# CHINA PUBLIC PROCUREMENT LIMITED
# 中國公共採購有限公司

*(incorporated in Bermuda with limited liability)*

**(Stock code: 1094)**

## Annual Report 2009

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# CORPORATE INFORMATION

## DIRECTORS

**Executive directors**
Mr. Ho Wai Kong *(Chairman)*
Mr. Jiang Haoye
Mr. Lu Xing
Mr. Song Lianzhong
Mr. Wu Xiaodong *(Chief Financial Officer)*
Mr. Zhang Guisheng *(Chief Executive Officer)*

**Non-executive director**
Ms. Cheng Zhuo

**Independent non-executive directors**
Mr. Chan Tze See, Kevin
Mr. Chen Bojie
Mr. Wu Fred Fong

**Audit Committee and Remuneration Committee**
Mr. Chan Tze See, Kevin
Mr. Chen Bojie
Mr. Wu Fred Fong *(Chairman)*

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Tsang Hing Bun *(CPA, FRM, MSc.)*

## SHARE REGISTRARS AND TRANSFER OFFICES

**Bermuda**
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road, Pembroke,
Bermuda

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

## REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM11,
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 2805-2810, 28/F,
Dah Sing Financial Centre,
108 Gloucester Road,
Wanchai, Hong Kong

## AUDITORS

Morison Heng
Certified Public Accountants

## LEGAL ADVISORS

**As to Hong Kong law**
Jones Day
Chiu & Partners

**As to Bermuda law**
Conyers Dill & Pearman

## PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong & Shanghai Banking Corporation Limited

## STOCK CODE

1094

# CHAIRMAN'S STATEMENT

To our Shareholders,

On behalf of the board of Directors, I hereby present the annual report of the Group for the year ended 31 December 2009 to you.

## BUSINESS REVIEW

The Group had originally engaged in several businesses, namely coal trading, information technology service, etc., but had performed disappointingly. These were largely attributable to keen competition within the industries and low profit margin. The Directors are committed to look for quality business in their quest to improve the profitability of the Group which, in turn, creates value for our Shareholders. As a result, the Group has successfully acquired the public procurement business in the PRC in mid-April 2009 and the Company has changed the Company's name from Sunny Global Holdings Limited to China Public Procurement Limited in May 2009 to demonstrate the importance of procurement business to the Group and how much we value it. Therefore, I deeply believe that 2009 is a memorable year as it represents that the Group is about to enter into a new era with high growth and high earnings.

We are dedicated to developing high-end technology business in the PRC by providing an electronic trading platform for public procurement to undergo through our platform in order to earn service charge which is based on the procurement amount to be transacted. We also plan to charge member suppliers who use our service a membership fee in order to access to our e-platform and explore the enormous business opportunities.

## WHY E-PROCUREMENT?

It is the general trend to develop electronic government procurement. In fact, most developed countries have established a comprehensive e-procurement system. After the accession to the World Trade Organization, China is committed to open the public procurement market. The establishment of the e-procurement platform provides a gateway to let worldwide suppliers enter the PRC's market easily.

Since the procurement process is heavily manual, many application forms are involved for approvals by all relevant authorities for the funding. This practice drags down the efficiency by lengthening the time required to obtain all the approvals but, at the same time, ramps up the time and staff costs.

Due to the lack of standardized mechanism and procedures, the procuring units will have to spend enormous amount of resources in inviting tenders nationally, engaging experts to rate the tenders, test-checking of the received goods, etc.

For the suppliers, they have to incur heavy costs in terms of time and staffing to obtain tendering information by sending staff to different places of the PRC as a result of the localized tendering channel.

By implementing an e-procurement system, procuring units are able to post tenders, search price and publish the results of the tenders in a much shorter time horizon, while suppliers can enjoy the benefits by obtaining all tendering information they need simultaneously at much cheaper costs once it is published on the website. They no longer need to send staff to travel around the country but just to have a computer accessible to the internet.

# CHAIRMAN'S STATEMENT

It is also beneficial to the PRC as a whole. Increasing the efficiency of public procurement means to save a lot more resources. For instance, the elimination of the manual approval process helps use less papers, contributing to the conservation of national's resources. The e-procurement indirectly helps the medium to small enterprises enter into the national public procurement market. Through direct competition, the quality of goods and services as well as technology can be enhanced with utilizing less resources that the users of the goods and services will be benefited in the end.

Although the e-platform is yet fully built, we have entered into several contracts with PRC government-related authorities to propel the business. We believe that by doing so, we can penetrate into public procurement market gradually, paving a successful path for further business development of larger scale by accumulating more capital as well as experience to excel our service. Also, as the Group accumulates more capital, we would be able to develop the business faster.

## APPRECIATION

Last but not least, we would like to take this opportunity to thank you for your continuous support to the management and to the Group. We would also like to express our gratitude to our staff for their endeavors and enthusiasm towards the operation and progression of the Group.

For and on behalf of the Board

**Ho Wai Kong**
*Chairman*

Hong Kong, 30 April 2010

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS AND DIVIDEND

For the period ended 31 December 2009, the Group recorded a turnover of approximately HK$19 million, representing a decrease of approximately 91% as compared to the previous year of approximately HK$209 million while the gross profit margin increased from 2.7% to 5%.

The Group recorded a loss attributable to shareholders amounted to approximately HK$819 million (2008: HK$507 million) representing a loss of HK$27.95 cents per share. The significant increase in operating loss was largely because of the full provision of goodwill amounted to an approximate of HK$744 million (2008: HK$366 million) overwhelmed (i) the effective measures in place to control the administrative and operating expenses such that the costs thereof were greatly reduced from last year's HK$91,342,000 to this year's HK$62,835,000, of which an approximate of HK$29,315,000 was non-cash equity settled share-based payment expense; and (ii) no impairments of trade and receivables from continuing operations occurred in this year which were incurred approximately HK$61 million provided in 2008. Had the goodwill not been impaired, the loss from continuing operations would have been greatly reduced to approximately HK$60,969,000. The Board recommend that no dividend will be paid for the year ended 31 December 2009.

## GOODWILL

The Group review the goodwill at least annually in accordance with the Hong Kong Accounting Standards to check for any impairment indications. The goodwill was recognized as a result of the completion of acquisition in relation to public procurement business by issuing the initial Consideration Shares as per the circular of the Company dated 16 January 2009. Due to the business being developed in the initial stage as at 31 December 2009, the management of the Company did not have sufficient convincing grounds to estimate the carrying value of goodwill when performing annual review, although the management were in the opinion that no impairment indications were identified. For the sake of conservatism, the Group has provided the goodwill in full, amounting to approximately HK$744 million (31 December 2008: HK$366 million). Please refer to note 15 of the Notes to the Financial Statements.

## OPERATING ENVIRONMENT AND OPERATION REVIEW

2009 is a challenging year for almost everyone as many people suffered from the aftermath of financial crisis broken out in late 2008. With the active intervention of the central banks by easing the monetary base, many countries managed to relieve from stopping the slump of asset prices and global share markets recovered most of the lost ground. China is an exception as it is able to maintain the economic growth in 2009 where it is expected that the annual GDP growth can reach to 9%. While the global economy remains weak, it is anticipated that China will rely more on domestic demand rather than export in order to stabilize the China's economy and one of the important measure to achieve this is through fiscal expansion, i.e., government expenditure. Therefore, the Company has grasped the chance to start up the public procurement business in the PRC.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Acquisition of Public Procurement Business**

In mid April 2009, the Group has successfully completed the acquisition of public procurement business. The concept of this new business is that in the long run, the Group will construct the electronic platform that links up with all the PRC government procurement centres of all grades to transact public procurement in a faster, more effective and more cost-saving manner from which the Group charges a certain percentage of procurement amount as the service charge. In order to provide the sufficient capital to kick start the construction, the Company has injected RMB27 million to Guocai (Beijing) Technology Company Limited ("Guocai"), the subsidiary in PRC responsible for the business, in July 2009 by means of increasing Guocai's registered capital. During 2009, the Group has cooperated with Tsinghua University to build up the e-platform and has chosen three government procurement centres, including two provincial and one municipal government procurement centres, as trial centres. As at 31 December 2009, the construction is completed and the trial centres will proceed to a series of testings on the capability, functionality as well as the user-friendliness on both the hard and software of the e-platform.

While the e-platform is being built, the Group has been actively seeking business opportunities by reaching bilateral procurement agreements with individual enterprises and PRC government-related authorities. Among the signed procurement agreements, the Company has, in particular, entered into indicative procurement agreements with 中鐵建物資集團華鐵有限公司 ("Hua Tie") and The Economics and Trading Bureau of Economic Development Zone, Liaocheng City, Shangdong Province ("Liaocheng"). These two agreements have a term of three years where Hua Tie will engage the Company to procure not less than RMB100 billion worth of service on procuring equipment, facilities and materials in each of 2010, 2011 and 2012 with a total of RMB300 billion while Liaocheng will engage the Company to procure not less than RMB20 billion worth of the abovementioned goods and services in each of the three years with a total of RMB60 billion. A certain percentage of procurement amount will be paid in advance by Hua Tie and Liaocheng as deposits upon a formal procurement request is made. The Directors believe that entering into these two agreements symbolizes a big step forward of the Group's public procurement business and look forward to material improvement in both revenue and profits in the coming few years as the procurement agreements are crystallized. And with the ample cashflow expected to be generated from the procurement as well as the successful fund raising of HK$40,000,000 by issuing equity-linked debt instruments ("ELDIs") in mid-February 2010 (please refer to "Liquidity and Financial Resources" section below for details), the Group will have more capital to accelerate the construction of the e-platform.

Regarding the RMB700 million worth procurement agreement of cokes entered into with Wulatezhongqi Huachang Mining Co., Ltd. of Inner Mongolia ("Huachang") and Great Rail Logistics Co., Ltd. ("Great Rail") on 3 September 2009, the Company had launched detail negotiation with Huachang and Great Rail on procedures to procuring and transporting of cokes after the signing of the agreement. However, the unexpected early arrival of cold current in Mongolia made transportation of cokes unfeasible as a result of frozen roads that trucks could not move on. Despite the fact that the Company was not able to benefit from this procurement in 2009, the Company is in negotiation to with Huachang and Great Rail to extend the agreement.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Disposal of Prolonged Loss-making Businesses

Before the public procurement business was acquired, the Group was engaged in several businesses, namely coal trading, information technology operations, general trading and corporate administrative support services. Unfortunately, these businesses had been performed disappointingly poor and the losses from segment results were exacerbated over years, from the aggregate losses of less than HK$10 million for the financial year in 2006, to approximately HK$87 million for financial year in 2008, represented a whopping some 700% rise in 2 years. Having considered the fierce competition and suppressed profit margin, the Group had disposed of these old businesses during 2009 in order to better utilize the Group's resources to develop public procurement business.

## PROSPECTS

The Directors are confident that the public procurement business is going to be promising based on the following grounds: 1) in 2009, the public procurement business was in the initial stage and has not demonstrated its full potential. The full provision of goodwill was the result of the Board's conservatism towards accounting treatment. With the signed procurement agreements and the benefits arising therefrom, the Group's performance will be spectacular in the near future; 2) while the global economy is widely perceived to have bounced back from the trough, the fundamentals are still weak. In order to maintain the economic growth at an annual rate of 8%, the PRC is expected to rely on domestic demand for a certain period of time, deriving extra advantages to the Group; and 3) with the above advantages enriched, the Company will be able to speed up the construction of e-platform and once it is built, the Group's revenue is expected to grow considerably.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group maintained cash, fixed deposits and bank balances of approximately HK$26 million (31 December 2008: HK$54.6 million) without any borrowings (31 December 2008: nil).

The gearing ratio of the Group as of 31 December 2009 was nil (31 December 2008: nil).

As of 31 December 2009, the Group's working capital (net current assets) and current ratio were approximately HK$27 million (31 December 2008: HK$117.9 million) and 2.0x (31 December 2008: 7.2x) respectively.

On 11 February 2010, a fund raising event took place that the Company has entered into a subscription agreement ("Subscription Agreement") with Standard Bank Plc as the subscriber (the "Subscriber") where the Company agreed to issue and the Subscriber agreed to subscribe for HK$40,000,000 worth one-year ELDIs. According to the Subscription Agreement, the Company will issue not more than 48,543,689 new shares ("Conversion Shares") of the Company to holders of the ELDIs upon their request to convert, subject to other conditions as disclosed in the announcement dated 12 February 2010. After the completion of fund raising on 23 February 2010, the Company's bank balance was increased by approximately HK$38,000,000 which has improved the Company's liquidity.

As at the date of this report, all ELDIs have been fully converted and a total of 42,810,107 new Shares have been issued and allotted to the Subscriber.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2009, the Group had no assets pledged (31 December 2008: HK$15 million) nor the Group had any significant contingent liabilities as at 31 December 2009.

## FOREIGN EXCHANGE EXPOSURE

The Group has limited exposure to fluctuation in foreign currencies as most of its transactions are denominated in HK dollars and US dollars. Exchange rates between these currencies were relatively stable during the year under review. The Group has not entered into any foreign currency forward exchange contract for the purpose of hedging against foreign exchange risks involved in the Group's operations.

## STAFF AND REMUNERATION POLICY

The Group determines staff remuneration in accordance with market terms and individual qualifications and performance. Staff recruitment and promotion is based on individuals' merit and their development potential for the positions offered. As at 31 December 2009, the Group employed approximately 50 employees.

The Company maintains a share option scheme (the "Scheme"), pursuant to which share options are granted to selected directors or employees of the Group, with a view to attract and retain quality personnel and to provide them with incentive to contribute to the business and operation of the Group.

During the year, 193,900,000 share options were granted to the eligible participants; 55,922,000 share options were exercised and 175,700,000 share options were cancelled.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Company, having made specific enquiry of all directors, confirmed that all directors have complied with the required standard of dealings set out therein throughout the year ended 31 December 2009.

## AUDIT COMMITTEE

The Audit Committee was established with written terms of reference which have been updated on terms no less exacting than the required standard as set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. As at 31 December 2009, the Audit Committee comprises three members namely Mr. Wu Fred Fong as the Chairman, Mr. Chan Tze See, Kevin and Mr. Chen Bojie, who are all the independent non-executive directors of the Company.

The Audit Committee has reviewed with the management and the auditors the audited consolidated annual results of the Group for the year ended 31 December 2009.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REMUNERATION COMMITTEE

The Remuneration Committee was established with written terms of reference based on terms no less exacting than the required standard as set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. As at 31 December 2009, the Remuneration Committee comprises three members namely Mr. Wu Fred Fong as the Chairman, Mr. Chan Tze See, Kevin and Mr. Chen Bojie, who are all the independent non-executive directors of the Company. The major responsibility of Remuneration Committee is to review and determine the remuneration policy and other remuneration related matters of the directors and the senior management of the Group.

# BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors and Chairman

**Mr. Ho Wai Kong** (Chairman), aged 54, is an entrepreneur who for the last 30 years has been actively involved in China/HK cross boarder business development and affairs. Mr. Ho was raised and educated in the PRC, has a good understanding of the intricacies of business and government cultures and practices. He has maintained good relationship in these circles. Since 1980's, he was engaged in business ventures involving several industries including construction, property investments and the hospitality business. His extensive experience, network and business acumen will be invaluable for the Company to develop business in the PRC.

**Mr. Song Lianzhong**, aged 45, graduated from Automation at Kyoto University in Japan, and has over 15 years of experiences in enterprise management, market development and sales planning. After working in Huawei Technologies Co., Ltd. for 6 years, Mr. Song has started his IT business in Shenzhen since 2003 by founding Shenzhen Vokifone Tech Co. Ltd. which has business relationships with several renowned PRC enterprises. Mr. Song is the deputy chairman of the Company.

**Mr. Jiang Haoye**, aged 35, graduated from the Electronic Engineering at Nanjing University of Science and Technology, with over 10 years of experience in marketing and sales in various industries, from telecommunication, information technology to finance. Currently, Mr. Jiang is the deputy general manager of Vokifone.

**Mr. Lu Xing**, aged 43, graduated from the certification program in Economics Information Management, The Central Communist Party School. Since graduation, Mr. Lu worked for the China Construction Bank in Beijing for 19 years progressing to branch Vice-President. During his tenure, Mr. Lu was involved in financial management, project financing, risk assessment and control a of awards including being awarded as The Outstanding Achiever of the branch. Mr. Lund obtained a number is an experienced financial/banking executive having accumulated many years of broad industry exposure. In particular, he was involved with financing numerous enterprises including those in the television station, information technology, military, real estate and construction sectors. Mr. Lu was an executive director of VODone Limited, a company listed on the main board of the Hong Kong Stock Exchange (Stock code: 00082) within three years before the date of his appointment.

**Mr. Wu Xiaodong**, aged 41, obtained his Bachelor and Master Degree in Accounting from Capital University of Economics and Business and has more than 14 years experiences in auditing, accounting and finance. He is a member of the Chinese Institute of Certified Public Accountants and had previously been the chief financial officer of Eguard Resources Limited, a company listed on Shenzhen Stock Exchange. Mr. Wu is also the chief financial officer of the Company.

**Mr. Zhang Guisheng**, aged 47, obtained his bachelor and master degree in University of Electronic Science and Technology of China, specialized in electromagnetic and microwave technology. Mr. Zhang has more than 14 years of experiences in sales and marketing and procurement of high-end technology products in the PRC. Prior to his joining, Mr. Zhang was a president of administrative and procurement department and a committee member of global executive procurement committee of Huawei Technologies Co., Ltd. Mr. Zhang is also the Company's chief executive officer since 30 April 2010.

# BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

**Non-Executive Director**

**Ms. Cheng Zhuo**, aged 43, obtained her Bachelor and Master degree in Communication in, respectively, University of International Relations (formerly Institute of International Relations) and Communication University of China, where she is currently pursuing her doctoral degree. She is one of the few pioneers in the PRC venture capital market and has become an experienced venture capitalist that she is often invited to give speeches in domestic and international conferences and advice to senior executives of high-tech companies, government organizations, and management of securities companies on issues such as fund raising, IPO, etc. She has also published a series of books about venture capital in the PRC and took part in translation of "Deals of Century" to help develop the venture capital market in the PRC. Since 2007, she has been the chief operating officer of China Venture Capital Limited.

**Independent Non-Executive Directors**

**Mr. Wu Fred Fong**, aged 62, has considerable experience in auditing, corporate planning, corporate finance, investment, consulting and administration with public companies in Canada and Hong Kong. Mr. Wu holds a master degree in business administration in the Schulich School of Business, York University, Canada. Mr. Wu is a Chartered Accountant qualified in Canada and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Wu held the position of executive director in VODone Limited (formerly, Yanion International Holdings Limited), a public company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from the year 2000 until 31 January 2008. Mr. Wu is currently an independent non-executive director of Minth Group Limited, a company listed on the Main Board of the Stock Exchange and the chief financial officer of Heng Xin China Holdings Limited, a company listed on the GEM Board of the Stock Exchange. Mr. Wu is the chairman of Audit Committee and Remuneration Committee of the Company.

**Mr. Chan Tze See, Kevin**, aged 53, graduated with a Bachelor of Science in Computer Science degree and a MBA degree from the University of Illinois, USA., has over 30 years of technical and management experience in the IT industry in Hong Kong, USA, and China. Mr. Chan is a director of Beijing Jolon Digital Media Broadcasting Co., Limited since 2005 till present. Before that he was Greater-china regional director of Commerce One Inc, USA.

**Mr. Chen Bojie**, aged 42, obtained his Bachelor degree in Dongbei University of Finance & Economics with major in Investment and Economic Management, has extensive experience in the field of finance and management. Mr. Chen had been the senior management of several state-owned and private enterprises where he had been the assistant general manager and group financial director of China Aviation Construction Corporation, the chief investment officer and deputy general manager of Beijing China Media Networks Company. Currently, Mr. Chen is a vice president and chief financial officer of an investment company in the PRC.

# BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

### Company Secretary/Qualified Accountant

**Mr. Tsang Hing Bun**, aged 30, is a Bachelor degree holder in Economics in The Chinese University of Hong Kong and a Master degree holder in Finance in City University of Hong Kong. Mr. Tsang has extensive exposures in accounting industry where he had worked in an international accounting firm as his first profession. Afterwards, he had been Sarbanes-Oxley compliance consultant of a company listed on both New York Stock Exchange and Hong Kong Stock Exchange, finance manager, assistant company secretary and authorised representative of another Hong Kong listed company where, during his tenure, he had participated in several corporate financing and corporate restructuring activities. Mr. Tsang is an associate member of the Hong Kong Institute of Certified Public Accountants and certified Financial Risk Manager.

### Head of Legal

**Ms. Ma Wing Kan, Aceya**, aged 44, is the Head of Legal of the Company. She joined the Company in 2005 and has almost 20 years of legal experiences. Ms. Ma was graduated from the University of Hong Kong and obtained the Bachelor Degree of Laws in 1989 and Master Degree of Laws in 1993. She obtained her Second Degree in China Law from the Tsinghua University in 2007. She was admitted as a solicitor in Hong Kong in 1992 and the United Kingdom in 1997. She is a member of the Law Society of Hong Kong and a practicing solicitor in Hong Kong. Ms. Ma was a solicitor in private practice in Hong Kong for more than 10 years and with more than 5 years working experiences as in-house legal counsel in two companies listed on the Main Board of the Stock Exchange. She is responsible for all legal affairs of the Company and its subsidiaries and associated companies and the compliance with the Rules Governing the Listing of Securities on the Stock Exchange. Before joining the Company, she was in-house legal counsel of another company listed on the Main Board of the Stock Exchange. Prior to that, she was solicitor of Messrs. Gallant Y.T. Ho & Co. and Messrs. Deacons and senior solicitor of Messrs. CMS Cameron McKenna.

# DIRECTORS' REPORT

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

## PRINCIPAL ACTIVITIES

The Group was originally engaged in the coal trading business and information technology business including the provision of system integration services, facility management services and information technology infrastructure network development in the People's Republic of China and Hong Kong. The Group is then principally engaged in the information technology business including the provision of system integration services, facility management services and information technology related business in the PRC and Hong Kong since the completion of acquisition of public procurement business in mid-April 2009.

## SEGMENT INFORMATION

An analysis of the Group's results, assets and liabilities by segment for the year under review is set out in note 4 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year under review are set out in the consolidated income statement on page 28. The directors do not recommend the payment of dividend for the year ended 31 December 2009.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 88.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year under review are set out in note 24 to the financial statements.

## RESERVES

Movements in the reserves of the Group and the Company during the year under review are set out in note 27 to the financial statements.

# DIRECTORS' REPORT

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

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

The Company did not redeem any of its shares during the year under review and neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year under review.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to the ordinary resolution passed by the shareholders of the Company on 12 June 2002. Under the Share Option Scheme, the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the Share Option Scheme (the "Scheme Mandate Limit") provided that, inter alia, the Company may seek approval of the shareholders at a general meeting to refresh the Scheme Mandate Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme may not, subject to shareholders' approval, exceed 30% of the share capital of the Company in issue from time to time.

As at 31 December 2008, an aggregate of 209,562,000 share options had been issued to the then directors of the Group and eligible participants and outstanding. During the year, 54,062,000 share options were exercised and 155,500,000 share options were cancelled.

On 26 March 2009, a total of 172,200,000 share options were proposed to grant to the directors of the Group and eligible participants pursuant to the Share Option Scheme and approved by shareholders on 18 June 2009. The share options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary shares of the Company with nominal value at HK$0.01 each at an exercise price of HK$0.50 per share, exercisable from 26 March 2009 to 25 March 2012. During the year, 1,860,000 share options were exercised, 20,000,000 share options were cancelled.

On 14 August 2009, a total of 10,600,000 share options were granted to the directors of the Group and eligible participants pursuant to the Share Option Scheme. The share options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary share of the Company with nominal value at HK$0.01 each at an exercise price of HK$1.00 per share, exercisable from 14 august 2009 to 13 August 2012. During the year, none were exercised and 200,000 were cancelled.

On 9 November 2009, a total of 11,100,000 share options were granted to the eligible participants pursuant to the Share Option Scheme. The share options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary share of the Company with nominal value at HK$0.01 each at an exercise price of HK$0.77 per share, exercisable from 9 November 2009 to 8 November 2012. During the year, none were exercised nor cancelled.

# DIRECTORS' REPORT

Subsequently on 5 January 2010, a total of 6,700,000 share options were granted to eligible participants pursuant to the Share Option Scheme. The share options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe the ordinary share of the Company with nominal value at HK$0.01 each at an exercise price of HK$0.78 per share, exercisable from 5 January 2010 to 4 January 2013.

Subsequently on 9 February 2010, a total of 60,000,000 share options were granted to eligible participants pursuant to the Share Option Scheme. The share options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe the ordinary share of the Company with nominal value at HK$0.01 each at an exercise price of HK$1.07 per share, exercisable from 9 February 2010 to 8 February 2013.

## DIRECTORS

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

**Executive directors**

| | |
|---|---|
| Mr. Ho Wai Kong *(Chairman)* | (Appointed on 11 January 2010 and as Chairman on 14 January 2010) |
| Mr. Cheng Yuanzhong | (Resigned as chief executive officer on 15 October 2009 and executive director on 8 February 2010) |
| Mr. Dai Zhongcheng | (Resigned on 22 July 2009) |
| Mr. Jiang Haoye | (Appointed on 1 March 2010) |
| Mr. Li Chun Tak | (Resigned on 7 August 2009) |
| Mr. Lu Xing | (Appointed on 11 January 2010) |
| Mr. Liu Bo | (Resigned on 30 April 2010) |
| Mr. Song Lianzhong | (Appointed on 1 March 2010 and also as deputy chairman) |
| Mr. Wong Hin Shek | (Resigned on 22 September 2009) |
| Mr. Wu Xiaodong | (Appointed on 23 April 2009 and also as chief financial officer) |
| Mr. Zhang Guisheng *(Chief Executive Officer)* | (Appointed on 30 April 2010 and also as chief executive officer) |
| Mr. Zhao Peilai | (Retired on 26 June 2009) |

**Non-executive director**

| | |
|---|---|
| Mr. Wong Kam Fat, Tony | (Resigned on 4 September 2009) |
| Ms. Cheng Zhuo | (Appointed on 8 May 2009) |

**Independent non-executive directors**

| | |
|---|---|
| Mr. Au Tin Fung | (Resigned on 30 September 2009) |
| Mr. Chan Chun Wai | (Resigned on 7 August 2009) |
| Ms. So Wai Yee, Betty | (Resigned on 28 September 2009) |
| Mr. Chan Tze See, Kevin | (Appointed on 22 December 2009) |
| Mr. Chen Bojie | (Appointed on 22 December 2009) |
| Mr. Wu Fred Fong | (Appointed on 26 June 2009 and chairman of Remuneration Committee and Audit Committee on 28 September 2009) |

# DIRECTORS' REPORT

Pursuant to Bye-Law 86, any director appointed to fill a causal vacancy on the Board shall hold office only until the next following general meeting of the Company, and any director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company. Such directors shall then be eligible for re-election at the next following annual general meeting.

Further, pursuant to Bye-Law 87, one-third of the directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation at every annual general meeting provided that every director; including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring director shall be eligible for re-election.

In accordance with Bye-Law 86, Ms. Cheng Zhuo shall retire from her office by rotation at the forthcoming annual general meeting and, being eligible, will offer herself for re-election. Mr. Ho Wai Kong, Mr. Jiang Haoye, Mr. Lu Xing, Mr. Song Lianzhong and Mr. Zhang Guisheng will retire from their offices and, being eligible, offer themselves for re-election as executive directors and Mr. Chan Tze See, Kevin, Mr. Chen Bojie and Mr. Wu Fred Fong will retire from their offices and, being eligible, offer themselves for re-election as independent non-executive directors. At the annual general meeting, ordinary resolutions will be proposed to re-elect the abovementioned directors as executive directors and independent non-executive directors respectively.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

The Company has received from each of the independent non-executive directors an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors are independent to the Company.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting have a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN THE SHARE CAPITAL

As at 31 December 2009, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

| Name of directors | Number of shares or underlying shares held or short positions | Approximate percentage of shareholding (%) |
|---|---|---|
| Ho Wai Kong (Note 1) | 4,342,253,626 | 134.87 |
| Lu Xing (Note 2) | 1,298,833,808 | 40.34 |
| Liu Bo (Note 3) | 20,000,000 | 0.62 |
| Wu Xiaodong (Note 3) | 20,000,000 | 0.62 |
| Cheng Yuanzhong (Note 3) | 20,000,000 | 0.62 |
| Cheng Zhuo (Note 4) | 3,000,000 | 0.09 |
| Wu Fred Fong (Note 5) | 2,000,000 | 0.06 |

Notes:

1. Mr. Ho Wai Kong ("Mr. Ho") is interested in 398,688,901 Shares, of which 386,888,901 Shares are held by Master Top Investments Limited ("Master Top"), 500,000 Shares are held by Similan Limited ("Similan"). Master Top is also entitled to a maximum of 3,908,564,725 preferred Shares of the Company according to the sale and purchase agreement signed on 31 August 2008 if the public procurement business achieves net profit of not less than HK$200,000,000 on or before the end of 2010. Both Master Top and Similan are wholly owned by Mr. Ho. Mr. Ho is also interested in 35,000,000 share options of the Company. Mr. Ho's spouse, Ms. Guo Binni, is interested in 29,348,000 Shares.

2. Mr. Lu Xing ("Mr. Lu") is interested in 79,102,980 Shares, of which 36,806,980 Shares are held by Mega Step Investments Limited ("Mega Step"), 32,000,000 Shares are held by Ascher Group Limited ("Ascher Group"). Mega Step is also entitled to a maximum of 1,184,730,828 preferred Shares of the Company according to the sale and purchase agreement signed on 31 August 2008 if the public procurement business achieves net profit of not less than HK$200,000,000 on or before the end of 2010. Both Mega Step and Ascher Group are wholly owned by Mr. Lu. Mr. Lu is also interested in 35,000,000 share options of the Company.

3. These interests represent 20,000,000 share options granted to Mr. Liu Bo, Mr. Wu Xiaodong and Mr. Cheng Yuanzhong respectively pursuant to the Share Option Scheme. Mr. Cheng Yuanzhong resigned subsequently on 8 February 2010, while Mr. Liu Bo resigned subsequently on 30 April 2010.

4. The interest represents 3,000,000 share options granted to Ms. Cheng Zhuo pursuant to the Share Option Scheme.

5. The interest represents 2,000,000 share options granted to Mr. Wu Fred Fong pursuant to the Share Option Scheme.

# DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2009, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, according to the register of interests required to be kept by the Company under Section 336 of the SFO, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

| Name of shareholders | Capacity | Number of shares interested | Percentage of the issued share capital (%) |
|---|---|---|---|
| Master Top Investments Limited[1,5] ("Master Top") | Corporate | 4,295,453,626(L) | 133.42 |
| Ho Wai Kong ("Mr. Ho") | Beneficial owner | 4,342,253,626(L) | 134.87 |
| Mega Step Investment Limited[2,5] ("Mega Step") | Corporate | 1,221,537,808(L) | 37.94 |
| Lu Xing ("Mr. Lu") | Beneficial owner | 1,298,833,808(L) | 40.34 |
| Favor Mind Holdings Limited[3,5] ("Favor Mind") | Corporate | 1,601,118,210(L) | 49.73 |
| Wang Dingbo ("Mr. Wang") | Beneficial owner | 1,608,800,544(L) | 49.97 |
| Top Access Overseas Limited[4] ("Top Access") | Corporate | 1,173,781,274(L) | 36.46 |
| Magical Power Investments Limited[4,5] ("Magical Power") | Corporate | 1,254,537,273(L) | 38.97 |
| Siu Fung ("Ms. Siu") | Beneficial owner | 1,183,537,274(L) | 36.76 |
| Legg Mason, Inc. | Corporate | 200,260,000 | 6.22 |

Notes:

1. Please refer to Note 1 in the "Directors' Interests in the Share Capital" section for details.

2. Please refer to Note 2 in the "Directors' Interests in the Share Capital" section for details.

3. Favor Mind is a Company incorporated in the British Virgin Islands and is wholly owned by Mr. Wang.

4. Top Access and Magical Power are companies incorporated in the British Virgin Islands and are directly and indirectly wholly owned by Ms. Siu respectively.

5. According to the sale and purchase agreement signed on 31 August 2008, the Company will allot and issue preferred shares to the vendor of the public procurement business including Master Top, Mega Step, Favor Mind and Magical Power if the acquired public procurement business achieves net profit of not less than HKD200,000,000 on or before the end of 2010. Assuming that the preferred shares are to be issued in full, Master Top will be entitled to 3,908,564,725 preferred shares, Mega Step will be entitled to 1,184,730,828 preferred shares, Favor Mind will be entitled to 1,601,118,210 preferred shares, Magical Power will be entitled to 1,122,715,687 preferred shares. The preferred shares are convertible to the Company's ordinary shares provided that any conversion of which will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code. For details, please refer to the relevant circular dated 16 January 2009.

# DIRECTORS' REPORT

Save as disclosed above, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had an interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO as at 31 December 2009.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 100% of the total sales for the year, in which sales to the largest customer represented approximately 50% of the total sales for the year.

Purchases from the Group's five largest suppliers amounted to approximately 100% of the total purchases for the year while total purchases from the largest supplier represented approximately 30% of the total purchases for the year.

None of the directors, their associates or any substantial shareholder had an interest in the major suppliers or customers noted above.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the year.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required under the Listing Rules during the year under review and up to the date of this report.

## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 36 to the consolidated financial statements.

## AUDITORS

Morison Heng, CPA have been appointed by the Company as the auditors who, retire and being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Ho Wai Kong**
*Chairman*

Hong Kong, 30 April, 2010

# CORPORATE GOVERNANCE REPORT

The Company recognizes that good corporate governance standards maintained throughout the Group serve as an effective risk management for the Company. The Board of Directors (the "Board") of the Company is committed to lead the Group growing in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standard.

## (1) CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the year under review with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, which were in force prior to 1 January 2005.

The Code on Corporate Governance Practices as promulgated by the Stock Exchange became effective on 1 January 2005, which provides the Code Provisions (the "CP") and recommended best practices for corporate governance practices by listed companies. The Company considered that its prevailing structures and systems satisfied the requirements of the CP. The Company will continuously enhance the corporate governance standards throughout the Group and ensure further standards to be put in place by reference to the recommended best practices whenever suitable and appropriate.

## (2) CORPORATE MANAGEMENT

### i. Board of Directors

The Board reviews and approves corporate matters such as business strategies and investments, mergers and acquisitions, as well as the general administrative and management of the Group.

The Board currently consists of 6 executive directors, 1 non-executive director, and 3 independent non-executive directors:

*Executive directors*

| | |
|---|---|
| Mr. Ho Wai Kong *(Chairman)* | (Appointed on 11 January 2010 and as Chairman on 14 January 2010) |
| Mr. Jiang Haoye | (Appointed on 1 March 2010) |
| Mr. Lu Xing | (Appointed on 11 January 2010) |
| Mr. Song Lianzhong | (Appointed on 1 March 2010 and also as deputy chairman) |
| Mr. Wu Xiaodong | (Appointed on 23 April 2009 and also as chief financial officer) |
| Mr. Zhang Guisheng | (Appointed on 30 April 2010 and also as chief executive officer) |

# CORPORATE GOVERNANCE REPORT

*Non-executive director*

| | |
|---|---|
| Ms. Cheng Zhuo | (Appointed on 8 May 2009) |

*Independent non-executive directors*

| | |
|---|---|
| Mr. Chan Tze See, Kevin | (Appointed on 22 December 2009) |
| Mr. Chen Bojie | (Appointed on 22 December 2009) |
| Mr. Wu Fred Fong | (Appointed on 26 June 2009 and chairman of Remuneration Committee and Audit Committee on 28 September 2009) |

The number of independent non-executive directors approximately equal to one third of the Board membership. The Board membership is covered by professionally qualified and widely experienced personnel so as to bringing in valuable contribution and different professional advices and consultancy for the development of the Company. More than one-half of the Board members have recognised professional legal, securities, tax and accounting qualifications.

All directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any director, Audit Committee and Remuneration Committee of the Company may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

During the year ended 31 December 2009, 51 Board Meetings have been held. Details of the attendance of the Directors are as follows:

| | Number of Board Meetings attended/ Number of Board meetings held | | |
|---|---|---|---|
| | **Board** | **Audit Committee** | **Remuneration Committee** |
| **Executive directors** | | | |
| Mr. Li Chun Tak (Resigned on 7 August 2009) | 17/33 | – | – |
| Mr. Cheng Yuanzhong (Resigned on 8 February 2010) | 3/37 | – | – |
| Mr. Wong Hin Shek (Resigned on 22 September 2009) | 22/40 | – | – |
| Mr. Dai Zhongcheng (Resigned on 22 July 2009) | 25/33 | – | – |
| Mr. Liu Bo (Resigned on 30 April 2010) | 50/51 | – | – |
| Mr. Wu Xiaodong (Appointed on 23 April 2009) | 24/36 | – | – |
| Mr. Zhao Peilai (Retired on 26 June 2009) | 23/31 | – | – |

# CORPORATE GOVERNANCE REPORT

| | Number of Board Meetings attended/ Number of Board meetings held | | |
|---|---|---|---|
| | Board | Audit Committee | Remuneration Committee |
| **Non-executive director** | | | |
| Mr. Wong Kam Fat (Resigned on 4 September 2009) | 30/39 | – | – |
| Cheng Zhuo (Appointed on 8 May 2009) | 17/31 | – | – |
| **Independent Non-executive directors** | | | |
| Mr. Au Tin Fung (Resigned on 30 September 2009) | 40/44 | 2/2 | 0/0 |
| Mr. Chan Chun Wai (Resigned on 7 August 2009) | 31/34 | 1/1 | 0/0 |
| Ms. So Wai Yee, Betty (Resigned on 28 September 2009) | 38/41 | 2/2 | 0/0 |
| Mr. Chan Tze See, Kevin (Appointed on 22 December 2009) | 0/0 | 0/0 | 1/1 |
| Mr. Chen Bojie (Appointed on 22 December 2009) | 0/0 | 0/0 | 1/1 |
| Mr. Wu Fred Fong (Appointed on 26 June 2009 and chairman of Remuneration Committee and Audit Committee on 28 September 2009) | 18/20 | 1/1 | 1/1 |

ii. **Other Committees**

There are two committees established under the Board, namely the Audit Committee and the Remuneration Committee.

(a) *Audit Committee*

The Audit Committee comprises three independent non-executive directors of the Company, one of whom possesses recognized professional qualification in accounting and has proven experience in audit and accounting. The committee is chaired by the chairman of the committee, who is an independent non-executive director.

The functions of the Audit Committee includes but not limited to the following:

- Considering and reviewing the appointment, resignation and removal of external auditors and their fees
- Reviewing the interim and annual results of the Group

# CORPORATE GOVERNANCE REPORT

- Discussing with the external auditors problems and issues of significance during the annual audit of the Group

- The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting those set out in the CP.

The works of the Audit Committee during the year under review included:

- Reviewed the 2009 interim results and annual results of the Group

- Discussed with the management of the Company over the completeness, fairness, adequacy and compliance of accounting standards and policies of the Group in the preparation of the 2009 interim and annual financial statements

- Reviewed and discussed with the external auditors over the financial reporting of the Company

- Recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors

The Audit Committee met two times during the year under review. Each committee meeting was supplied with the necessary financial information of the Group for the members to consider, review and assess matters of significance arising from the work conducted.

*(b) Remuneration Committee*

The Remuneration Committee consists of three independent non-executive directors. The committee is chaired by the chairman of the committee, who is an independent non-executive director.

The terms of reference of the Remuneration Committee follow with the CP. The committee meets at least once a year.

The Remuneration Committee is to consider and approve the remuneration plans and policies for all executive directors of the Company and senior management of the Group by reference to the prevailing rate with companies listed on the Main Board of the Stock Exchange in Hong Kong.

The Remuneration Committee met once during the year under review. The meeting was supplied with the necessary information on specific remuneration package of directors and senior management of the Group for the members to consider, review and make recommendation to the Board on the remuneration policy.

# CORPORATE GOVERNANCE REPORT

## (3) CORPORATE COMMUNICATION

The Company channels corporate information of the Group to the shareholders in a timely and accurate manner. The Company communicated with the shareholders by convening annual general meeting and special general meeting, providing the comprehensive information on the group's financial and business performance and activities in the annual report and interim report. The directors and senior executives make their best efforts to attend the annual general meeting of the Company to address to shareholders queries.

## (4) CORPORATE CONTROL

The Board has overall responsibility in monitoring the process of corporate reporting and control system throughout the Group. The corporate reporting standards are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, Securities and Futures Ordinance and other applicable regulations are delegated to the company secretarial department. The management of the Company reviews and briefs the reporting systems with the executive directors regularly and the Audit Committee and Remuneration Committee annually.

Every newly appointed director of the Company was provided with a comprehensive handout detailing the responsibilities and duties of being a director of the Company, in particular highlighting the respective applicable rules and regulation, including the Listing Rules, which a director should aware and be informed on the first occasion of his appointment with the Company.

The Company has adopted a code of conduct (the "Company's Code") regarding securities transactions by directors and employees of the Group based on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. A copy of the Company's Code was sent to each director and the relevant employees of the Group who are required to be provided under the Company's Code. All the directors have confirmed that they have complied with the required standards set out in the Company's Code.

## (5) INTERNAL CONTROL

The board is responsible for ensuring that an adequate system of internal control is maintained within the Group, and for reviewing its effectiveness through the Audit Committee. The internal control system is to help to safeguard the Group's assets, to ensure the maintenance of accounting records and to ensure the compliance with the relevant legislations and regulations.

# CORPORATE GOVERNANCE REPORT

The Board assessed the effectiveness of the Group's internal control system of major subsidiaries of the Group during the year ended 31 December 2009. No material issues on the Group's internal control systems have been identified.

## (6) AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditors for services provided for the year ended 31 December 2009 was HK$550,000.

# INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS OF**
**CHINA PUBLIC PROCUREMENT LIMITED**
**中國公共採購有限公司**
(formerly known as Sunny Global Holdings Limited)
(前稱新怡環球控股有限公司)
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of China Public Procurement Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 87, which comprise the consolidated and the company statement of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

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

# INDEPENDENT AUDITORS' REPORT

## 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 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Morison Heng**
*Certified Public Accountants*

Hong Kong: 30 April 2010

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Turnover** | 5 | 19,336 | – |
| Cost of sales | | (18,368) | – |
| **Gross profit** | | 968 | – |
| Other income | 5 | 425 | – |
| Gain on disposal of property, plant and equipment | | 491 | – |
| Impairment of goodwill | | (744,475) | – |
| Administrative expenses | | (54,710) | – |
| Other operating expenses | | (8,125) | – |
| Loss from operations | | (805,426) | – |
| Finance costs | 6 | (18) | – |
| Loss before taxation | 7 | (805,444) | – |
| Taxation | 8 | – | – |
| Loss for the year from continuing operations | | (805,444) | – |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 9 | (13,303) | (507,195) |
| **Loss for the year** | | (818,747) | (507,195) |
| **Attributable to:** | | | |
| Owners of the Company | 10 | (818,170) | (507,027) |
| Non-controlling interests | | (577) | (168) |
| | | (818,747) | (507,195) |

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

| | Notes | 2009<br>HK cents | 2008<br>HK cents |
|---|---|---|---|
| **Loss per share** | | | |
| **From continuing and discontinued operations** | 11 | | |
| – Basic | | (27.95) | (26.86) |
| – Diluted | | (27.50) | (25.82) |
| **From continuing operations** | 11 | | |
| – Basic | | (27.50) | – |
| – Diluted | | (27.05) | – |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Loss for the year** | | (818,747) | (507,195) |
| **Other comprehensive income for the year** | | | |
| Exchange differences arising on translation of foreign operations | | 123 | 219 |
| Change in fair value of available-for-sale investments | | – | (32,458) |
| Reclassification adjustments relating to foreign operations disposed of during the year | | – | (7,873) |
| **Other comprehensive income for the year** | | 123 | (40,112) |
| **Total comprehensive income for the year** | | (818,624) | (547,307) |
| **Attributable to:** | | | |
| Owners of the Company | 10 | (818,059) | (540,298) |
| Non-controlling interests | | (565) | (7,009) |
| | | (818,624) | (547,307) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 10,414 | 6,574 |
| Goodwill | 15 | – | – |
| Intangible assets | 16 | 17,143 | – |
| Available-for-sale investments | 18 | – | 14,395 |
| Derivative financial instrument | 19 | – | 7,961 |
| | | 27,557 | 28,930 |
| **Current assets** | | | |
| Deposit for acquisition of a subsidiary | | – | 60,000 |
| Trade receivables, other receivables and deposits | 20 | 24,278 | 22,122 |
| Pledged deposits | 21 | 3,600 | 15,000 |
| Bank balances and cash | 22 | 25,970 | 39,624 |
| | | 53,848 | 136,746 |
| Assets classified as held for sale | | – | 144 |
| | | 53,848 | 136,890 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 23,875 | 3,621 |
| Receipt in advance | | 2,500 | 127 |
| | | 26,375 | 3,748 |
| Liabilities classified as held for sale | | – | 15,208 |
| | | 26,375 | 18,956 |
| **Net current assets** | | 27,473 | 117,934 |
| **NET ASSETS** | | 55,030 | 146,864 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 24 | 32,196 | 22,170 |
| Reserves | 27 | 20,278 | 124,694 |
| | | 52,474 | 146,864 |
| **Non-controlling interests** | | 2,556 | – |
| | | 55,030 | 146,864 |

Approved and authorised for issued by the Board of Directors on 30 April 2010.

| | |
|---|---|
| **Ho Wai Kong**<br>*DIRECTOR* | **Song Lianzhong**<br>*DIRECTOR* |

# STATEMENT OF FINANCIAL POSITION

At 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 3 | 4 |
| Investments in subsidiaries | 17 | 1 | 7,095 |
| | | 4 | 7,099 |
| **Current assets** | | | |
| Trade receivables, other receivables and deposits | 20 | 1,821 | 5,319 |
| Amounts due from subsidiaries | 17 | 9 | 894 |
| Pledged deposits | 21 | 3,600 | 15,000 |
| Bank balances | 22 | 5,384 | 33,477 |
| | | 10,814 | 54,690 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 17 | 106 | 17,947 |
| Accruals and other payables | 23 | 23,766 | 1,190 |
| | | 23,872 | 19,137 |
| **Net current (liabilities)/assets** | | (13,058) | 35,553 |
| **NET (LIABILITIES)/ASSETS** | | (13,054) | 42,652 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 24 | 32,196 | 22,170 |
| Reserves | 27 | (45,250) | 20,482 |
| | | (13,054) | 42,652 |

Approved and authorised for issued by the Board of Directors on 30 April 2010.

**Ho Wai Kong**
*DIRECTOR*

**Song Lianzhong**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

| | Owners of the Company | | Non-controlling interests | Total equity |
|---|---|---|---|---|
| | Share capital | Reserves | | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Balance as at 1 January 2008 | 321,157 | (105,956) | 7,009 | 222,210 |
| Capital reduction | (305,099) | 305,099 | – | – |
| New shares issued | 6,112 | 394,830 | – | 400,942 |
| Warrants issued | – | 25,440 | – | 25,440 |
| Equity settled share-based payment transactions | – | 45,579 | – | 45,579 |
| Total comprehensive income for the year | – | (540,298) | (7,009) | (547,307) |
| Balance as at 31 December 2008 | 22,170 | 124,694 | – | 146,864 |
| New shares issued | 9,456 | 620,999 | – | 630,455 |
| Disposal of available-for-sale investments | – | 34,272 | – | 34,272 |
| Exercise of warrants | 10 | 390 | – | 400 |
| Exercise of share options | 560 | 28,592 | – | 29,152 |
| Equity-settled share-based payment transactions | – | 29,315 | – | 29,315 |
| Reserves released on disposal of subsidiaries | – | 75 | (117) | (42) |
| Pre-acquisition reserves of a subsidiary | – | – | 3,238 | 3,238 |
| Total comprehensive income for the year | – | (818,059) | (565) | (818,624) |
| Balance as at 31 December 2009 | 32,196 | 20,278 | 2,556 | 55,030 |

Details of reserves are set out in note 27 to the financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | (818,747) | (507,195) |
| Adjustments for: | | | |
| Depreciation | | 2,351 | 1,902 |
| Amortisation | | 3 | – |
| Impairment of goodwill | | 744,475 | 365,877 |
| Loss/(Gain) on disposal of financial assets at fair value through profit or loss | | 505 | (260) |
| Change in fair value of derivative financial instrument | | – | (6,361) |
| Impairment of trade and other receivables | | 2,611 | 60,946 |
| Reversal of impairment of other receivables for pervious year | | (36,000) | – |
| Interest expenses | | 18 | 886 |
| Interest income | | (17) | (541) |
| Loss on disposal of available-for-sale investments | | 28,904 | – |
| Net loss on disposal of property, plant and equipment | | 642 | 57 |
| Net (gain)/loss on disposal of subsidiaries | 28 | (8,184) | 2,024 |
| Equity settled share-based payment expenses | | 29,315 | 45,579 |
| Waive of trade and other payables | | – | (810) |
| **Operating loss before working capital changes** | | (54,124) | (37,896) |
| Increase in trade receivables, other receivables and deposits | | (17,633) | (4,687) |
| Increase/(Decrease) in trade and other payables | | 24,650 | (3,208) |
| Increase/(Decrease) in receipt in advance | | 2,422 | (187) |
| **Cash used in operations** | | (44,685) | (45,978) |
| Interest paid | | (18) | (886) |
| Income tax paid | | – | (1,735) |
| **Net cash used in operating activities** | | (44,703) | (48,599) |

# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (9,605) | (5,344) |
| Purchases of other intangible assets | | (72) | – |
| Proceeds from disposal of property, plant and equipment | | 1,710 | 1 |
| Proceeds from disposal of subsidiaries, net of cash disposed of | 28 | 38,448 | (10,357) |
| Acquisition of subsidiaries, net of cash acquired | 29 | (127,760) | 36 |
| Deposit for acquisition of subsidiaries | | 60,000 | (25,000) |
| Proceeds from disposal of convertible bond investments | | 15,301 | – |
| Proceeds from disposal of available-for-sale investments – listed investments | | 11,918 | – |
| Purchases of available-for-sale investments | | – | (20,712) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | – | 1,702 |
| Purchase of financial assets at fair value through profit or loss | | – | (1,600) |
| Decrease in pledged deposits | | 11,400 | 21 |
| Interest received | | 17 | 541 |
| **Net cash from/(used in) investing activities** | | 1,357 | (60,712) |
| **Cash flows from financing activities** | | | |
| Proceeds from short term loan | | 10,000 | – |
| Repayment of short term loan | | (10,000) | – |
| Repayment of obligation under finance lease | | – | (85) |
| Proceeds from issue of warrants | | – | 25,440 |
| Net proceeds from issue of share capital | | 29,552 | 4,742 |
| **Net cash from financing activities** | | 29,552 | 30,097 |
| **Net decrease in cash and cash equivalents** | | (13,794) | (79,214) |
| **Cash and cash equivalents at beginning of year** | | 39,660 | 118,195 |
| **Effect of foreign exchange rate changes** | | 104 | 679 |
| **Cash and cash equivalents at end of year** | | 25,970 | 39,660 |
| **Analysis of cash and cash equivalents at end of year** | | | |
| Bank balances and cash | 22 | 25,970 | 39,660 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated and domiciled in Bermuda. The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Suites 2805-2810, 28/F., Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company as well as provision of procurement services to general public and government in PRC. The principal activities of its subsidiaries are set out in note 17 to the financial statements.

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

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs |
| HKAS 1 (revised 2007) | Presentation of financial statements |
| HKAS 23 (revised 2007) | Borrowing costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost on Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Share-based payment – vesting conditions and cancellations |
| HKFRS 7 (Amendment) | Financial instrument: Disclosures – improving disclosures about financial instruments |
| HKFRS 8 | Operating segments |
| HK(IFRIC) – Int 9 & HKAS 39 (Amendment) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers |

Except for the following new HKFRSs, the application of other new HKFRSs had no material impact on the Group's consolidation financial statements for the current or prior accounting periods.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised statement of changes in equity. All other items of income and expense are presented in the statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKFRS 8 requires segment disclosure to be based on the way that the group's chief operating decision maker regards and manages the group, with the amounts reported for each reportable segment being the measures reported to the group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 4). Corresponding amounts have been provided on a basis consistent with the revised segment information.

The amendments to IFRS 7 require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The Group does not have financial instruments recorded at fair value as at 31 December 2009.

The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the profits or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, an impairment loss would be recognised. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The following HKFRSs in issue at 31 December 2009 have not been applied in the preparation of the consolidated financial statements for the year then ended since they were not yet effective for the annual period beginning on 1 January 2009.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRS issued in 2009[2] |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards[1] |
| HKFRS 1 (Amendment) | Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited exemption from comparative HKFRS7 Disclosures for First-time Adopters[5] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transaction[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[6] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 or a January 2010 as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So fair it has concluded that the adoption of them is unlikely to have a significant impact on the Group's financial statement except for the following:

HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2010.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively include all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. The consolidated financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

**Basis of preparation**

The financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair value. The measurement bases are fully described in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009.

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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Subsidiaries and non-controlling interests**

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

In addition, acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between non-controlling interests and the owners of the Company.

Where losses applicable to the non-controlling interests exceed the non-controlling interest in the equity of the subsidiaries, the excess, and any further losses applicable to the non-controlling interests, are charged against the Group's interest except to the extent that the non-controlling interests have a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the non-controlling interests' share of losses previously absorbed by the Group has been recovered.

In the Company's statement of financial position, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Goodwill**

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of subsidiaries is presented separately in the consolidated statement of financial position as an intangible asset.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent years.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Additional interests in subsidiaries are measured at the carrying amounts of identified assets and liabilities of the subsidiary and any excess of the consideration over the book value of net assets attributable to the additional interest acquired are accounted for as goodwill.

**Intangible assets**

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| Computer software | 20% |

Both the period and method of amortisation are reviewed annually.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Intangible assets** (Continued)

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

**Property, plant and equipment**

All property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment less their residual value, being the net amount which the Group expects to obtain from disposal of an asset at the end of its useful life after deducting the expected cost of disposal, over their estimated useful lives, using the straight line method, at the following rates per annum:

| | |
|---|---|
| Equipment and furniture | 20% |
| Motor vehicles | 20% |

Leasehold improvements are amortised over the remaining unexpired period of the lease or its estimated useful life to the Group, whichever is shorter. The principal annual rate used is 20%.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the reporting period.

The gain or loss arising on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

**Impairment of assets**

At each end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Derivative financial instruments**

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each of the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately.

**Financial assets**

Financial assets are recognised on their trade date. 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.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less impairment losses for bad and doubtful debts.

Trade and other receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Financial assets at fair value through profit or loss include financial assets held for trading to be carried at fair value through profit or loss on initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each of the end of the reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in the income statement. Any impairment losses on available-for-sale financial assets are recognised in the income statement. Impairment losses on available-for-sale equity investments will not reverse to the income statement in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each of the end of the reporting period subsequent to initial recognition. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposed group) is available for immediate sale in its present condition.

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

**Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand as well as short term highly liquid investments less bank overdrafts which are repayable on demand and form an integral part of Group's cash management.

**Financial liabilities**

The Group's financial liabilities include trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in 'finance costs' in the income statement.

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method.

**Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Foreign currencies**

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

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rate prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the end of the reporting period. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong dollars at the closing rates.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which related to that foreign operation is included in the calculation of the profit or loss on disposal.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue recognition**

Revenue comprises the fair value for the sale of goods and services, net of discounts and after elimination of sales within the Group. Revenue is recognised as follows:

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with time when goods are delivered to customers and title has passed.

Operating lease rental income is recognised on a straight-line basis over the lease period.

Interest income is recognised on a time-proportion basis using the effective interest method.

**Employee benefits**

*Employee leave entitlements*

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

*Pension obligations*

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to the income statement as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited by employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

*Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the share-based compensation reserve within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value for the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each of the end of the reporting period, the Group revises the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share-based compensation reserve until the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

**Borrowing costs**

All borrowing costs are recognised as expenses in the year in which they are incurred.

**Taxation**

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of the reporting period.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Related parties**

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly, through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**Provision and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. SEGMENT INFORMATION

The Group has identified its operating segments based on the regular internal financial information reporting to the Group's senior management for its decisions about resources allocation and performance assessment. During the year, the Group disposed of its operations of coal trading, information technology, general trading and corporate management. Therefore, for the year ended 31 December 2009, the directors concluded that there is no separate reporting segment apart from the public procurement services. Senior management reviews and assesses the performance on the public procurement services based on the information available for purpose of allocating resources to the segment and assessing its performance.

## 5. TURNOVER AND OTHER INCOME

The principal activity of the Group is provision of procurement services to general public and government in PRC.

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

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Turnover** | | |
| Public procurement | 19,336 | – |
| **Other income** | | |
| Interest income | 16 | – |
| Sundry income | 409 | – |
| | 425 | – |

## 6. FINANCE COSTS

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Interest on short-term loan | 18 | – |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. LOSS BEFORE TAXATION

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Loss before taxation from continuing operations has been arrived at after charging:** | | |
| Auditors' remuneration | | |
| – provision for the year | 550 | – |
| – underprovision for prior year | 100 | – |
| – Other services | 250 | – |
| Cost of inventories recognised as expense | 17,957 | – |
| Depreciation of property, plant and equipment | 1,841 | – |
| Amortisation of intangible assets | 3 | |
| Exchange loss | 97 | – |
| Impairment of goodwill | 744,475 | – |
| Operating lease rentals – office premises | 4,429 | – |
| Staff costs (including directors' remuneration – note 12) | | |
| – Salaries and allowances | 14,019 | – |
| – Retirement scheme contributions | 312 | – |
| – Equity settled share-based payment expenses | 29,315 | – |

## 8. TAXATION

No Hong Kong Profits Tax has been provided in the financial statements as the Group has sustained a loss for the year (2008: Nil).

No PRC income tax has been provided as the Group has sustained a loss for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC (2008: Nil).

No deferred tax asset has been recognised in the financial statements as it is uncertain such an asset will crystallise in the foreseeable future (2008: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 8. TAXATION (Continued)

Detail of the unprovided deferred tax assets at 31 December 2009 are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Shortfall of tax allowances over accounting depreciation | 606 | 579 | – | – |
| Estimated taxation losses carried forward | (2,087,260) | (4,028) | (2,087,260) | (1,877) |
| | (2,086,654) | (3,449) | (2,087,260) | (1,877) |

## 9. DISCONTINUED OPERATIONS

### (a) Disposal of coal trading operations

On 22 April 2009, the Group entered into a sale agreement to dispose of its entire interest in Great Hill Trading Limited and its subsidiaries ("Great Hill Group") at a consideration of HK$34,000,000, which carried out all of Group's coal trading operations. The disposal was completed on 8 May 2009 on which date control of Great Hill Group passed to acquirer.

### (b) Disposal of information technology operations

The Group entered into three sale agreements to dispose of the entire issued share capital of the following wholly-owned subsidiaries ("The IT Groups") which carried out all of Group's information technology business:

(i) Global Great Development Limited and its subsidiary on 26 May 2009 at a consideration of HK$100,000;

(ii) Joy Century Holding Limited and its subsidiary on 8 June 2009 at a consideration of HK$10,000; and

(iii) SLS Investment Limited and its subsidiary on 12 June 2009 at a consideration of HK$6,000.

The disposals were completed on 19 May 2009, 9 June 2009 and 19 May 2009 respectively on which dates control of the IT Groups passed to acquirers.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 9. DISCONTINUED OPERATIONS (Continued)

### (c) Disposal of general trading operations

The Group entered into three sale agreements to dispose of the entire issued share capital of the following wholly-owned subsidiaries ("The General Trading Group") which carried out all of Group's general trading operations:

(i) Chinaway Network Technology Limited on 5 February 2009 at a consideration of HK$50,000; and

(ii) Successful Link International Limited and its subsidiary on 5 February 2009 at a consideration of US$10,000; and

(iii) Interactive Broadband Services Limited on 12 June 2009 at a consideration of HK$250,000.

The disposals were completed on 5 February 2009, 5 February 2009 and 19 May 2009 respectively on which dates control of the General Trading Groups passed to acquirers.

### (d) Disposal of corporate management operations

On 30 May 2009, the Group entered into a sale agreement to dispose of its entire issued share capital of Star Excel Management Limited and its subsidiaries ("Star Excel Group") at a consideration of HK$12,500,000 which carried out all of Group's corporate management operations. The disposal was completed on 17 June 2009 on which date control of the Star Excel Group passed to acquirer.

Details of the assets and liabilities disposed of, and the calculation of the gain or loss on disposal, are disclosed in note 28.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 9. DISCONTINUED OPERATIONS (Continued)

**Analysis of loss for the year from discontinued operations**

The combined results of the discontinued operations included in the consolidated statement of comprehensive income and consolidated statement of cash flows are set out below. The comparative loss and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Loss for the year from discontinued operations** | | |
| Revenue | 715 | 208,936 |
| Other income | 80 | 8,217 |
| Expenses | (27,630) | (295,444) |
| Reversal of impairment of other receivables for previous year | 36,000 | – |
| Impairment of other receivables | (110) | (60,946) |
| Net loss on disposal of property, plant and equipment | (1,133) | (57) |
| Impairment of goodwill | – | (365,877) |
| Loss on disposal of subsidiaries | – | (2,024) |
| Loss on disposal of available-for-sale investments | (28,904) | – |
| Loss on disposal of derivative financial instrument | (505) | – |
| Loss before tax | (21,487) | (507,195) |
| Taxation | – | – |
| | (21,487) | (507,195) |
| Gain on disposal of operations | 8,184 | – |
| Loss for the year from discontinued operations | (13,303) | (507,195) |
| **Loss before taxation from discontinued operations included the following:** | | |
| Auditors' remuneration | 127 | 749 |
| Depreciation | 339 | 1,902 |
| Exchange loss | – | 287 |
| Impairment of goodwill | – | 365,877 |
| Impairment of trade and other receivables | 110 | 60,946 |
| Loss on disposal of property, plant and equipment | 1,134 | 57 |
| Operating lease rentals – office premises | 2,077 | 1,997 |
| Staff costs (including directors' remuneration – note 12) | | |
| – Salaries and allowances | 8,481 | 13,296 |
| – Retirement scheme contributions | 144 | 528 |
| – Equity settled share-based payment expenses | – | 45,579 |
| **Cash flows from discontinued operations** | | |
| Net cash outflows from operating activities | (29,982) | (48,599) |
| Net cash inflows/(outflows) from investing activities | 28,365 | (60,712) |
| Net cash inflows from financing activities | – | 30,097 |
| Net cash inflows/(outflows) | 1,617 | (79,214) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 10. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of HK$745,028,000 (2008: HK$854,946,000) which has been dealt with in the financial statements of the Company.

## 11. LOSS PER SHARE

**From continuing and discontinued operations**

The calculation of basic and diluted loss per share are based on the loss attributable to owners of the Company of HK$818,170,000 (2008: HK$507,027,000) and the weighted average number of ordinary shares for the purpose of basic and diluted loss per share are calculated as follows:

*Number of shares*

| | 2009 | 2008 |
|---|---|---|
| | '000 | '000 |
| Issued ordinary shares at beginning of year | 2,217,025 | 1,605,785 |
| Effect of warrants exercised | 751 | 3,547 |
| Effect of share options exercised | 33,275 | 1,316 |
| Issue of shares for acquisition of subsidiaries | 676,194 | 252,459 |
| Effect of convertible bonds exercised | – | 24,590 |
| Weighted average number of ordinary shares for purpose of basic loss per share at 31 December 2009 | 2,927,245 | 1,887,697 |
| Effect of deemed issue of shares attributable to the Company's instrument of warrants | – | 47,882 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration | 48,271 | 28,271 |
| Weighted average number of ordinary shares for purpose of diluted loss per share at 31 December 2009 | 2,975,516 | 1,963,850 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 11. LOSS PER SHARE (Continued)

**For continued operation**

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

Loss figures are calculated as follows:

| | 2009 | 2008 |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| Loss for the year attributable to owners of the Company | (818,170) | – |
| Add: | | |
| Loss for the year from discontinued operations | 13,303 | – |
| Loss for the purpose of basic and diluted loss per share from continuing operations | (804,867) | – |

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

**From discontinued operations**

Basic loss per share for the discontinued operations is HK$0.45 cents per share (2008: HK$26.86 cents loss per share) and diluted loss per share for the discontinued operations is HK$0.45 cents per share (2008:HK25.82 cents loss per share), based on the loss for the year from the discontinued operations of HK$13,303,000 (2008: HK$507,027,000 loss) and the denominators used are the same as those detailed above for the both basis and diluted loss per share.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 12. DIRECTORS' REMUNERATION

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

**For the year ended 31 December 2009**

| | Fee | Salaries and allowances | Discretionary Bonus | Retirement scheme contributions | Share-based payments | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Executive directors | | | | | | |
| Mr. Cheng Yuan Zhong[1] | – | 1,075 | – | – | – | 1,075 |
| Mr. Dai Zhongcheng[2] | – | 402 | – | 7 | – | 409 |
| Mr. Li Chun Tak[3] | – | 263 | 30 | 8 | – | 301 |
| Mr. Liu Bo | – | 840 | – | 12 | 3,391 | 4,243 |
| Mr. Wong Hin Shek[4] | – | 436 | – | 8 | – | 444 |
| Mr. Wu Xiaodong[5] | – | 496 | – | – | – | 496 |
| Mr. Zhao Peilai[6] | – | 587 | – | 6 | 3,391 | 3,984 |
| | – | 4,099 | 30 | 41 | 6,782 | 10,952 |
| Non-executive director | | | | | | |
| Mr. Wong Kam Fat, Tony[7] | 244 | – | 30 | 8 | – | 282 |
| Mr. Cheng Zhuo[8] | 233 | – | – | – | 879 | 1,112 |
| | 477 | – | 30 | 8 | 879 | 1,394 |
| Independent non-executive directors | | | | | | |
| Mr. Au Tin Fung[9] | 72 | – | – | – | – | 72 |
| Mr. Chan Chun Wai[10] | 58 | – | – | – | – | 58 |
| Ms. So Wai Yee, Betty[11] | 72 | – | – | – | – | 72 |
| Mr. Chan Tze See[12] | – | – | – | – | – | – |
| Mr. Chen Bojie[12] | – | – | – | – | – | – |
| Mr. Wu Fred Fong[13] | 123 | – | – | – | 648 | 771 |
| | 325 | – | – | – | 648 | 973 |
| | 802 | 4,099 | 60 | 49 | 8,309 | 13,319 |

1 Appointed on 23 April 2009 and resigned on 8 February 2010
2 Resigned on 22 July 2009
3 Resigned on 7 August 2009
4 Resigned on 22 September 2009
5 Appointed on 23 April 2009
6 Resigned on 26 June 2009
7 Resigned on 4 September 2009
8 Appointed on 8 May 2009
9 Resigned on 30 September 2009
10 Resigned on 7 August 2009
11 Resigned on 28 September 2009
12 Appointed on 22 December 2009
13 Appointed on 26 June 2009

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 12. DIRECTORS' REMUNERATION (Continued)

**For the year ended 31 December 2008**

| | Fee | Salaries and allowances | Retirement scheme contributions | Share-based payments | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Executive directors | | | | | |
| Mr. Li Chun Tak | – | 365 | 12 | 39,867 | 40,244 |
| Mr. Wong Hin Shek | – | 600 | 12 | 854 | 1,466 |
| Mr. Dai Zhong Cheng | – | 577 | 10 | 854 | 1,441 |
| Mr. Liu Bo | – | 418 | 6 | – | 424 |
| Mr. Zhao Peilai | – | 571 | 6 | – | 577 |
| Mr. Yip Kwan, Ben | – | – | – | 427 | 427 |
| | – | 2,531 | 46 | 42,002 | 44,579 |
| Non-executive director | | | | | |
| Mr. Wong Kam Fat, Tony | 374 | – | 12 | – | 386 |
| Independent non-executive directors | | | | | |
| Mr. Au Tin Fung | 96 | – | – | – | 96 |
| Mr. Chan Chun Wai | 96 | – | – | – | 96 |
| Mr. Tsui Pak Hang | 4 | – | – | – | 4 |
| Ms. So Wai Yee, Betty | 96 | – | – | – | 96 |
| | 292 | – | – | – | 292 |
| | 666 | 2,531 | 58 | 42,002 | 45,257 |

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3.

The details of the share options are disclosed under the paragraph "Share option scheme" in the report of the directors and note 26.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2008: three) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The aggregate of the emoluments in respect of the other three (2008: two) individuals are as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Basic salaries, other allowances and benefits in kind | 3,750 | 3,821 |
| Discretionary bonus | 100 | – |
| Retirement scheme contributions | 21 | 901 |
| Share-based payments | 11,844 | 41,971 |
| | 15,715 | 46,693 |

The emoluments of the three (2008: two) individuals with the highest emoluments are within the following bands:

| | 2009 | 2008 |
|---|---|---|
| HK$1,500,000 – HK$2,000,000 | 3 | 2 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 14. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Equipment and furniture | Motor vehicles | Leasehold improvements | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | |
| At 1 January 2008 | 2,522 | 803 | 1,209 | 4,534 |
| Additions | 233 | 5,102 | 9 | 5,344 |
| Disposals | (717) | – | (50) | (767) |
| Exchange adjustments | 53 | – | – | 53 |
| Reclassified as held for sale | (47) | – | – | (47) |
| At 31 December 2008 | 2,044 | 5,905 | 1,168 | 9,117 |
| Additions | 3,044 | 2,475 | 4,086 | 9,605 |
| Acquisition of a subsidiary | 27 | – | – | 27 |
| Disposals | (487) | (1,897) | (1,168) | (3,552) |
| Disposal of subsidiaries | (1,614) | (803) | – | (2,417) |
| At 31 December 2009 | 3,014 | 5,680 | 4,086 | 12,780 |
| DEPRECIATION AND IMPAIRMENT LOSS | | | | |
| At 1 January 2008 | 890 | – | 165 | 1,055 |
| Charge for the year | 555 | 1,181 | 166 | 1,902 |
| Eliminated on disposals | (447) | – | (1) | (448) |
| Exchange adjustments | 43 | – | – | 43 |
| Reclassified as held for sale | (9) | – | – | (9) |
| At 31 December 2008 | 1,032 | 1,181 | 330 | 2,543 |
| Charge for the year | 348 | 1,525 | 478 | 2,351 |
| Eliminated on disposals | (191) | (679) | (330) | (1,200) |
| Disposal of subsidiaries | (1,007) | (321) | – | (1,328) |
| At 31 December 2009 | 182 | 1,706 | 478 | 2,366 |
| **NET BOOK VALUE** | | | | |
| At 31 December 2009 | 2,832 | 3,974 | 3,608 | 10,414 |
| At 31 December 2008 | 1,012 | 4,724 | 838 | 6,574 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

**Company**

| | Equipment and furniture |
|---|---|
| | HK$'000 |
| COST | |
| Additions, at 31 December 2008 and at 31 December 2009 | 5 |
| DEPRECIATION AND IMPAIRMENT LOSS | |
| Charge for the year and at 31 December 2008 | 1 |
| Charge for the year | 1 |
| At 31 December 2009 | 2 |
| NET BOOK VALUE | |
| At 31 December 2009 | 3 |
| At 31 December 2008 | 4 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 15. GOODWILL

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2008 | 203,982 |
| Acquisition of subsidiaries | 351,372 |
| At 31 December 2008 | 555,354 |
| Acquisition of a subsidiary | 744,475 |
| Disposal of subsidiaries | (555,354) |
| At 31 December 2009 | 744,475 |
| IMPAIRMENT LOSS | |
| At 1 January 2008 | 189,477 |
| Impairment loss recognised | 365,877 |
| At 31 December 2008 | 555,354 |
| Impairment loss recognised | (744,475) |
| Derecognised on disposal of subsidiaries | (555,354) |
| At 31 December 2009 | (744,475) |
| CARRYING AMOUNTS | |
| At 31 December 2009 | – |
| At 31 December 2008 | – |

**Impairment tests for cash-generating units containing goodwill**

Goodwill is allocated to the group's cash-generating units identified according to country of operation and business segment as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Public procurement business | – | – |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 16. INTANGIBLE ASSETS

**Group**

| | Computer Software | Online Platform Promotion Right | Online Platform Development and Technical Support Right | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | |
| Additions | 72 | – | – | 72 |
| Acquisition of a subsidiary | 11 | 9,090 | 7,954 | 17,055 |
| Exchange adjustment | – | 10 | 9 | 19 |
| At 31 December 2009 | 83 | 9,100 | 7,963 | 17,146 |
| IMPAIRMENT LOSS | | | | |
| Amortise for the year and at 31 December 2009 | 3 | – | – | 3 |
| CARRYING AMOUNTS | | | | |
| At 31 December 2009 | 80 | 9,100 | 7,963 | 17,143 |
| At 31 December 2008 | – | – | – | – |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 17. INTERESTS IN SUBSIDIARIES

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Unlisted shares, at cost | 1 | 42,803 |
| Less: Impairment loss | – | (35,708) |
| | 1 | 7,095 |
| Amounts due from subsidiaries | 1,387,084 | 776,787 |
| Less: Impairment loss | (1,387,075) | (775,893) |
| | 9 | 894 |
| Less: Amounts due to subsidiaries | (106) | (17,947) |
| | (97) | (17,053) |

The amounts due from/(to) subsidiaries are unsecured, interest free and are repayable on demand. The carrying amounts of the amounts due from/(to) subsidiaries are approximate to their fair values.

Particulars of the subsidiaries at 31 December 2009 are as follows:

| Name | Place of incorporation/ establishment and operation | Issued/Registered capital | Attributable equity interests held by the Company Direct | Attributable equity interests held by the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Appraise Asia Investments Limited | BVI | US$1 Ordinary share | 100% | – | Investment holding |
| Hong Kong Public Procurement Limited (Formerly known as "China Public Procurement Limited") | Hong Kong | HK$1 Ordinary share | 100% | – | Inactive |
| Positive Rise Holdings Limited | BVI | US$100 Ordinary shares | 100% | – | Investment holding |
| Skyking Holdings Limited | BVI | US$1 Ordinary share | 100% | – | Investment holding |
| Treasure Hill Holdings Limited | BVI | US$1 Ordinary share | 100% | – | Inactive |
| Well Inspire Limited | BVI | US$1 Ordinary share | 100% | – | Investment holding |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 17. INTERESTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ establishment and operation | Issued/Registered capital | Attributable equity interests held by the Company Direct | Attributable equity interests held by the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Famous Ever International Limited | Hong Kong | HK$1 Ordinary share | – | 100% | Provision of management services |
| Famous Key Holdings Limited | Hong Kong | HK$1 Ordinary share | – | 100% | Provision of management services |
| Kingsun International Trading Limited | BVI | US$1 Ordinary share | – | 100% | Inactive |
| Well Content Limited | BVI | US$1 Ordinary share | – | 100% | Inactive |
| Public Procurement Limited* | Hong Kong | HK$34,000,000 Ordinary share | – | 100% | Investment holding |
| Hero Joy International Limited* | BVI | US$4,350,100 Ordinary shares | – | 100% | Investment holding |
| Guocai (Beijing) Technique Company Limited * # | PRC | Registered capital RMB57,000,000 | – | 90% | Provision of technological development, advisory services, business planning and public-relations activities for online procurement business |

* Subsidiaries acquired during the year.

# Not audited by Morison Heng or other member firm of Morison International.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 18. AVAILABLE-FOR-SALE INVESTMENTS

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Listed investments: | | |
| – equity securities listed in Hong Kong, at fair value | – | 5,637 |
| Unlisted investment: | | |
| – liability component of convertible bond | – | 8,758 |
| | – | 14,395 |

## 19. DERIVATIVE FINANCIAL INSTRUMENT

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Unlisted investment: | | |
| – derivative embedded in the convertible bonds | – | 7,961 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 20. TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

**Group**

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Trade receivables due from a related party | – | 4,974 |
| Other trade receivables | 1,388 | 1,083 |
| | 1,388 | 6,057 |
| Less: Allowance for doubtful debts (note ii) | – | (569) |
| Trade receivables – net (note i) | 1,388 | 5,488 |
| Other receivables | 4,634 | 63,444 |
| Less: Allowance for doubtful debts | – | (62,350) |
| Other receivables – net | 4,634 | 1,094 |
| Prepayments and deposits | 18,256 | 15,540 |
| | 24,278 | 22,122 |

Notes:

i. As at 31 December 2009, the ageing analysis of the trade receivables net of allowance for doubtful debts was as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| 0-30 days | 1,388 | 297 |
| 31-60 days | – | 5,166 |
| 61-90 days | – | – |
| 91-180 days | – | 1 |
| 181-365 days | – | 24 |
| | 1,388 | 5,488 |

ii. The movement in the allowance for doubtful debts during the year is as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| At beginning of year | – | 6,524 |
| Impairment loss recognised | – | 569 |
| Amounts written off as uncollectible | – | (6,524) |
| At end of year | – | 569 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 20. TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS (Continued)

**Company**

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Trade receivables due from a related party | – | 4,974 |
| Other trade receivables | 439 | – |
| Trade receivables | 439 | 4,974 |
| Other receivables | – | 345 |
| Prepayments and deposits | 1,382 | – |
| | 1,821 | 5,319 |

As at 31 December 2009, the ageing analysis of the trade receivables net of allowance for doubtful debts was as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| 0-30 days | 439 | – |
| 31-60 days | – | 4,974 |

## 21. PLEDGED DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Bank deposits | 3,600 | 15,000 | 3,600 | 15,000 |

At 31 December 2009, the Group had total banking facilities of HK$3,600,000 (2008: HK$15,000,000). The banking facilities were secured by the Group's pledged bank deposits amounting to HK$3,600,000 (2008: HK$15,000,000). The carrying amounts of the pledged deposits approximate to their fair values.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 22. BANK BALANCES AND CASH

Bank balances and cash include the following components:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Cash at banks and in hand | 25,970 | 39,624 | 5,384 | 33,477 |
| Bank balances and cash included in a disposal group held for sale | – | 36 | – | – |
| | 25,970 | 39,660 | 5,384 | 33,477 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash at banks approximate to their fair values.

Included in cash at banks is an amount of approximately HK$20,208,000 (2008: HK$23,000), representing deposits placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

## 23. TRADE AND OTHER PAYABLES

**Group**

| | **2009** | **2008** |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| Trade payables | – | 300 |
| Accruals and other payables | 23,875 | 3,321 |
| | 23,875 | 3,621 |

As at 31 December 2008, the ageing analysis of the trade payables was as follows:

| | **2009** | **2008** |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| 0-30 days | – | 300 |

**Company**

| | **2009** | **2008** |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| Accruals and other payable | 23,766 | 1,190 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 24. SHARE CAPITAL

| | Number of shares | HK$'000 |
|---|---|---|
| **Authorised:** | | |
| ***Ordinary shares of HK$0.01 each*** | | |
| At 1 January 2008 | | |
| Ordinary shares of HK$0.10 each | 5,000,000,000 | 500,000 |
| Reduction of par value of share capital | – | (475,000) |
| Consolidation of shares | (2,500,000,000) | – |
| Ordinary shares of HK$0.01 each | 2,500,000,000 | 25,000 |
| Increase in authorized share capital | 7,500,000,000 | 75,000 |
| At 31 December 2008 and at 31 December 2009 | 10,000,000,000 | 100,000 |
| ***Convertible non-redeemable preference shares of HK$0.01 each*** | | |
| Authorising on 9 February 2009 and at 31 December 2009 (Note i) | 10,000,000,000 | 100,000 |
| **Issued and fully paid:** | | |
| ***Ordinary shares of HK$0.01 each*** | | |
| At 1 January 2008 | 3,211,570,000 | 321,157 |
| Reduction of issued share capital | – | (305,099) |
| Consolidation of shares | (1,605,785,000) | – |
| Issue of shares for acquisition of a subsidiary | 400,000,000 | 4,000 |
| Issue of shares upon exercise of share options | 2,240,000 | 22 |
| Issue of shares upon exercise of warrants | 9,000,000 | 90 |
| Issue of shares upon exercise of convertible bonds | 200,000,000 | 2,000 |
| At as 31 December 2008 | 2,217,025,000 | 22,170 |
| Issue of shares for acquisition of a subsidiary (Note ii) | 945,635,485 | 9,456 |
| Issue of shares upon exercise of share options (Note iii) | 55,922,000 | 560 |
| Issue of shares upon exercise of warrants (Note iv) | 1,000,000 | 10 |
| At 31 December 2009 | 3,219,582,485 | 32,196 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 24. SHARE CAPITAL (Continued)

Notes:

(i) Pursuant to a special resolution passed at special general meeting of the Company held on 9 February 2009, the authorised share capital of the Company was increased from HK$100,000,000 to HK$200,000,000 by authorising an additional 10,000,000,000 convertible non-redeemable preference shares of HK$0.01 each.

(ii) Pursuant to an agreement entered on 31 August 2008, the Group completed the acquisition of the entire issued share capital of Hero Joy International Limited on 15 April 2009 by the payments as follows:

(a) The allotment and issuing of 945,635,485 ordinary shares of HK$0.01 each of the Company credited as partly paid at an issue price of HK$0.6667 per consideration share to the vendor; and

(b) Contingent consideration arrangement, as set out in note 29.

(iii) During the year ended 31 December 2009, share options were exercised to subscribe for 55,922,000 (2008: 2,240,000) ordinary shares in the Company at a consideration of HK$29,152,000 (2008: $1,142,000) of which HK$560,000 (2008: HK$22,000) was credited to share capital and the balance of HK$28,592,000 (2008: HK$1,120,000) was credited to the share premium account. HK$12,864,000 (2008: $526,000) has been transferred from the share-based compensation reserve to the share premium account.

(iv) During the year ended 31 December 2009, warrants were exercised to subscribe for 1,000,000 (2008: 9,000,000) ordinary shares in the Company at a consideration of HK$400,000 (2008: HK$3,600,000) of which HK$10,000 (2008: HK$90,000) was credited to share capital and the balance of HK$390,000 (2008: HK$3,510,000) was credited to share premium. HK$80,000 (2008: $720,000) has been transferred from the warrant reserve to the share premium account.

## 25. WARRANTS

| | 2009 Number '000 | 2008 Number '000 |
|---|---|---|
| Outstanding at beginning of year | 309,000 | – |
| Issued during the year | – | 318,000 |
| Exercised during the year | (1,000) | (9,000) |
| Warrants expired on 25 December 2009 | (308,000) | – |
| Outstanding at end of year | – | 309,000 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 26. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company had adopted a share option scheme on 12 June 2002 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company. The options are exercisable immediately (or a later date as determined by the directors of the Company) from the date on which the options are granted for a period up to ten years or 11 June 2012, whichever is earlier. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

| Option Type | Number of instruments | Vesting conditions | Contractual life of options |
|---|---|---|---|
| | '000 | | |
| Options granted to directors: | | | |
| – on 3 September 2007 | 14,806 | Immediately from the date of grant | 10 years |
| – on 9 May 2008 | 147,500 | Immediately from the date of grant | 10 years |
| – on 26 March 2009 | 40,000 | Immediately from the date of grant | 3 years |
| – on 14 August 2009 A | 3,000 | One year from the date of grant | 3 years |
| – on 14 August 2009 B | 2,000 | Two year from the date of grant | 3 years |
| Options granted to employees: | | | |
| – on 3 September 2007 | 34,256 | Immediately from the date of grant | 10 years |
| – on 22 February 2008 | 5,000 | Immediately from the date of grant | 10 years |
| – on 9 May 2008 | 8,000 | Immediately from the date of grant | 10 years |
| – on 26 March 2009 | 132,200 | Immediately from the date of grant | 3 years |
| – on 14 August 2009 | 5,400 | Immediately from the date of grant | 3 years |
| – on 9 November 2009 A | 5,600 | Immediately from the date of grant | 3 years |
| – on 9 November 2009 B | 3,000 | One year from the date of grant | 1.98 years |
| – on 9 November 2009 C | 2,500 | Two year from the date of grant | 1.98 years |
| Total share options | 403,262 | | |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 26. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

| | 2009 Weighted average exercise price | 2009 Number of option | 2008 Weighted average exercise price | 2008 Number of option |
|---|---|---|---|---|
| | | '000 | | '000 |
| Outstanding at the beginning of the year | HK$0.743 | 209,562 | HK$0.255 | 102,604 |
| Consolidation of shares | – | – | HK$0.255 | (51,302) |
| Granted during the year | HK$0.543 | 193,900 | HK$0.814 | 160,500 |
| Forfeited during the year | HK$0.784 | (175,700) | – | – |
| Exercised during the year | HK$0.517 | (55,922) | HK$0.510 | (2,240) |
| Outstanding at the end of the year | HK$0.548 | 171,840 | HK$0.743 | 209,562 |

The weighted average share price at the date of exercise for shares options exercised during the year was HK$1.069 (2008: HK$0.447)

The options outstanding at 31 December 2009 had a weighted average exercise price of HK$0.548 (2008: HK$0.743) and a weighted average remaining contractual life of 2.97 years (2008: 9.342 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on binomial tree model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

| Grant date | 26.3.2009 | | 14.8.2009 | | | 9.11.2009 | | |
|---|---|---|---|---|---|---|---|---|
| Option Type | Director | Employee | Director | | Employee | Employee | | |
| | | | A | B | | A | B | C |
| Fair value at measurement date | HK$0.188 | HK$0.146 | HK$0.327 | HK$0.360 | HK$0.256 | HK$0.219 | HK$0.234 | HK$0.258 |
| Share price | HK$0.500 | HK$0.500 | HK$0.900 | HK$0.900 | HK$0.900 | HK$0.750 | HK$0.750 | HK$0.750 |
| Exercise price | HK$0.500 | HK$0.500 | HK$1.00 | HK$1.00 | HK$1.00 | HK$0.770 | HK$0.770 | HK$0.770 |
| Expected volatility | 63.99% | 63.99% | 65.46% | 65.46% | 65.46% | 63.45% | 64.49% | 64.49% |
| Option life | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years | 1.98 years | 1.98 years |
| Expected dividends | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Risk free interest rate | 1.214% | 1.214% | 1.123% | 1.123% | 1.123% | 0.899% | 0.492% | 0.492% |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 26. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

| Grant date | 22.2.2008 | 9.5.2008 Director | 9.5.2008 Employee | 3.9.2007 |
|---|---|---|---|---|
| Fair value at measurement date | HK$0.220 | HK$0.285 | HK$0.309 | HK$0.234 |
| Share price | HK$0.590 | HK$0.820 | HK$0.820 | HK$0.510 |
| Exercise price | HK$0.640 | HK$0.820 | HK$0.820 | HK$0.510 |
| Expected volatility | 91.55% | 94.48% | 94.48% | 84% |
| Option life | 1.24 years | 1.05 years | 1.05 years | 2.1 years |
| Expected dividends | 0% | 0% | 0% | 0% |
| Risk free interest rate | 3.06% | 2.71% | 2.71% | 4.46% |

The expected volatility is based on the historical volatility. Expected dividends are based on historical dividends. Changes in the subjective input assumption could materially affect the fair value estimate.

(d) Terms of unexpired and unexercised share options at the end of the reporting period are as follows:

| Exercise period | Exercise price | 2009 Number | 2008 Number |
|---|---|---|---|
| 3 September 2007 to 3 September 2017 | HK$0.51 | – | 49,062,000 |
| 22 February 2008 to 21 February 2018 | HK$0.64 | – | 5,000,000 |
| 9 May 2008 to 8 May 2018 | HK$0.82 | – | 155,500,000 |
| 26 March 2009 to 25 March 2012 | HK$0.50 | 150,340,000 | – |
| 14 August 2009 to 13 August 2012 | HK$1.00 | 5,400,000 | – |
| 14 August 2010 to 13 August 2012 | HK$1.00 | 3,000,000 | – |
| 14 August 2011 to 13 August 2012 | HK$1.00 | 2,000,000 | – |
| 9 November 2009 to 8 November 2012 | HK$0.77 | 5,600,000 | – |
| 1 October 2010 to 31 October 2011 | HK$0.77 | 3,000,000 | – |
| 1 October 2011 to 31 October 2011 | HK$0.77 | 2,500,000 | – |
| | | 171,840,000 | 209,562,000 |

Each option entitles the holders to subscribe for one ordinary share in the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 27. RESERVES

### Group

| | Share Premium | Warrant reserve | Merger reserve (Note a) | Share-based compensation reserve | Translation reserve | Investment valuation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2008 | 122,333 | – | 8,390 | 12,043 | 738 | (1,814) | (247,646) | (105,956) |
| Change in fair value of available-for-sale investments | – | – | – | – | – | (32,458) | – | (32,458) |
| Capital reduction | – | – | – | – | – | – | 305,099 | 305,099 |
| Warrants issued | – | 25,440 | – | – | – | – | – | 25,440 |
| Premium arising on issue of shares | 376,000 | – | – | – | – | – | – | 376,000 |
| Exercise of warrants | 4,230 | (720) | – | – | – | – | – | 3,510 |
| Exercise of share options | 1,646 | – | – | (526) | – | – | – | 1,120 |
| Conversion of convertible bonds | 14,200 | – | – | – | – | – | – | 14,200 |
| Equity settled share-based payment transactions | – | – | – | 45,579 | – | – | – | 45,579 |
| Reserves transferred upon disposal of subsidiaries | – | – | – | – | (750) | – | – | (750) |
| Exchange differences arising on translation of foreign operations | – | – | – | – | (63) | – | – | (63) |
| Net loss for the year | – | – | – | – | – | – | (507,027) | (507,027) |
| As at 31 December 2008 | 518,409 | 24,720 | 8,390 | 57,096 | (75) | (34,272) | (449,574) | 124,694 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 27. RESERVES (Continued)

### Group

| | Share Premium | Warrant reserve | Merger reserve (Note a) | Share-based compensation reserve | Translation reserve | Investment valuation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2009 | 518,409 | 24,720 | 8,390 | 57,096 | (75) | (34,272) | (449,574) | 124,694 |
| Disposal of available-for-sale investments | – | – | – | – | – | 34,272 | – | 34,272 |
| Warrants expired (note 24) | – | (24,640) | – | – | – | – | 24,640 | – |
| Premium arising on issue of shares (note 23(ii)) | 620,999 | – | – | – | – | – | – | 620,999 |
| Exercise of warrants (note 23(iv)) | 470 | (80) | – | – | – | – | – | 390 |
| Exercise of share options (note 23(iii)) | 41,456 | – | – | (12,864) | – | – | – | 28,592 |
| Forfeiture of share option (note 25 (b)) | – | – | – | (47,156) | – | – | 47,156 | – |
| Equity settled share-based payment transactions (note 25) | – | – | – | 29,315 | – | – | – | 29,315 |
| Reserves transferred upon disposal of subsidiaries | – | – | – | – | 75 | – | – | 75 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 111 | – | – | 111 |
| Net loss for the year | – | – | – | – | – | – | (818,170) | (818,170) |
| As at 31 December 2009 | 1,181,334 | – | 8,390 | 26,391 | 111 | – | (1,195,948) | 20,278 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 27. RESERVES (Continued)

### Company

| | Share Premium | Warrant reserve | Contributed surplus (Note b) | Share-based compensation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2008 | 122,333 | – | 27,210 | 12,043 | (57,106) | 104,480 |
| Reduction of par value of share capital | – | – | 305,099 | – | – | 305,099 |
| Warrants issued | – | 25,440 | – | – | – | 25,440 |
| Premium arising on issue of shares | 376,000 | – | – | – | – | 376,000 |
| Exercise of warrants | 4,230 | (720) | – | – | – | 3,510 |
| Exercise of share options | 1,646 | – | – | (526) | – | 1,120 |
| Conversion of convertible bonds | 14,200 | – | – | – | – | 14,200 |
| Equity settled share-based payment transactions | – | – | – | 45,579 | – | 45,579 |
| Loss for the year | – | – | – | – | (854,946) | (854,946) |
| As at 31 December 2008 | 518,409 | 24,720 | 332,309 | 57,096 | (912,052) | 20,482 |
| Premium arising on issue of ordinary shares (note 24 (ii)) | 620,999 | – | – | – | – | 620,999 |
| Warrants expired (note 25) | – | (24,640) | – | – | 24,640 | – |
| Exercise of warrants (note 24(iv)) | 470 | (80) | – | – | – | 390 |
| Exercise of share options (note 24(iii)) | 41,456 | – | – | (12,864) | – | 28,592 |
| Forfeiture of share options (note 26(b)) | – | – | – | (47,156) | 47,156 | – |
| Equity settled share-based payment transactions (note 26) | – | – | – | 29,315 | – | 29,315 |
| Loss for the year | – | – | – | – | (745,028) | (745,028) |
| As at 31 December 2009 | 1,181,334 | – | 332,309 | 26,391 | (1,585,284) | (45,250) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 27. RESERVES (Continued)

Notes:

(a) Merger reserve of the Group represents the difference between the aggregate of the nominal value of the ordinary shares of the subsidiaries acquired and the nominal value of the ordinary shares of the Company issued pursuant to the Group reorganisation.

(b) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares of the Company issued in a share for share exchange and the fair value of the aggregate net assets of the subsidiaries acquired.

Under the Bermuda Companies Act 1981, contributed surplus of the Company is available for distribution, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31 December 2009 and 31 December 2008, no reserve of the Company was made available for distribution as the aggregate of the contributed surplus and the accumulated losses are in debit balance.

## 28. DISPOSAL OF SUBSIDIARIES

**For the year ended 31 December 2009**

*(i) Disposal of coal trading operations*

On 22 April 2009, the Group entered into a sale agreement to dispose of its coal trading operation represented by its entire interest in Great Hill Group, as disclosed in note 9(a), to Ultra Million Limited, the non-controlling interests of Great Hill Group.

*(ii) Disposal of information technology operations*

During the year, the Group entered into three sale agreements to dispose its information technology operation represented by the entire issued share capital of IT Group, as disclosed in note 9(b), to acquirers.

*(iii) Disposal of general trading operations*

During the year, the Group entered into three sale agreements to dispose of the entire issued share capital of the General Trading Group, as set out in note 9(c), which carried out all of Group's general trading operations.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 28. DISPOSAL OF SUBSIDIARIES (Continued)

*(iv) Disposal of corporate management operations*

On 30 May 2009, the Group entered into a sale agreement to dispose of its entire issued share capital of Star Excel Group, as set out in note 9(d), which carried out all of Group's corporate management operations.

The consolidated net assets (liabilities) of Great Hill Group, IT Group, General Trading Group and Star Excel Group at the respective dates of disposal are as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Net assets disposed of: | | |
| Property, plant and equipment | 1,127 | 261 |
| Investment in an associate | 4,000 | – |
| Trade receivables, other receivables and deposits | 49,859 | 640 |
| Bank balances and cash | 8,546 | 18,282 |
| Trade and other payables | (20,631) | (178) |
| Receipt in advance | (49) | (713) |
| Net assets disposal of | 38,852 | 18,292 |
| Non-controlling interests | (117) | (7,123) |
| Release of translation reserve | 75 | (1,220) |
| Gain/(Loss) on disposal | 8,184 | (2,024) |
| Total consideration | 46,994 | 7,925 |
| Satisfied by cash and cash equivalents | 46,994 | 7,925 |
| Net cash inflow/(outflow) arising on disposal: | | |
| Consideration received in cash and cash equivalents | 46,994 | 7,925 |
| Less: cash and cash equivalent balances disposed of | (8,546) | (18,282) |
| | 38,448 | (10,357) |

The business sold during the year contributed HK$715,000 and HK$36,081,000 to the Group's turnover and other income respectively and loss of HK$13,303,000 to the consolidated loss for the year.

The business sold during the year contributed net operating cash outflow of HK$29,982,000 to the Group's net operating cash outflow.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 29. ACQUISITION OF SUBSIDIARIES

**For the year ended 31 December 2009**

On 15 April 2009, the Group acquired the entire issued share capital of Hero Joy International Limited ("Hero Joy") and its subsidiaries, Public Procurement Limited and Guocai (Beijing) Technique Company Limited (hereinafter collectively referred to as "Hero Joy Group"), from independent third parties. The acquired business of Hero Joy is engaged in provision of public procurement in PRC ("Public Procurement Business").

The acquired business contributed revenues of HK$19,761,000 and incurred net loss of HK$805,444,000 to the Group from the date of acquisition to 31 December 2009.

The identifiable assets and liabilities, stating at the fair value and net carrying amount, arising from the acquisition are as follows:

| | **2009** |
|---|---|
| | **HK$'000** |
| Non-current assets | |
| Property | 27 |
| Other intangible assets | 17,055 |
| Current assets | |
| Other receivables | 923 |
| Cash and cash equivalents | 14,740 |
| Current liabilities | |
| Other payable | (1,027) |
| Net identifiable assets acquired | 31,718 |
| Non-controlling interests | (3,238) |
| Goodwill on acquisition (note 15) | 744,475 |
| Total cost of acquisition | 772,955 |
| Satisfied by | |
| Fair value of shares issued during the year | 630,455 |
| Contingent consideration arrangement (note i) | – |
| Acquisition-related costs | 142,500 |
| | 772,955 |

The fair value of the shares issued was based on quoted market bid prices available on the Stock Exchange.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 29. ACQUISITION OF SUBSIDIARIES

Note:

(i) On 31 August 2008, the Group entered into an agreement to acquire the entire issued share capital of Hero Joy from independent third parties ("Vendors"). Pursuant to the agreement, the Group is required to pay additional consideration ("Earn-out") to vendors if the Public Procurement Business achieves net profit after tax and extraordinary expenses shown in the audited financial statements for the year ended 31 December 2010. The Earn-out will be satisfied by issue and allotment of new preferred shares of the Company at an issue price of HK$0.6667 per share.

*Earn-out = { 2010 NPAT* X 30} Less Basic Consideration*

*NPAT represents net profit after tax and extraordinary expenses

The aggregate consideration for the acquisition should not be more than HK$6,000 million. It would not be possible at the end of reporting period to estimate the NPAT of the Public Procurement Business for the year ended 31 December 2010 and hence there had no reasonable measurement of the fair value of the obligation of contingent consideration arrangement for the year ended 31 December 2009.

| | **2009** | **2008** |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| Net cash (outflow)/inflow in respect of the acquisitions: | | |
| Cash consideration paid during the year | – | – |
| Acquisition-related costs | (142,500) | – |
| Cash at bank acquired | 14,740 | 36 |
| | (127,760) | 36 |

If the acquisition had occurred on 1 January 2009, the acquired business's revenue and loss for the year ended 31 December 2009 would have been RMB19,761,000 and HK$805,444,000 respectively; the Group's consolidated revenue from continuing operation and consolidated profit from continuing operation would have been HK$19,761,000 and HK$805,444,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

The goodwill on acquisition of the above subsidiary represents value obtainable from synergies with the Group and opportunities for the Group to access to the public procurement business in PRC that were provided by the above newly acquired subsidiaries.

Goodwill impairment is disclosed in note 15 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 30. OPERATING LEASE COMMITMENTS

**Group**

As at 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Within one year | 4,829 | 2,216 |
| In the second to fifth years | 4,170 | 833 |
| | 8,999 | 3,049 |

**Company**

As at 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable by the Company as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Within one year | 2,376 | – |
| In the second to fifth years | – | – |
| | 2,376 | – |

The Group leases two (2008: eight) properties under the operating leases. The leases run for an initial period of one to three years, with an option to renew the lease terms upon the expiry date or at dates as mutually agreed between the Group and the respective landlords. None of the leases include contingent rentals.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 31. COMMITMENTS

**Group**

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Contracted but not provided for | | |
| – capital contribution to a subsidiary | – | 26,000 |
| – commission payable | – | 142,500 |
| | – | 168,500 |

**Company**

The Company did not have any significant commitments as at the end of the reporting period (2008: Nil).

## 32. RELATED PARTY TRANSACTIONS

In addition to the related party transactions as disclosed in other notes to these financial statements, the Group had the following significant transactions:

**(a) Disposal of subsidiaries**

On 8 May 2009, the Group disposed its entire interest in Great Hill Group, as disclosed in note 28, to Ultra Million Limited, the non-controlling interests of Great Hill Group at a consideration of HK$34,000,000.

**(b) Key management compensation**

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 12, is as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Fee | 802 | 666 |
| Salaries and allowances | 7,645 | 2,531 |
| Retirement scheme contributions | 59 | 58 |
| Share-based payments | 8,309 | 42,002 |
| | 16,815 | 45,257 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulted accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**Estimated impairment of goodwill and property, plant and equipment**

The Group tests annually whether goodwill and the property, plant and equipment have suffered any impairment in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on fair value. These calculations require the use of estimates.

If the actual gross margin had been higher than the management's estimates, the Group would not be able to reverse any impairment losses that arose on goodwill.

**Share-based payments**

The fair value of the options granted is estimated by independent professional valuers based on the various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the options at the date of granting the options.

## 34. CAPITAL MANAGEMENTS

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Group's stability and growth; and

(c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity as capital, for capital management purpose.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and bank and time deposits. The main purpose of these financial instruments is to provide funds for the Group's operations. The Group has various other financial assets and liabilities such as debtors, deposits paid, and trade payables, which arise directly from its operations.

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

### (a) Cash flow interest rate risk

The Group has no significant interest-bearing assets and liabilities. Cash at bank earns interest at floating rates based on daily bank deposits rates.

The Group does not have any derivative instruments to reduce its economic exposure to changes in interest rates.

### (b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparts' failure to perform their obligations as at 31 December 2009 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each of the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the management considers that the Group's credit risk is significantly reduced.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Company has a certain concentration of credit risk as 6% (2008: 75%) of the total trade and other receivables were due from a customer.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### (c) Foreign exchange risk

The Group is exposed to currency risks primarily arising from balances (trade receivables, other receivables and deposits, bank balances and cash, trade payables and other payables) that are denominated in the United States dollars (USD) and Renmibi (RMB). As the USD is pegged to the Hong Kong dollar (HKD), the Group considers the risk of movements in exchange rates between the HKD and the USD to be insignificant. No related hedges were made by the Group.

At December 31, 2009, if RMB had strengthen/weakened by 5% against HKD with all other variables kept constants, the Group net loss for the year would have been approximately HK$846,891 (2008: HK$59,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of those overseas investments denominated in different currencies.

*Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the Group's functional currency:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | USD | RMB | USD | RMB |
| Trade receivables, other receivables and deposits | 1,000,000 | 12,898,947 | 695,911 | 59,807 |
| Bank balances and cash | 139,744 | 7,004,267 | 4,085 | 20,577 |
| Trade and other payables | – | (51,112) | – | (1,330,101) |
| Net exposure to currency risk | 1,139,744 | 19,852,102 | 699,996 | (1,249,717) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### (d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants by reviewing each operating entity's cash flow forecast, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

**2009**

| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Trade and other payables | 23,875 | 23,875 | 23,875 |

**2008**

| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Trade and other payables | 3,748 | 3,748 | 3,748 |

### (e) Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 36. EVENTS AFTER THE REPORTING PERIOD

**Equity-linked debt instruments ("ELDIs")**

On 11 February 2010, the Company entered into a subscription agreement with Standard Bank ("the Subscriber"). Pursuant to the agreement, the Subscriber agreed to subscribe for the ELDIs in the principal amount of HK$40,000,000 with the right to convert into not more than 48,543,689 ordinary share of par value HK$0.01 each of the Company and the Company's obligations under the agreement are guaranteed by the Mr. Ho Wai Kong, the Chairman of the Company.

The details of ELDIs were disclosed in the Company's announcement on 12 February 2010.

On 23 February 2010, The Company announced that the issue of ELDIs was completed.

# FINANCIAL SUMMARY

## RESULTS

| | Year ended 31 December | | Period ended 31 December | Year ended 30 September | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | 20,051 | 208,936 | 57,831 | 26,808 | 42,809 |
| Loss before taxation | (818,747) | (507,195) | (146,909) | (36,283) | (58,205) |
| Taxation | – | – | (1,654) | – | – |
| Loss for the year | (818,747) | (507,195) | (148,563) | (36,283) | (58,205) |
| Attributable to: | | | | | |
| Owners of the Company | (818,170) | (507,027) | (151,480) | (35,926) | (57,890) |
| Non-controlling interests | (577) | (168) | 2,917 | (357) | (315) |
| | (818,747) | (507,195) | (148,563) | (36,283) | (58,205) |

## ASSETS AND LIABILITIES

| | Year ended 31 December | | Period ended 31 December | Year ended 30 September | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | 81,405 | 165,820 | 232,892 | 81,999 | 80,368 |
| Total liabilities | (26,375) | (18,956) | (10,682) | (9,601) | (7,222) |
| Total equity | 55,030 | 146,864 | 222,210 | 72,398 | 73,146 |
| Equity attributable to the owners of Company | 52,474 | 146,864 | 215,201 | 69,050 | 72,524 |
| Non-controlling interests | 2,556 | – | 7,009 | 3,348 | 622 |
| Total equity | 55,030 | 146,864 | 222,210 | 72,398 | 73,146 |