, a member of The Hong Kong Institute of Chartered Secretaries, and a member of the Institute of Chartered Secretaries and Administrators. He is also an executive director and the chairman of Pacific Plywood Holdings Limited, a company listed on the Stock Exchange. Mr. Ng joined the Group on 13 May 2011. Mr. Ng joined the Group on 13 May 2011.

Biographical Information of Directors and Senior Management

Dr. SUN Guofu, aged 42, graduated from Shanxi Mining Institute (山西礦業學院) in 1991 and obtained a bachelor's degree in engineering. He obtained a master's degree in engineering from Beijing Institute of Technology in 1997 and a doctor's degree in engineering from Tsinghua University in 2001. He worked at Shanxi Mining Institute and Communication Equipment Company (通訊設備公司) and was vice president of Founder Technology Group Corp. He is currently the general manager of the technology management department of Peking University Founder Group Company Limited, vice chairman of the China Communications Industry Association, a standing member of the China Electronic Chamber of Commerce and a member of the China Computer Users Association. Dr. Sun has extensive experience in management and research & development. Dr. Sun joined the Group on 25 August 2009.

Mr. Chen Zhongfa, aged 61, has extensive experience in enterprise management. During March 1995 to June 2001, Mr. Chen had been the vice general manager and general manager of Shanghai Tourism Investment and Development Group Company in the PRC. From July 2001 to March 2010, Mr. Chen served as the chief economist, CFO, a director and the vice general manager of China Landed Property Development Group Company in the PRC. Since April 2011, Mr. Chen is the vice chairman of the China Commerce Association for Senior Citizens. He is also currently a senior consultant to the Chinese Overseas Students Development Fund. Mr. Chen obtained a master degree in International Enterprise Management from the Post Graduate School of the Shanghai Finance and Economic University in 1999. Since February 2009, Mr. Chen is a Fellow Member, Chartered Financial Practitioner of the Asia Pacific Financial Services Association. He is also an independent non-executive director of Carry Wealth Holdings Limited, a company listed on the Stock Exchange. Mr. Chen joined the Group on 15 August 2011.

SENIOR MANAGEMENT

Ms. ZHENG Shaohua, aged 55, is the Company's vice president and the general manager of Sanxing. Ms. Zheng graduated from Beihang University in 1983. She has over 20 years of experience in project management and information technology. Ms. Zheng joined the Group in August 2004.

Mr. LI Jicheng, aged 47, is the chief executive of VST. He graduated from Tianjin University with a bachelor's degree and obtained a master's degree in 1988. Mr. Li was a university lecturer and has over 15 years of experience in project management and information technology. Mr. Li joined the Group in August 2004.

Mr. PENG Wensheng, aged 43, is the chairman of Shanghai Pantosoft. Mr. Peng graduated from the Engineering Faculty of Nanjing University of Science & Technology in 1987 with a bachelor degree in Science. He also obtained a master degree in Science in Huazhong University of Technology in 1994. He joined the Group in December 2002.

Report of the Directors

The directors present their report and the audited financial statements of China Information Technology Development Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 109.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 110. This summary does not form part of the audited financial statements.

EQUIPMENT

Details of movements in the equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of movement in the share options of the Company during the year is set out in note 33 to the financial statements.

PRE-EMPTIVE RIGHTS

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

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The Company had no reserve available for cash distribution/or distribution in specie as at 31 December 2011. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business, in accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 56% of the total sales for the year and sales to the largest customer included therein amounted to 19%. Purchases from the Group's five largest suppliers accounted for 24% of the total purchases for the year and purchase from the largest supplier included therein amounted to 20%.

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

DIRECTORS

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

Executive directors:

Mr. Hu Zhuoer
Mr. Tse Chi Wai (appointed on 15 August 2011)
Dr. Yu Xiaoyang (resigned on 15 August 2011)

DIRECTORS *(Continued)*

Independent non-executive directors:

Mr. Ng Kwok Fai (appointed on 13 May 2011)
Dr. Sun Guofu
Mr. Chen Zhongfa (appointed on 15 August 2011)
Ms. Ma Yuhua (resigned on 15 August 2011)
Dr. Zhou Chunsheng (resigned on 9 June 2011)
Ms. Liang Yeping (resigned on 13 May 2011)

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

The Company has received annual confirmations of independence from Mr. Ng Kwok Fai, Dr. Sun Guofu, and Mr. Chen Zhongfa and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on page 20 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2011, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), were as follows:–

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

Name of director	Number of shares held	Capacity and nature of interest	Percentage of the Company's issued share capital
Nil			

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

Name of director	Nature of interest	Number of underlying shares	Exercise period of the share options	Exercise price per share	Approximate percentage of shareholding
Nil					

Save as disclosed above, as at 31 December 2011, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Hong Kong Stock Exchange.

SHARE OPTION SCHEME

The Company operates the share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 33 to the financial statements.

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

		Number of Share Options		
Name or category of participant	*Notes*	**At 1 January 2011**	**Forfeited during the year**	**At 31 December 2011**
Executive director:				
Dr. Yu Xiaoyang (resigned on 15 August 2011)	*(a)*	32,400,000	–	32,400,000
Independent non-executive directors:				
Ms. Ma Yuhua (resigned on 15 August 2011)	*(a)*	4,000,000	(4,000,000)	–
Ms. Liang Yeping (resigned on 13 May 2011)	*(a)*	4,000,000	(4,000,000)	–
Dr. Zhou Chunsheng (resigned on 9 June 2011)	*(a)*	4,000,000	(4,000,000)	–
Other employees	*(a)*	53,900,000	(43,900,000)	10,000,000
Advisers and consultants	*(a)*	4,000,000	–	4,000,000
		102,300,000	(55,900,000)	46,400,000

Notes:

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

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

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

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

At 31 December 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

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

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

Notes:

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

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

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

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

Save as disclosed above, as at 31 December 2011, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION

The Group entered into the following continuing connected transaction (other than the continuing connected transactions that are exempted under Rule 20.33 of the Listing Rules) during the year ended 31 December 2011:

In connection with the subcontracting service contracts entered into between the Company's subsidiaries and certain subsidiaries of Beijing Development (Hong Kong) Limited, the Group received service income amounting to HK$921,000 during the year. Further details of the transaction are included in note 38 to the financial statements.

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

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

EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the reporting period of the Group are set out in note 41 to the financial statements.

COMPETING INTERESTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company's corporate governance report is set out on pages 19 to 22.

AUDITORS

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

ON BEHALF OF THE BOARD

Hu Zhuoer
Director

Hong Kong
23 March 2012

Corporate Governance Report

INTRODUCTION

The Company has complied with all the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "Code") for the year ended 31 December 2011.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the director's securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.46 to 5.68 of the GEM Listing Rules. The Directors have confirmed that they have complied with the Listing Rules throughout the year ended 31 December 2011.

BOARD OF DIRECTORS

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

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

BOARD MEETING

During the year of 2011, the board held totally four meetings. The attendance of each director at board meetings are as follows:

Name of director	**Attendance/ Number of meetings held**
Executive directors:	
Mr. Hu Zhuoer *(Chief executive officer)*	4/4
Mr. Tse Chi Wai (appointed on 15 August 2011)	1/4
Dr. Yu Xiaoyang (resigned on 15 August 2011)	3/4
Independent non-executive directors:	
Mr. Ng Kwok Fai (appointed on 13 May 2011)	3/4
Dr. Sun Guofu	4/4
Mr. Chen Zhongfa (appointed on 15 August 2011)	1/4
Ms. Ma Yuhua (resigned on 15 August 2011)	3/4
Dr. Zhou Chunsheng (resigned on 9 June 2011)	1/4
Ms. Liang Yeping (resigned on 13 May 2011)	1/4

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION COMMITTEE

The remuneration committee of the Group was established in 2006. During the year under review, members of the remuneration committee are Mr. Ng Kwok Fai (committee chairman)(appointed on 13 May 2011), Dr. Sun Guofu and Mr. Chen Zhongfa (appointed on 15 August 2011). All of the remuneration committee members are independent non-executive directors.

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

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

During the year of 2011, one remuneration committee meeting was held and the attendance of each member is set out below:

Name of member	Attendance/ Number of meetings held
Mr. Ng Kwok Fai (appointed on 13 May 2011)	0/1
Dr. Sun Guofu	1/1
Mr. Chen Zhongfa (appointed on 15 August 2011)	0/1
Ms. Ma Yuhua (resigned on 15 August 2011)	1/1
Dr. Zhou Chunsheng (resigned on 9 June 2011)	0/1
Ms. Liang Yeping (resigned on 13 May 2011)	1/1

NOMINATION OF DIRECTORS

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

NOMINATION COMMITTEE

On 23 March 2012, the Company has set up a nomination committee which is responsible for reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitable qualified to become Board members and selecting or making recommendations to the board on the selection of individuals nominated for directorships, assessing the independence of independent non-executive directors and making recommendations to the Board on the appointment, re-appointment and succession of director. The nomination committee currently has three members, with Mr. Cheu Zhongfa (appointed on 15 August 2011) being the chairman and Dr. Sun Guofu and Mr. Hu Zhuoer being the members. A majority of the nomination committee are independent non-executive directors of the Company.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the auditors' remuneration for audit services paid to Ernst & Young is HK$920,000 and for non-audit service assignments were HK$120,000 and HK$9,000 which represented a review on working capital forecast and continuing connected transactions respectively.

Corporate Governance Report

AUDIT COMMITTEE

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

The audit committee comprises four independent non-executive directors, namely Mr. Ng Kwok Fai (committee chairman) (appointed on 13 May 2011), Dr. Sun Guofu and Mr. Chen Zhongfa (appointed on 15 August 2011).

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

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

Name of member	Attendance/ Number of meetings held
Mr. Ng Kwok Fai (appointed on 13 May 2011)	2/4
Dr. Sun Guofu	4/4
Mr. Chen Zhongfa (appointed on 15 August 2011)	1/4
Ms. Ma Yuhua (resigned on 15 August 2011)	3/4
Dr. Zhou Chunsheng (resigned on 9 June 2011)	1/4
Ms. Liang Yeping (resigned on 13 May 2011)	1/4

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 23 to 24. The directors of the Company have confirmed that the preparation of the Group's financial statements is in compliance with the relative regulations and applicable accounting standards.

INTERNAL CONTROL

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

In 2011, the Company continued to follow up on the implementation of enhancements to the internal control measures. Thus, the capacity of the Company's internal supervision and risk prevention continued to improve. ANDA CPA Limited was engaged by the Company to conduct a comprehensive review on the internal controls of the Company. ANDA expressed the opinion that the Company's financial reporting system and the system of internal controls were adequate and effective for the review period which enabled the Company to comply with its obligations under the GEM Listing Rules 15 and 16.

Independent Auditors' Report

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安 永

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

We have audited the consolidated financial statements of China Information Technology Development Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 25 to 109, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

Independent Auditors' Report (Continued)

AUDITORS' RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
23 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**90,337**	118,374
Cost of sales and services		**(60,323)**	(63,966)
Gross profit		**30,014**	54,408
Other income and gains, net	5	**5,638**	4,800
Selling and distribution costs		**(14,643)**	(16,080)
Administrative expenses		**(39,868)**	(45,445)
Loss on deemed disposal of interest in a subsidiary	6	**(2,941)**	–
Other expenses		**(3,738)**	(3,357)
Finance costs	7	**(2,704)**	(6,462)
Share of result of an associate	19(a), 26(a)	**–**	–
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	8	**(28,242)**	(12,136)
Income tax	11	**(2,620)**	(5,004)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(30,862)**	(17,140)
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	12	**28,040**	(9,391)
LOSS FOR THE YEAR		**(2,822)**	(26,531)
Attributable to:			
Shareholders of the Company	13	**(1,284)**	(29,189)
Non-controlling interests		**(1,538)**	2,658
		(2,822)	(26,531)
LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
Basic and diluted			
– For loss for the year		**HK(0.02) cents**	HK(0.45) cents
– For loss from continuing operations		**HK(0.46) cents**	HK(0.32) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
LOSS FOR THE YEAR	**(2,822)**	(26,531)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**4,880**	4,751
Reclassification adjustment for cumulative amount of exchange differences upon disposal of subsidiaries	**(11,772)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX OF NIL	**(6,892)**	4,751
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(9,714)**	(21,780)
Attributable to:		
Shareholders of the Company	**(8,993)**	(25,057)
Non-controlling interests	**(721)**	3,277
	(9,714)	(21,780)

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Equipment	15	**8,903**	13,624
Goodwill	16	**34,000**	34,000
Other intangible assets	17	**915**	1,076
Investment in an associate	19	**–**	–
Total non-current assets		**43,818**	48,700
CURRENT ASSETS			
Inventories	20	**3,040**	1,295
Amounts due from contract customers	21	**6,220**	33,700
Trade receivables	22	**17,785**	10,538
Prepayments, deposits and other receivables	23	**28,108**	21,444
Restricted cash	25	**7,339**	–
Cash and cash equivalents	25	**133,821**	134,826
		196,313	201,803
Investments in an associate held for sale	26	**–**	20,000
Total current assets		**196,313**	221,803
CURRENT LIABILITIES			
Trade payables	27	**4,931**	5,937
Amounts due to contract customers	21	**21,349**	19,276
Other payables and accruals	28	**12,284**	28,023
Income tax payables		**12,689**	23,196
Promissory notes	30	**81,129**	–
Total current liabilities		**132,382**	76,432
NET CURRENT ASSETS		**63,931**	145,371
TOTAL ASSETS LESS CURRENT LIABILITIES		**107,749**	194,071

Consolidated Statement of Financial Position *(Continued)*

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Promissory notes	*30*	–	78,425
Deferred tax liability	*31*	–	1,828
Total non-current liabilities		–	80,253
Net assets		**107,749**	113,818
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	*32*	**64,949**	64,949
Reserves	*34(a)*	**24,572**	31,366
		89,521	96,315
Non-controlling interests		**18,228**	17,503
Total equity		**107,749**	113,818

Hu Zhuoer
Director

Tse Chi Wai
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2011

		Attributable to shareholders of the Company										
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000 (note 34(a)(ii))	Capital reserve HK$'000	Convertible bond equity reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 34(a)(iii))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		64,949	1,176,781	48,110	–	10,411	25,135	22,338	(1,242,561)	105,163	14,226	119,389
Profit/(loss) for the year		–	–	–	–	–	–	–	(29,189)	(29,189)	2,658	(26,531)
Other comprehensive income/(loss) for the year – Exchange differences on translation of foreign operations		–	–	–	–	–	4,132	–	–	4,132	619	4,751
Total comprehensive income/(loss) for the year		–	–	–	–	–	4,132	–	(29,189)	(25,057)	3,277	(21,780)
Issue of promissory notes	30	–	–	–	8,329	–	–	–	–	8,329	–	8,329
Cancellation of convertible bonds	29	–	–	–	–	(10,411)	–	–	10,411	–	–	–
Equity-settled share option arrangements	33(c)	–	–	7,880	–	–	–	–	–	7,880	–	7,880
Transfer of share option reserve upon forfeiture of share options		–	–	(11,293)	–	–	–	–	11,293	–	–	–
Transfer to reserves		–	–	–	–	–	–	3,340	(3,340)	–	–	–
At 31 December 2010 and 1 January 2011		64,949	1,176,781*	44,697*	8,329*	–*	29,267*	25,678*	(1,253,386)*	96,315	17,503	113,818
Loss for the year		–	–	–	–	–	–	–	(1,284)	(1,284)	(1,538)	(2,822)
Other comprehensive income/(loss) for the year:												
– Exchange differences on translation of foreign operations		–	–	–	–	–	4,063	–	–	4,063	817	4,880
– Reclassification adjustment for cumulative amount of exchange differences upon disposal of subsidiaries	35(a)	–	–	–	–	–	(11,772)	–	–	(11,772)	–	(11,772)
Total comprehensive loss for the year		–	–	–	–	–	(7,709)	–	(1,284)	(8,993)	(721)	(9,714)
Disposal of a subsidiary	35(a)	–	–	–	–	–	–	(14,574)	14,574	–	(20)	(20)
Deconsolidation of a subsidiary	35(b)	–	–	–	–	–	–	–	–	–	1,466	1,466
Equity-settled share option arrangements	33(c)	–	–	2,199	–	–	–	–	–	2,199	–	2,199
Transfer of share option reserve upon forfeiture of share options		–	–	(24,456)	–	–	–	–	24,456	–	–	–
Transfer to reserves		–	–	–	–	–	–	955	(955)	–	–	–
At 31 December 2011		**64,949**	**1,176,781***	**22,440***	**8,329***	**–***	**21,558***	**12,059***	**(1,216,595)***	**89,521**	**18,228**	**107,749**

* These reserve accounts comprise the consolidated reserves of HK$24,572,000 (2010: HK$31,366,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**(28,242)**	(12,136)
From discontinued operation		**14,160**	(9,391)
Adjustments for:			
Finance costs	*7*	**2,704**	6,462
Bank interest income		**(1,843)**	(1,587)
Investment income	*5*	**(1,521)**	–
Gain on disposal of a golf club membership	*5*	**–**	(664)
Gain on disposal of a subsidiary		**(15,301)**	–
Loss on deemed disposal of a subsidiary		**2,941**	–
Loss on disposal of items of equipment	*8*	**64**	54
Depreciation		**3,589**	4,384
Amortisation of other intangible assets	*8*	**161**	188
Impairment of equipment	*8*	**–**	14
Impairment of inventories	*8*	**68**	517
Impairment of amounts due from contract customers	*8*	**1,304**	750
Impairment of trade receivables	*8*	**1,665**	1,044
Impairment of prepayments, deposits and other receivables, net		**–**	452
Equity-settled share option expense	*33(c)*	**2,199**	7,880
		(18,052)	(2,033)
Decrease/(increase) in inventories		**(2,469)**	17,358
Decrease/(increase) in amounts due from contract customers		**26,186**	(17,450)
Decrease/(increase) in trade receivables		**(10,931)**	6,009
Increase in prepayments, deposits and other receivables		**(3,713)**	(5,740)
Increase in trade payables		**8**	162
Increase in amounts due to contract customers		**1,300**	1,745
Decrease in other payables and accruals		**(2,850)**	(3,780)
Exchange adjustments		**–**	141
Cash used in operations		**(10,521)**	(3,588)
Mainland China income tax paid		**(2,054)**	(2,830)
Net cash flows used in operating activities		**(12,575)**	(6,418)

Consolidated Statement of Cash Flows *(Continued)*

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of equipment	15	**(1,516)**	(2,589)
Proceeds from disposal of items of equipment		**76**	72
Proceeds from disposal of other intangible assets		**–**	1,875
Disposal of a subsidiary	35(a)	**(79)**	–
Deconsolidation of a subsidiary	35(b)	**(17)**	–
Deposits received for the disposal of an associate	26	**–**	5,000
Proceeds from disposal of an associate	26	**15,000**	–
Increase in time deposits with maturity of more than three months when acquired		**(7,820)**	(14,062)
Increase in restricted cash		**(7,339)**	–
Interest received		**1,843**	1,587
Investment income received		**1,521**	–
Net cash flows from/(used in) investing activities		**1,669**	(8,117)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in amount due to a shareholder		**(1,196)**	–
Net cash flows used in financing activities		**(1,196)**	–
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(12,102)**	(14,535)
Cash and cash equivalents at beginning of year		**91,276**	101,709
Effect of foreign exchange rate changes, net		**3,277**	4,102
CASH AND CASH EQUIVALENTS AT END OF YEAR		**82,451**	91,276
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	25	**89,589**	91,076
Time deposits	25	**51,571**	43,750
Less: Restricted cash	25	**(7,339)**	–
Cash and cash equivalents as stated in the consolidated statement of financial position		**133,821**	134,826
Less: Time deposits with maturity of more than three months when acquired		**(51,370)**	(43,550)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**82,451**	91,276

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Other intangible assets	*17*	**915**	1,076
Investments in subsidiaries	*18*	**92,085**	92,042
Total non-current assets		**93,000**	93,118
CURRENT ASSETS			
Due from subsidiaries	*18*	**1,442**	16,452
Prepayments, deposits and other receivables	*23*	**153**	153
Cash and cash equivalents	*25*	**1,514**	2,716
Total current assets		**3,109**	19,321
CURRENT LIABILITIES			
Due to subsidiaries	*18*	**5,603**	13,000
Other payables and accruals	*28*	**1,529**	1,891
Promissory notes	*30*	**81,129**	–
Total current liabilities		**88,261**	14,891
NET CURRENT ASSETS/(LIABILITIES)		**(85,152)**	4,430
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,848**	97,548
NON-CURRENT LIABILITIES			
Promissory notes	*30*	**–**	78,425
Net assets		**7,848**	19,123
EQUITY			
Issued capital	*32*	**64,949**	64,949
Reserves	*34(b)*	**(57,101)**	(45,826)
		7,848	19,123

Hu Zhuoer
Director

Tse Chi Wai
Director

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively the "Group") were principally engaged in the development and sale of computer software and hardware, the provision of system integration and related support services and the provision of Internet, mobile and telecommunication value-added services (discontinued during the year – note 12) in Mainland China, the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

2.1 BASIS OF PREPARATION *(Continued)*

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial instruments: Presentation – Classification of Rights Issues*
HK (IFRIC)-Int 14 Amendments	Amendments to HK (IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK (IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 38(a) to the consolidated financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

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

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

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

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the consolidated statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

(a) HKFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013.

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirely. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

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

(c) HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e.. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

(d) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

(e) Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associate

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

The Group's investments in an associate are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investments in an associate and is not individually tested for impairment.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

(i) has controls or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate of the other entity (or of a parent, subsidiary of fellow subsidiary of the other entity);

(iii) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(iv) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(v) the entity is controlled or jointly controlled by a person identified in (a); and

(vi) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

Equipment and depreciation

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equipment and depreciation *(Continued)*

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

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

Operating leases

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

Intangible assets (other than goodwill)

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

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

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

Golf club membership

Golf club membership is stated at cost less any accumulated impairment losses and is amortised on the straight-line basis over their estimated useful life of 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Research and development costs

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payment and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Other income and gains, net" in the income statement. The loss arising from impairment is recognised in "Other expenses" in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Convertible bonds

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

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

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

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

Contracts for services

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

For the propose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government subsidies

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

Revenue recognition

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

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

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(c) from value-added services, when the services have been rendered;

(d) rental income, on a time proportion basis over the lease terms; and

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

Share-based payment transactions

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on item whose fair value gain or loss is recognised in other comprehensive income or income statement are also recognised in other comprehensive income or income statement respectively).

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2011 was HK$34,000,000 (2010: HK$34,000,000), details of which are set out in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Provision for impairment of trade receivables and other receivables

The policy for provision for impairment of trade receivables and other receivables of the Group is based on the evaluation of collectability and the ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of trade receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2011 were HK$17,785,000 (2010: HK$10,538,000) and HK$28,108,000 (2010: HK$21,444,000), respectively, details of which are set out in notes 22 and 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Percentage of completion of service contracts

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

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong and Mainland China. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current income tax payables carried as a liability in the consolidated statement of financial position as at 31 December 2011 was HK$12,689,000 (2010: HK$23,196,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact on the recognition of deferred tax assets and tax in the periods in which such estimates have been changed. No amount of deferred tax assets carried as liabilities in the consolidated statement of financial position as at 31 December 2011 (2010: HK$1,828,000), details of which are set out in note 31 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

(b) the Internet, mobile and telecommunication segment engages in the provision of Internet, mobile and telecommunication value-added services (discontinued during the year ended 31 December 2011 – note 12); and

(c) the in-house developed products segment engages in the lease of in-house developed computer hardware.

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

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

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

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Reportable Operating Segment Information

Group

	Continuing operations						Discontinued operation			
	Software development and system integration		In-house developed products		Total		Internet, mobile and telecommunication		Group	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**89,838**	118,060	**499**	314	**90,337**	118,374	**4,521**	3,724	**94,858**	122,098
Intersegment sales	**2,405**	20,628	**–**	–	**2,405**	20,628	**–**	–	**2,405**	20,628
Other income and gains, net	**1,864**	2,360	**388**	–	**2,252**	2,360	**977**	84	**3,229**	2,444
	94,107	141,048	**887**	314	**94,994**	141,362	**5,498**	3,808	**100,492**	145,170
Reconciliation:										
Elimination of intersegment sales					**(2,405)**	(20,628)	**–**	–	**(2,405)**	(20,628)
Bank interest income					**1,838**	1,482	**5**	105	**1,843**	1,587
Interest income from held-to maturity investments					**1,521**	–	**–**	–	**1,521**	–
Gain on disposal of interest in a subsidiary					**–**	–	**15,301**	–	**15,301**	–
Unallocated gains					**27**	958	**98**	58	**125**	1,016
Revenue, other income and gains, net					**95,975**	123,174	**20,902**	3,971	**116,877**	127,145
Segment results	**(10,579)**	11,360	**633**	(2,487)	**(9,946)**	8,873	**(1,244)**	(9,554)	**(11,190)**	(681)
Reconciliation:										
Elimination of intersegment results					**(2,405)**	1,343	**–**	–	**(2,405)**	1,343
Bank interest income					**1,838**	1,482	**5**	105	**1,843**	1,587
Interest income from held-to maturity investments					**1,521**	–	**–**	–	**1,521**	–
Gain on disposal of interest in a subsidiary					**–**	–	**15,301**	–	**15,301**	–
Unallocated gains					**27**	958	**98**	58	**125**	1,016
Loss on deemed disposal of interest in a subsidiary					**(2,941)**	–	**–**	–	**(2,941)**	–
Corporate and other unallocated expenses					**(13,632)**	(18,330)	**–**	–	**(13,632)**	(18,330)
Finance costs					**(2,704)**	(6,462)	**–**	–	**(2,704)**	(6,462)
Profit/(Loss) before tax					**(28,242)**	(12,136)	**14,160**	(9,391)	**(14,082)**	(21,527)

4. OPERATING SEGMENT INFORMATION *(Continued)*

Reporting Segment Information *(Continued)*

Group

	Continuing operations						Discontinued operations			
	Software development and system integration		In-house developed products		Total		Internet, mobile and telecommunication		Group	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Segment assets	203,049	232,199	766	1,810	203,815	234,009	–	4,914	203,815	238,923
Reconciliation:										
Corporate and other unallocated assets					36,316	31,580	–	–	36,316	31,580
Total assets					240,131	265,589	–	4,914	240,131	270,503
Segment liabilities	(35,677)	(40,652)	(570)	(1,485)	(36,247)	(42,137)	–	(2,910)	(36,247)	(45,047)
Reconciliation:										
Corporate and other unallocated liabilities					(96,135)	(106,380)	–	(5,258)	(96,135)	(111,638)
Total liabilities					(132,382)	(148,517)	–	(8,168)	(132,382)	(156,685)
Other segment information:										
Depreciation on:										
Segment assets	2,565	3,190	42	126	2,607	3,316	510	805	3,117	4,121
Corporate and other unallocated assets					472	263	–	–	472	263
					3,079	3,579	510	805	3,589	4,384
Amortisation of other intangible assets on:										
Segment assets	–	–	–	–	–	–	–	–	–	–
Corporate and other unallocated assets					161	188	–	–	161	188
					161	188	–	–	161	188
Impairment of equipment	–	–	–	14	–	14	–	–	–	14
Impairment of inventories	–	306	68	211	68	517	–	–	68	517
Impairment of amounts due from contract customers	1,304	750	–	–	1,304	750	–	–	1,304	750
Impairment of trade receivables	1,665	408	–	636	1,665	1,044	–	–	1,665	1,044
Impairment of prepayments, deposits and other receivables, net	–	147	–	266	–	413	–	39	–	452
Investments in an associate held for sale									–	20,000
Capital expenditure* on:										
Segment assets	1,273	1,065	–	–	1,273	1,065	117	1,513	1,390	2,578
Corporate and other unallocated assets					126	11	–	–	126	11
					1,399	1,076	117	1,513	1,516	2,589

* Capital expenditure consists of additions to equipment.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

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

Information about major customers

During the year ended 31 December 2011, the Group had transactions with four (2010: one) external customers of the software development and system integration segment who each contributed over 10% of the Group's total revenue for the year. A summary of revenue earned from each of these major external customers is set out below:

	2011 **HK$'000**	2010 HK$'000
Customer 1	**17,154**	–
Customer 2	**11,841**	–
Customer 3	**11,304**	–
Customer 4	**10,168**	46,616
	50,467	46,616

5. REVENUE, OTHER INCOME AND GAINS, NET

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

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

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

	2011 HK$'000	2010 HK$'000 (Restated)
Revenue		
Provision of software development and system integration services	**21,233**	36,487
Sale of computer hardware	**8,452**	37,971
Provision of technical support and maintenance services	**60,153**	43,602
Lease of in-house developed products	**499**	314
	90,337	118,374
Other income		
Bank interest income	**1,838**	1,482
Investment income from held-to-maturity investments	**1,521**	–
Government grants*	**1,363**	2,119
Construction income	**219**	–
Consultancy income	**–**	257
Others	**697**	206
	5,638	4,064
Gains, net		
Gain on disposal of a golf club membership	**–**	664
Foreign exchange differences, net	**–**	72
	–	736
Other income and gains, net	**5,638**	4,800

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

6. LOSS ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

The loss on deemed disposal of interest in a subsidiary recognised during the year ended 31 December 2011 arose from the dilution of the Group's equity interest in 北控易碼通(北京)科技有限公司 ("Easy Code"), a former indirectly-held subsidiary of the Company acquired by the Group during the year ended 31 December 2008, from 55% to 47.81% upon a capital injection of RMB1,000,000 (equivalent to approximately HK$1,189,000) by an independent third party into Easy Code as additional registered capital of Easy Code on 10 May 2011. The Group lost its control over Easy Code as a result of the dilution of interest during the year, and Easy Code ceased to be a subsidiary of the Group and became an associate of the Group accordingly. Further details of the deconsolidation of Easy Code are disclosed in note 35(b) to the financial statements.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Imputed interest on convertible bonds	**–**	2,016
Imputed interest on promissory notes	**2,704**	4,446
	2,704	6,462

8. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	2011 HK$'000	2010 HK$'000 (Restated)
Cost of inventories sold	**9,478**	28,185
Cost of services provided	**50,845**	35,781
Depreciation	**3,079**	3,579
Amortisation of other intangible assets*	**161**	188
Minimum lease payments under operating leases in respect of land and buildings	**6,163**	7,204
Auditors' remuneration	**920**	980
Employee benefit expense (including directors' remuneration – note 9):		
Salaries, allowances and benefits in kind	**43,989**	38,641
Equity-settled share option expense	**2,199**	7,880
Pension scheme contributions	**3,073**	4,535
	49,261	51,056
Loss on disposal of items of equipment**	**64**	54
Impairment of equipment**	**–**	14
Impairment of inventories**	**68**	517
Impairment of amounts due from contract customers**	**1,304**	750
Impairment of trade receivables**	**1,665**	1,044
Impairment of prepayments, deposits and other receivables, net**	**–**	413
Foreign exchange differences, net	**128**	(72)

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

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

9. DIRECTORS' REMUNERATION

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

	Group	
	2011	2010
	HK$'000	HK$'000
Fees	**544**	600
Other emoluments:		
Salaries, allowances and benefits in kind	**1,378**	1,299
Equity-settled share option expense	**1,453**	3,562
Pension scheme contributions	**33**	39
	2,864	4,900
	3,408	5,500

No directors were granted share options in respect of their services to the Group under share option scheme for the year ended 31 December 2011.

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

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2011					
Executive directors:					
Mr. Hu Zhuoer	100	719	–	21	840
Mr. Tse Chi Wai	38	330	–	5	373
Dr. Yu Xiaoyang	62	329	1,453	7	1,851
	200	1,378	1,453	33	3,064
Independent non-executive directors:					
Mr. Ng Kwok Fai	64	–	–	–	64
Dr. Sun Guofu	100	–	–	–	100
Mr. Chen Zhongfa	38	–	–	–	38
Ms. Ma Yuhua	62	–	–	–	62
Dr. Zhou Chunsheng	44	–	–	–	44
Ms. Liang Yeping	36	–	–	–	36
	344	–	–	–	344
Total	544	1,378	1,453	33	3,408

9. DIRECTORS' REMUNERATION *(Continued)*

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

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2010: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2010: three) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,672**	2,338
Pension scheme contributions	**12**	41
	1,684	2,379

The remuneration of the two non-director, highest paid employees for the year ended 31 December 2011 (2010: three) each fell within the range of nil to HK$1,000,000.

11. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2011 as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil).

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

	2011	2010
	HK$'000	HK$'000
		(Restated)
Current – PRC:		
Hong Kong	**–**	–
Mainland China	**11,228**	3,065
Underprovision/(overprovision) in prior years	**(6,780)**	160
Deferred (note 31)	**(1,828)**	1,779
Total tax expense for the year	**2,620**	5,004

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

11. INCOME TAX *(Continued)*

Group – 2011

	Hong Kong		Mainland China		Total	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax from continuing operations	**(13,329)**		**(14,913)**		**(28,242)**	
Tax at the statutory tax rate	**(2,199)**	**16.5**	**(3,728)**	**25.0**	**(5,927)**	**21.0**
Lower tax rate for specific provinces or enacted by local authority	**–**	**–**	**128**	**(0.9)**	**128**	**(0.5)**
Adjustments in respect of current tax of previous periods	**–**	**–**	**(6,780)**	**45.5**	**(6,780)**	**24.0**
Income not subject to tax	**–**	**–**	**(299)**	**2.0**	**(299)**	**1.1**
Expenses not deductible for tax	**2,199**	**(16.5)**	**12,250**	**(82.1)**	**14,449**	**(51.1)**
Tax losses not recognised	**–**	**–**	**1,232**	**(8.3)**	**1,232**	**(4.4)**
Tax losses utilised from previous periods	**–**	**–**	**(183)**	**1.2**	**(183)**	**0.6**
Tax expense at the Group's effective rate	**–**	**–**	**2,620**	**(17.6)**	**2,620**	**(9.3)**

Group – 2010

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000 (Restated)	%	HK$'000	%
Profit/(loss) before tax from continuing operations	(22,319)		10,183		(12,136)	
Tax at the statutory tax rate	(3,683)	16.5	2,546	25.0	(1,137)	9.4
Lower tax rate for specific provinces or enacted by local authority	–	–	(2,106)	(20.7)	(2,106)	17.4
Adjustments in respect of current tax of previous periods	–	–	160	1.6	160	(1.3)
Income not subject to tax	(418)	1.9	(183)	(1.8)	(601)	5.0
Expenses not deductible for tax	4,101	(18.4)	623	6.1	4,724	(38.9)
Effect of withholding tax at 10% on the distributable profits of a PRC subsidiary	–	–	1,779	17.5	1,779	(14.7)
Tax losses not recognised	–	–	5,813	57.1	5,813	(47.9)
Tax losses utilised from previous periods	–	–	(3,628)	(35.6)	(3,628)	29.9
Tax expense at the Group's effective rate	–	–	5,004	49.1	5,004	(41.2)

12. DISCONTINUED OPERATION

On 30 June 2011, Proud Stars Limited ("Proud Stars", a wholly-owned subsidiary of the Company) entered into a sale and purchase agreement and a supplementary agreement thereto with a third party, pursuant to which, the third party purchased the entire equity interest in Full Trump International Limited ("Full Trump") for cash consideration of RMB100,000 (equivalent to approximately HK$121,000), and adjusted by certain contingent considerations and the consolidated net operating profit of Full Trump and its subsidiaries for the period from 1 January 2011 to the completion date of transaction. The transaction was completed on 25 October 2011 and the consideration for the transaction was determined to be RMB5,831,000 (equivalent to approximately HK$7,131,000).

The Group's Internet, mobile and telecommunication operation, being a major separate reportable operating segment of the Group, was solely undertaken by Full Trump and its subsidiaries. Accordingly, the Internet, mobile and telecommunication operation of the Group was discontinued upon the completion of the disposal transaction.

(a) The results of the discontinued operation dealt with in the consolidated financial statements for the years ended 31 December 2011 and 2010 are summarised as follows:

	2011 **HK$'000**	2010 HK$'000
Revenue	**5,601**	3,987
Expenses	**(6,742)**	(13,378)
Loss before tax of the discontinued operation	**(1,141)**	(9,391)
Income tax related to loss before tax of the discontinued operation	**13,880**	–
	12,739	(9,391)
Gain on disposal of the discontinued operation, net of income tax of nil	**15,301**	–
Profit/(loss) for the year from a discontinued operation	**28,040**	(9,391)

12. DISCONTINUED OPERATION *(Continued)*

(b) The net cash flows of the discontinued operation dealt with in the consolidated financial statements for the year ended 31 December 2011 and 2010 are as follows:

	2011	2010
	HK$'000	HK$'000
Operating activities	**1,358**	(7,763)
Investing activities	**(184)**	(900)
Net cash inflow/(outflow) attributable to the discontinued operation	**1,174**	(8,663)

(c) Earnings/(loss) per share from the discontinued operation

	2011	2010
	HK$'000	HK$'000
Basic and diluted	**HK0.44 cents**	HK(0.13) cents

The calculations of the basic and diluted earnings/(loss) per share amounts from the discontinued operation are based on the following data:

	2011	2010
Profit/(loss) for the year from the discontinued operation attributable to shareholders of the Company	**HK$28,468,000**	HK$(8,608,000)
Weighted average number of ordinary shares in issue during the year, used in the basic and diluted earnings/(loss) per share calculation *(note 14)*	**6,494,906,368**	6,494,906,368

13. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to shareholders of the Company for the year ended 31 December 2011 includes a loss of HK$10,367,000 (2010: HK$20,537,000) which has been dealt with in the financial statements of the Company.

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

	Notes	**2011** **HK$'000**	2010 HK$'000
Amount of consolidated loss for the year attributable to shareholders of the Company dealt with in the financial statements of the Company		**10,367**	20,537
Impairment of investment in a subsidiary recognised during the year in the income statement		**–**	1,686
Impairment of amounts due from subsidiaries recognised during the year in the income statement, net	*18(c)*	**10,798**	33,786
Write-back of amounts due to subsidiaries recognised during the year in the income statement		**(7,691)**	–
Company's loss for the year	*34(b)*	**13,474**	56,009

14. LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on the loss for the year and loss for the year from continuing operations attributable to shareholders of the Company of HK$1,284,000 (2010: HK$29,189,000) and HK$29,752,000 (2010: HK$20,581,000), respectively, and the weighted average number of 6,494,906,368 (2010: 6,494,906,368) ordinary shares in issue during the year.

In respect of the diluted loss per share amounts, no adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2011 and 2010 as the impact of the share options outstanding during these years had no diluting effect on the basic loss per share amounts presented.

15. EQUIPMENT

Group

	Notes	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2011					
At 1 January 2011:					
Cost		2,828	19,047	9,980	31,855
Accumulated depreciation and impairment		(1,593)	(12,006)	(4,632)	(18,231)
Net carrying amount		1,235	7,041	5,348	13,624
Net carrying amount:					
At 1 January 2011		1,235	7,041	5,348	13,624
Additions		117	974	425	1,516
Depreciation provided during the year		(456)	(2,181)	(952)	(3,589)
Disposals		(32)	(40)	(68)	(140)
Disposal of a subsidiary	*35(a)*	(436)	(1,127)	(502)	(2,065)
Deconsolidation of a subsidiary	*35(b)*	–	(851)	(118)	(969)
Exchange realignment		41	235	250	526
At 31 December 2011		469	4,051	4,383	8,903
At 31 December 2011:					
Cost		1,646	13,383	7,948	22,977
Accumulated depreciation and impairment		(1,177)	(9,332)	(3,565)	(14,074)
Net carrying amount		469	4,051	4,383	8,903

15. EQUIPMENT *(Continued)*

Group

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

16. GOODWILL

Group

	Cost HK$'000	Accumulated impairment HK$'000	Net carrying amount HK$'000
At 1 January 2010, 31 December 2010, and 1 January 2011	**1,285,711**	**(1,251,711)**	**34,000**
Disposal of a subsidiary *(note 35(a))*	**(995,941)**	**995,941**	**–**
At 31 December 2011	**289,770**	**(255,770)**	**34,000**

Impairment testing of goodwill

The net carrying amount of goodwill as at 31 December 2011 acquired through acquisitions has been allocated to the following cash-generating units of the Group for impairment testing, which is summarised as follows:

Group

	Net carrying amount	
	2011 HK$'000	2010 HK$'000
Astoria Innovations Limited and its subsidiaries (the "Astoria Group")	**19,000**	19,000
Wisdom Elite Holdings Limited and its subsidiaries (the "Wisdom Elite Group")	**15,000**	15,000
	34,000	34,000

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

The recoverable amounts of the cash-generating units of the Astoria Group and the Wisdom Elite Group are determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets covering a five-year period approved by management. The discount rate used for the value-in-use calculation is 16% (2010: 13%). Management determined the budgeted gross margins based on past performances and the average growth rate used is comparable with the forecast of the information technology market in Mainland China.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no additional impairment provision is considered necessary for the Group's goodwill as at 31 December 2011.

Key assumptions used in the value-in-use calculations

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

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

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

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

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

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

17. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000	Trademarks HK$'000	Computer software and computer systems HK$'000	Golf club memberships HK$'000	Total HK$'000
Year ended 31 December 2011					
At 1 January 2011:					
Cost	**2,424**	**5,353**	**47,563**	**1,614**	**56,954**
Accumulated amortisation and impairment	**(2,424)**	**(5,353)**	**(47,563)**	**(538)**	**(55,878)**
Net carrying amount	**–**	**–**	**–**	**1,076**	**1,076**
Net carrying amount:					
At 1 January 2011	**–**	**–**	**–**	**1,076**	**1,076**
Amortisation provided during the year	**–**	**–**	**–**	**(161)**	**(161)**
At 31 December 2011	**–**	**–**	**–**	**915**	**915**
At 31 December 2011:					
Cost	**2,005**	**3,117**	**612**	**1,614**	**7,348**
Accumulated amortisation and impairment	**(2,005)**	**(3,117)**	**(612)**	**(699)**	**(6,433)**
Net carrying amount	**–**	**–**	**–**	**915**	**915**
Year ended 31 December 2010					
At 1 January 2010:					
Cost	2,336	5,159	45,827	3,229	56,551
Accumulated amortisation and impairment	(2,336)	(5,159)	(45,827)	(754)	(54,076)
Net carrying amount	–	–	–	2,475	2,475
Net carrying amount:					
At 1 January 2010	–	–	–	2,475	2,475
Amortisation provided during the year	–	–	–	(188)	(188)
Disposal	–	–	–	(1,211)	(1,211)
At 31 December 2010	–	–	–	1,076	1,076
At 31 December 2010:					
Cost	2,424	5,353	47,563	1,614	56,954
Accumulated amortisation and impairment	(2,424)	(5,353)	(47,563)	(538)	(55,878)
Net carrying amount	–	–	–	1,076	1,076

17. OTHER INTANGIBLE ASSETS *(Continued)*

Company

	Golf club memberships	
	2011	2010
	HK$'000	HK$'000
At 1 January:		
Cost	**1,614**	3,229
Accumulated amortisation	**(538)**	(754)
Net carrying amount	**1,076**	2,475
Net carrying amount:		
At 1 January	**1,076**	2,475
Amortisation provided during the year	**(161)**	(188)
Disposal	**–**	(1,211)
At 31 December	**915**	1,076
At 31 December:		
Cost	**1,614**	1,614
Accumulated amortisation	**(699)**	(538)
Net carrying amount	**915**	1,076

18. INTERESTS IN SUBSIDIARIES

		Company	
		2011	2010
	Notes	**HK$'000**	HK$'000
Investments in subsidiaries, included in non-current assets			
Unlisted shares, at cost		**1,349,767**	1,351,453
Due from subsidiaries	*(a)*	**78,555**	110,303
Impairment of unlisted shares	*(b)*	**(1,260,686)**	(1,262,372)
Impairment of amounts due from subsidiaries	*(c)*	**(75,551)**	(107,342)
		92,085	92,042
Due from subsidiaries, included in current assets	*(a)*	**1,442**	16,452
Due to subsidiaries, included in current liabilities	*(a)*	**(5,603)**	(13,000)
Interests in subsidiaries		**87,924**	95,494

Notes:

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

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

(b) At 31 December 2011, an impairment was recognised for certain unlisted shares with an aggregate carrying amount of HK$1,321,867,000 (before deducting the impairment loss) (2010: HK$1,323,553,000, before deducting the impairment loss) as at the end of the reporting period because these subsidiaries have been loss-making for some time.

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

	Company	
	2011	2010
	HK$'000	HK$'000
At 1 January	**107,342**	139,279
Impairment during the year recognised in the income statement, net	**10,798**	33,786
Amount written off as uncollectible	**(42,589)**	(65,723)
At 31 December	**75,551**	107,342

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

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

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
Beijing Enterprises Sanxing Information Technology Co., Ltd.#	PRC/ Mainland China	RMB10,000,000	–	68	Development and sale of computer software, and provision of system integration and related services
Beijing Enterprises VST Software Technology Co., Ltd.#	PRC/ Mainland China	RMB20,000,000	–	100	Development and sale of computer software, and provision of system integration and related services
China Information Technology Development (Hong Kong) Limited	Hong Kong	HK$100	–	100	Office management
Shanghai Pantosoft Company Limited#	PRC/ Mainland China	HK$10,000,000	–	100	Development and sale of computer software, and provision of system integration and related services
Xteam Network (Beijing) Co., Ltd.#	PRC/ Mainland China	US$1,220,000	–	51	Lease of in-house developed computer hardware
China Luck International Limited ("China Luck")	British Virgin Islands	US$100	100	100	Investment holding

Registered as wholly-foreign-owned enterprises under PRC law

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

19. INVESTMENT IN AN ASSOCIATE

	Group	
	2011	2010
	HK$'000	HK$'000
Share of net assets *(note (a))*	**–**	–

Notes:

(a) The associate of the Group as at 31 December 2011 is Easy Code, a company incorporated in the PRC and in which the Group holds a 47.81% equity interest. The Group's investment in Easy Code was reclassified from an investment in a subsidiary to an investment in an associate during the year following the dilution of the Group's equity interest in Easy Code from 55% to 47.81% during the year ended 31 December 2011, as further detailed in note 6 to the financial statements.

The Group did not recognise its share of loss of Easy Code for the year because the share of the losses of Easy Code cumulatively has already exceeded the Group's investment in it in prior years. The amount of the Group's unrecognised share of losses of this associate for the current year and cumulatively was HK$650,000.

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

	2011	2010
	HK$'000	HK$'000
Assets	**1,664**	–
Liabilities	**6,209**	–
Revenues since it becomes an associate	**862**	–
Loss since it becomes an associate	**(1,358)**	–

19. INVESTMENT IN AN ASSOCIATE *(Continued)*

Notes: (Continued)

(b) Particulars of the associate, which is registered as a limited liability company under PRC law and held indirectly by the Company, are as follows:

Company name	Place of registration and operations	Nominal value of registered capital	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting right	Percentage of: Profit sharing	Principal activity
北控易碼通(北京)科技有限公司	PRC/ Mainland China	RMB7,650,000	47.81%	47.81%	47.81%	Provision of Internet and mobile communication services

20. INVENTORIES

	Group 2011 HK$'000	Group 2010 HK$'000
Raw materials	**23**	40
Finished goods and merchandise	**3,017**	1,255
	3,040	1,295

21. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

		Group	
		2011	2010
	Notes	**HK$'000**	HK$'000
Gross amounts due from contract customers	*(a)*	**7,021**	34,470
Less: Impairment	*(b)*	**(801)**	(770)
		6,220	33,700
Amounts due to contract customers	*(c)*	**(21,349)**	(19,276)
		(15,129)	14,424
Contract costs incurred plus recognised profits less recognised losses to date		**90,071**	92,160
Less: Progress billings		**(104,399)**	(76,966)
Less: Impairment	*(b)*	**(801)**	(770)
		(15,129)	14,424

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

Notes:

(a) Included in the Group's amounts due from contract customers as at 31 December 2011 is an amount due from a subsidiary of a major shareholder of HK$38,000 (2010: HK$207,000) in aggregate, which is repayable on similar credit terms to those offered to the major customers of the Group.

(b) The movements in the provision for impairment of amounts due from contract customers during the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**770**	–
Impairment during the year recognised in the income statement	**1,304**	750
Disposal of a subsidiary	**(1,304)**	–
Exchange realignment	**31**	20
At 31 December	**801**	770

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

(c) Included in the Group's amounts due to contract customers as at 31 December 2011 is an amount due to a subsidiary of a major shareholder of HK$142,000 (2010: HK$119,000), which is repayable on similar credit terms to those offered by it to its major customers.

22. TRADE RECEIVABLES

		Group	
		2011	2010
	Notes	**HK$'000**	HK$'000
Trade receivables due from:			
Third parties		**22,218**	21,499
A subsidiary of a major shareholder	*(b)*	**220**	1,601
		22,438	23,100
Impairment	*(c)*	**(4,653)**	(12,562)
		17,785	10,538

22. TRADE RECEIVABLES *(Continued)*

Notes:

(a) The Group has granted credit terms to its customers, ranging from 30 to 90 days. In certain cases, the Group would request payment in advance from the customers. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

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

	Group	
	2011	2010
	HK$'000	HK$'000
Within 1 month	4,907	6,245
1 to 2 months	151	1,067
2 to 3 months	59	316
Over 3 months	12,668	2,910
	17,785	10,538

(b) The balance with a subsidiary of a major shareholder is repayable on similar credit terms to those offered to the major customers of the Group.

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**12,562**	11,161
Impairment during the year recognised in the income statement	**1,665**	1,044
Disposal of a subsidiary	**(10,127)**	–
Amount written off as uncollectible	**–**	(93)
Exchange realignment	**553**	450
At 31 December	**4,653**	12,562

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

22. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

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

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**1,828**	937
Less than 1 month past due	**3,079**	5,308
1 to 3 months past due	**210**	1,383
Over 3 months past due	**12,668**	2,910
	17,785	10,538

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

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2011	2010	**2011**	2010
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**1,627**	1,101	**150**	150
Deposits and other receivables		**15,675**	8,288	**3**	3
Advances to suppliers		**39,599**	37,533	**–**	–
Due from related companies	*24*	**3,292**	5,292	**–**	–
		60,193	52,214	**153**	153
Impairment *(note)*		**(32,085)**	(30,770)	**–**	–
		28,108	21,444	**153**	153

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**30,770**	29,202	**–**	–
Impairment during the year recognised in the income statement	**–**	739	**–**	–
Reversal of impairment during the year recognised in the income statement	**–**	(287)	**–**	–
Exchange realignment	**1,315**	1,116	**–**	–
At 31 December	**32,085**	30,770	**–**	–

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

24. BALANCES WITH A SHAREHOLDER AND RELATED COMPANIES

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

25. RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances other than time deposits	**89,589**	91,076	**1,514**	2,716
Time deposits	**51,571**	43,750	**–**	–
Total cash and bank balances	**141,160**	134,826	**1,514**	2,716
Less: Restricted cash *(note (a))*	**(7,339)**	–	**–**	–
Cash and cash equivalents	**133,821**	134,826	**1,514**	2,716

Notes:

(a) The restricted cash represented the bank deposit held by a bank in Mainland China for the investment in a held-to-maturity investment financial asset by the Group on 1 January 2012.

(b) At 31 December 2011, the cash and bank balances of the Group denominated in RMB amounted to HK$126,847,000 (2010: HK$127,029,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. INVESTMENTS IN AN ASSOCIATE HELD FOR SALE

	2011	2010
	HK$'000	HK$'000
Share of net assets	**–**	–
Loan to an associate	**–**	20,000
	–	20,000

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

On 15 December 2010, China Luck, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with a third party, pursuant to which the third party will purchase from China Luck the Group's 40% equity interest in Business Net (Hong Kong) Limited ("Business Net"), (a then associate) for a total cash consideration of HK$20,000,000. The disposal transaction was completed on 31 May 2011.

Notes:

(a) The Group did not recognise its share of loss of Business Net for the year because the share of the losses of Business Net cumulatively has already exceeded the Group's investments in Business Net in prior years.

(b) The loan to an associate as at 31 December 2010 was unsecured, interest-free and had no fixed terms of repayment. Such loan was considered by the directors as a quasi-equity investment in the associate.

27. TRADE PAYABLES

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

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

	Group	
	2011	2010
	HK$'000	HK$'000
Within 1 month	**2,488**	2,151
1 to 2 months	**30**	439
2 to 3 months	**10**	242
Over 3 months	**2,403**	3,105
	4,931	5,937

28. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2011	2010	**2011**	2010
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accruals		**6,058**	8,328	**1,474**	1,724
Receipts in advance		**22**	5,223	**–**	–
Other payables		**6,204**	13,276	**55**	167
Due to a shareholder	*24*	**–**	1,196	**–**	–
		12,284	28,023	**1,529**	1,891

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

29. CONVERTIBLE BONDS

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

Group and Company

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

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

Each batch of these convertible bonds was bifurcated into a liability component and an equity component for accounting purposes as further described in the accounting policy for "Convertible bonds" set out in note 2.4 to the financial statements. The following tables summarise the movements in the principal amounts, and the liability and equity components of the Company's convertible bonds during the year ended 31 December 2010:

29. CONVERTIBLE BONDS *(Continued)*

Group and Company

	Total HK$'000
Principal amount outstanding	
At 1 January 2010	82,260
Cancellation of convertible bonds *(note (b))*	(82,260)
At 31 December 2010	–
Liability component	
At 1 January 2010	80,292
Imputed interest expense *(note 7)*	2,016
Cancellation of convertible bonds *(note (b))*	(82,308)
At 31 December 2010	–
Equity component (included in the convertible bond equity reserve)	
At 1 January 2010	10,411
Cancellation of convertible bonds *(note (b))*	(10,411)
At 31 December 2010	–

Notes:

(a) The First Convertible Bonds and the Second Convertible Bonds were issued by the Company on 18 September 2007 as part of the consideration paid for the acquisition of equity interest in Full Trump, pursuant to a share transfer agreement entered into between, inter alia, the Group and the then shareholder of Full Trump on 29 May 2007. Further details of these convertible bonds are set out in the Company's circular dated 13 August 2007.

(b) Pursuant to three undertaking agreements entered into between the Company and each of the three convertible bondholders (the "Bondholders", which are also shareholders of the Company) on 28 May 2010, the Company cancelled the then outstanding First Convertible Bonds and Second Convertible Bonds with aggregate principal amounts of HK$18,324,000 and HK$63,936,000, respectively. Further details of the arrangement are set out in note 30 to the financial statements.

30. PROMISSORY NOTES

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

On 22 November 2010, pursuant to an extension confirmation entered into between the Company and each of the Bondholders, the maturity date of the promissory notes was extended to 28 May 2012 with all other terms remain unchanged. Accordingly, the promissory notes are recognised as current liabilities and non-current liabilities as at 31 December 2011 and 2010, respectively. In the opinion of the directors, this alteration did not constitute a substantial modification of the terms of the promissory notes and hence was not accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Subsequent to the reporting period, the Company entered into an agreement with each of the Bondholders, pursuant to which, the Bondholders agreed to convert their respective promissory notes with the maturity date of 28 May 2012 into four unsecured 3.5-year interest-bearing loans (the "Promissory Note Extension Loans"). Further details of the Promissory Note Extension Loans are set out in note 41(a) to the financial statements.

31. DEFERRED TAX LIABILITY

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**1,828**	–
Deferred tax charged/(credited) to the income statement during the year *(note 11)*	**(1,828)**	1,779
Exchange realignment	**–**	49
At 31 December	**–**	1,828

31. DEFERRED TAX LIABILITY *(Continued)*

The Group has tax losses arising in Hong Kong of approximately HK$10,770,000 (2010: HK$10,770,000) that are available indefinitely, and in Mainland China of HK$8,843,000 (2010: HK$84,010,000) that are available for a maximum of five years, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is considered not probable that taxable profits will be available against which tax losses can be utilised.

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

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that were subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it was not probable that these subsidiaries would distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$27,814,000 (2010: HK$20,929,000) as at 31 December 2011.

32. SHARE CAPITAL

Shares

	2011	2010
	HK$'000	HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
6,494,906,368 ordinary shares of HK$0.01 each	**64,949**	64,949

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

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

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

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

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

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

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

	2011		2010	
	Weighted average exercise price (HK$ per share)	**Number of options '000**	Weighted average exercise price (HK$ per share)	Number of options '000
At 1 January	**0.79**	**102,300**	0.75	138,875
Forfeited during the year	**0.79**	**(55,900)**	0.65	(36,575)
At 31 December	**0.79**	**46,400**	0.79	102,300

33. SHARE OPTION SCHEME *(Continued)*

Notes:

(a) No share options were exercised during the year (2010: Nil).

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

2011

Number of options '000	**Exercise price * (HK$ per share)**	**Exercise period**
46,400	**0.79**	**13-3-2008 to 12-9-2012**

2010

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

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

(c) The Group recognised equity-settled share option expense of HK$2,199,000 (2010: HK$7,880,000) during the year ended 31 December 2011 in respect of share options granted in prior years.

(d) At 31 December 2011 and at the date of approval of these financial statements, the Company had 46,400,000 share options outstanding under the Scheme, which represented approximately 0.7% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 46,400,000 additional ordinary shares of the Company and additional share capital of HK$464,000 and share premium of HK$36,192,000 (before issue expenses and without taking into account any transfer of share option reserve to share premium account).

34. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(ii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy for "Share-based payment transactions" in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits/accumulated losses should the related share options expire or be forfeited.

(iii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries. None of the Group's PRC reserve funds as at 31 December 2011 were distributable in the form of cash dividends.

(b) Company

	Notes	**Share premium account** HK$'000	**Share option reserve** HK$'000	**Capital reserve** HK$'000	**Convertible bond equity reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2010		1,165,914	48,110	–	10,411	(1,230,461)	(6,026)
Loss for the year and total comprehensive loss for the year		–	–	–	–	(56,009)	(56,009)
Issue of promissory notes	*30*	–	–	8,329	–	–	8,329
Cancellation of convertible bonds	*29*	–	–	–	(10,411)	10,411	–
Equity-settled share option arrangements	*33(c)*	–	7,880	–	–	–	7,880
Transfer of share option reserve upon the forfeiture of share options		–	(11,293)	–	–	11,293	–
At 31 December 2010 and 1 January 2011		1,165,914	44,697	8,329	–	(1,264,766)	(45,826)
Loss for the year and total comprehensive loss for the year		–	–	–	–	(13,474)	(13,474)
Equity-settled share option arrangements	*33(c)*	–	2,199	–	–	–	2,199
Transfer of share option reserve upon the forfeiture of share options		–	(24,456)	–	–	24,456	–
At 31 December 2011		1,165,914	22,440	8,329	–	(1,253,784)	(57,101)

35. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES

(a) Disposal of a subsidiary

	Notes	2011 HK$'000	2010 HK$'000
Net assets disposed of:			
Equipment	15	**2,065**	–
Goodwill	16	**–**	–
Inventories		**730**	–
Amounts due from contract customers		**910**	–
Trade receivables		**2,345**	–
Prepayments, deposits and other receivables		**3,371**	–
Cash and bank balances		**7,210**	–
Trade payables		**(946)**	–
Other payables and accruals		**(12,063)**	–
Non-controlling interests		**(20)**	–
		3,602	–
Exchange fluctuation reserve realised		**(11,772)**	–
Gain on disposal of interest in a subsidiary	12(a)	**15,301**	–
		7,131	–
Satisfied by cash		**7,131**	–

An analysis of the cash flows in respect of the disposal of a subsidiary is as follows:

	2011 HK$'000	2010 HK$'000
Cash and bank balances disposal of	**(7,210)**	–
Cash consideration	**7,131**	–
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(79)**	–

Pursuant to a sale and purchase agreement and a supplementory agreement thereto both dated 30 June 2011, the Group disposed of its entire entity interest in Full Trump for a total cash consideration of RMB5,831,000 (equivalent to approximately HK$7,131,000). The disposal transaction was completed on 25 October 2011. Further details of the disposal transaction are set out in note 12 to the financial statements.

35. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES *(Continued)*

(b) Deconsolidation of a subsidiary

	Notes	2011 HK$'000	2010 HK$'000
Net assets deconsolidated:			
Equipment	15	**969**	–
Trade receivables		**181**	–
Prepayments, deposits and other receivables		**1,055**	–
Cash and bank balances		**17**	–
Trade payables		**(283)**	–
Other payables and accruals		**(464)**	–
Non-controlling interests		**1,466**	–
		2,941	–
Loss on deemed disposal of a subsidiary	6	**(2,941)**	–
		–	–
Reclassification from investment in a subsidiary to investment in an associate		**–**	–

An analysis of the cash flows in respect of the deconsolidation of a subsidiary is as follows:

	Group 2011 HK$'000	Group 2010 HK$'000
Cash and bank balances deconsolidated and net outflow of cash and cash equivalents in respect of the deconsolidated of a subsidiary	**(17)**	–

As detailed in note 6 to the financial statements, the Group's equity interest in Easy Code was diluted from 55% to 47.81% during the year following the capital injection by an independent third party into Easy Code as additional registered capital of Easy Code in May 2011 and the Group lost control over Easy Code as a result. Accordingly, Easy Code ceased to be a subsidiary of the Group and becomes an associate of the Group since then, at which time the Group deconsolidated Easy Code.

36. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions detailed in notes 29 and 30 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2011 and 2010.

37. OPERATING LEASE COMMITMENTS

The Group leases an office equipment and certain of its office properties under operating lease arrangements, with the leases negotiated for terms ranging from one to two years (2010: one to three years).

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**2,225**	3,288
In the second to fifth years, inclusive	**76**	3,072
	2,301	6,360

At 31 December 2011, the Company did not have any significant operating lease commitments (2010: Nil).

38. RELATED PARTY DISCLOSURES

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

	Notes	2011 HK$'000	2010 HK$'000
A subsidiary of a major shareholder of the Company:			
Service fee income	(i)	**921**	4,062
Service fee paid	(ii)	–	229
Sale of a golf club membership to a major shareholder of the Company	(ii), (iii)	–	1,875

Notes:

(i) The service fees were determined with reference to the fees charged to third parties by the Group. The transactions also constitute continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

(ii) These transactions were conducted in terms and conditions mutually agreed between the parties. These transactions also constitute connected transactions as defined in Chapter 20 of the GEM Listing Rules.

(iii) On 17 March 2010, Beijing Development (Hong Kong) Limited ("BDHK"), a major shareholder of the Company, entered into an agreement with the Company, pursuant to which, the Company sold a golf club membership to BDHK for a cash consideration of HK$1,875,000. The sale transaction was completed in September 2010 and gain on disposal of HK$664,000 was recognised in the consolidated income statement during the year ended 31 December 2010. The transaction constitutes a connected transaction as defined in Chapter 20 of the GEM Listing Rules.

(b) Other transactions with related parties

Upon the expiry of the convertible bonds on 28 May 2010, all the outstanding convertible bonds with a then total outstanding principal amount of approximately HK$82,260,000 were cancelled and replaced by the promissory notes with the same principal amount. The promissory notes were issued to certain shareholders of the Company, as further detailed in note 30 to the financial statements.

(c) Outstanding balances with related parties

Other than the balances detailed in notes 19, 21, 22, 23, 24, 26, 28, 29 and 30 to the financial statements, the Group had no other outstanding balances with related parties as at the end of the reporting period.

38. RELATED PARTY DISCLOSURES *(Continued)*

(d) Compensation of key management personnel of the Group

	2011 HK$'000	2010 HK$'000
Short term employee benefits	**4,917**	5,564
Equity-settled share option expense	**1,640**	2,232
Pension scheme contributions	**145**	314
Total compensation paid to key management personnel	**6,702**	8,110

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

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

(a) Business risk

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

(b) Interest rate risk

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

	Within 1 year or on demand	**More than 1 year but less than 2 years**	**Total**	**Effective interest rate**
	HK$'000	HK$'000	HK$'000	%
At 31 December 2011				
Floating rate:				
Restricted cash	7,339	–	7,339	0.50%
Bank balances	82,094	–	82,094	0.50%
Fixed rate:				
Time deposits	51,571	–	51,571	2.61%
Promissory notes	81,129	–	81,129	3.40%
At 31 December 2010				
Floating rate:				
Bank balances	91,076	–	91,076	0.36%
Fixed rate:				
Time deposits	43,750	–	43,750	2.08%
Promissory notes	–	78,425	78,425	3.40%

At 31 December 2011, it is estimated that a general decrease/increase of 100 basis points in the interest rates of average balances of bank balances and time deposits during the year, with all other variables held constant, would increase/decrease the Group's loss before tax for the year ended 31 December 2011 by approximately HK$1,429,000 (2010: HK$1,330,000).

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

(b) Interest rate risk *(Continued)*

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

(c) Foreign currency risk

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

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

	Increase/ (decrease) in RMB rate	**(Increase)/ decrease in loss before tax**
	%	HK$'000
2011		
If Hong Kong dollar weakens against RMB	**5**	**(1,587)**
If Hong Kong dollar strengthens against RMB	**(5)**	**1,587**
2010		
If Hong Kong dollar weakens against RMB	5	39
If Hong Kong dollar strengthens against RMB	(5)	(39)

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

(d) Credit risk

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

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

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

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

(e) Liquidity risk

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

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

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

The financial liabilities of the Group and the Company included in current liabilities as at the end of the reporting period had no fixed terms of repayment.

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

(e) Liquidity risk *(Continued)*

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

Group

31 December 2011

	On demand or within 1 year HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 year but less than 3 years HK$'000**	**More than than 3 years HK$'000**	**Total HK$'000**
Trade payables	**2,546**	**259**	**693**	**1,433**	**4,931**
Other payables	**6,204**	**–**	**–**	**–**	**6,204**
Due to a shareholder	**–**	**–**	**–**	**–**	**–**
Promissory notes	**82,260**	**–**	**–**	**–**	**82,260**
	91,010	**259**	**693**	**1,433**	**93,395**

31 December 2010

	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 year but less than 3 years HK$'000	More than than 3 years HK$'000	Total HK$'000
Trade payables	3,431	1,050	139	1,317	5,937
Other payables	13,276	–	–	–	13,276
Due to a shareholder	1,196	–	–	–	1,196
Promissory notes	–	82,260	–	–	82,260
	17,903	83,310	139	1,317	102,669

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

(e) Liquidity risk *(Continued)*

Company

31 December 2011

	On demand or within 1 year HK$'000	**More than 1 year but less than 2 years HK$'000**	**Total HK$'000**
Other payables	**55**	**–**	**55**
Due to subsidiaries	**5,603**	**–**	**5,603**
Promissory notes	**82,260**	**–**	**82,260**
	87,918	**–**	**87,918**

31 December 2010

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

(f) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern. The Group does not have specific policies for managing capital and it is not subject to any externally imposed capital requirements. The Group will continue to maintain healthy capital ratios in order to support its business and maximise shareholders' value. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

40. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group and the Company as at 31 December 2011 and 2010 were loans and receivables and financial liabilities stated at amortised cost, respectively.

41. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the following significant events occurred:

a) On 21 February 2012 and 23 February 2012, the Company entered into an agreement with each of the Bondholders, pursuant to which, the Bondholders agreed to convert their respective promissory notes with an aggregate principle amount of HK$82,260,000 with the maturity date of 28 May 2012 into four unsecured 3.5-year interest-bearing loans. The Promissory Note Extension Loans bear interest at Hong Kong Prime Rate plus an agreed margin in each year, and are repayable in 12 equal quarterly instalments commencing from 31 March 2013.

b) Trading in the shares on the GEM of the Stock Exchange had been suspended since 29 January 2009 at the request of the Company. On 11 May 2009, the Stock Exchange issued a letter informing the Company that resumption conditions were imposed prior to lifting the suspension pursuant to Rule 9.10 of the GEM Listing Rules (the "Resumption Conditions"). All the Resumption Conditions have been fulfilled by the Company on 8 March 2012 and the Company resumed trading of its shares on the GEM on 19 March 2012.

42. COMPARATIVE AMOUNTS

Owing to the disposal of the Group's interest in Full Trump during the year, the Group's Internet, mobile and telecommunication operation was discontinued. Accordingly, certain comparative amounts for the consolidated income statement have been restated to conform to the current year's presentation. In addition, certain comparative amounts have been reclassified to conform to the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2012.

Five Year Financial Summary

31 December 2011

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

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**90,337**	118,374	106,972	92,123	106,445
Loss before tax from continuing operations	**(28,242)**	(12,136)	(30,206)	(1,117,423)	(5,768)
Income tax	**(2,620)**	(5,004)	(4,093)	(26,981)	(3,947)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(30,862)**	(17,140)	(34,299)	(1,144,404)	(9,715)
DISCONTINUED OPERATION					
Profit/(loss) for the year from discontinued operation	**28,040**	(9,391)	(21,947)	(72,462)	25,768
(Loss)/profit for the year	**(2,822)**	(26,531)	(56,246)	(1,216,866)	16,053
Attributable to:					
Shareholders of the Company	**(1,284)**	(29,189)	(57,396)	(1,212,313)	16,310
Non-controlling interests	**(1,538)**	2,658	1,150	(4,553)	(257)
	(2,822)	(26,531)	(56,246)	(1,216,866)	16,053

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**240,131**	270,503	270,045	301,675	1,574,605
TOTAL LIABILITIES	**(132,382)**	(156,685)	(150,656)	(142,743)	(285,384)
NET ASSETS	**107,749**	113,818	119,389	158,932	1,289,221
Equity attributable to:					
Shareholders of the Company	**89,521**	96,315	105,163	145,897	1,276,419
Non-controlling interests	**18,228**	17,503	14,226	13,035	12,802
	107,749	113,818	119,389	158,932	1,289,221