Zhongtian International Limited
中天國際控股有限公司*
Incorporated in the Cayman Islands with limited liability
Stock Code: 02379

Build Your Dreams

Annual Report 2010

* for identification purposes only

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

CHEN Jun
ZHAO Yun

INDEPENDENT NON-EXECUTIVE DIRECTORS

HUNG Randy King Kuen
CHEN Wen Ping
LIU Jin Lu

COMPANY SECRETARY

TAI Man Hin, Tony

AUDIT COMMITTEE

HUNG Randy King Kuen
CHEN Wen Ping
LIU Jin Lu

HONG KONG LEGAL ADVISORS

Loong & Yeung

AUTHORISED REPRESENTATIVES

CHEN Jun
ZHAO Yun

STOCK CODE

02379

COMPANY'S WEBSITE

www.irasia.com/listco/hk/zhongtian

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 2001-05, 20th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

AUDITOR

CCIF CPA Limited

PRINCIPAL BANKERS

Qingdao Huafeng Rural
Cooperative Bank Shazikou Branch
The Hongkong and Shanghai Banking Corporation Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
P.O. Box 705, Butterfield House
68 Fort Street
George Town
Grand Cayman KY1-1107
Cayman Islands

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

21st Floor
Huaren International Mansion
No. 2 Shandong Road
Shinan District
Qingdao City
Shandong Province
The People's Republic of China ("PRC")

CHAIRMAN’S STATEMENT

We are to broaden our horizon, to seek opportunities, and to advance stably!

On behalf of the board (the “Board”) of directors (the “Directors”) of Zhongtian International Limited (the “Company”) and its subsidiaries (collectively, the “Group”), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December 2010 (the “Year”).

In the year of 2010, under the overall recovery of the global economy and strong appreciation of Renminbi, the economy on the Mainland China turned slightly over-heated. The increase in CPI value is reflected in the rising prices of raw material and service, and the soaring land tenure and development cost.

During the Year, the Group’s major business was development and sale of building intelligent control system and electronic products, which realised annual sales income of RMB 9,680,000 and brought more prominent growth in turnover and profits than the last year. This business has become the major income source of the Group. It is expected that the Group would keep on developing this domain in future in order to generate larger revenue.

Influenced by international situation and China’s macroeconomic regulation policies, the level of land tenure and development cost, the price of building materials and wages continued to rise, which posed a heavy burden on the financial condition of the Group. The Board, after repeated analysis and discussion, decided to dispose the “Zhongtian Software Park” project (the “Project”) to mitigate the pressure on the liquidity of the Group since the Board had targeted for long-term interests and reducing loss. The disposal was completed in February 2010.

As the local commercial property rental remained at high level and the banking industry was booming, after analysis and consideration, the Group decided to acquire certain equity interests in local banks and to hold quality properties with long-term investment value in the Year, so as to replenish the Group’s assets. The relevant acquisition was completed in February 2010.

In the year of 2010, the equity interests in the local bank that the Group held realize dividend income of RMB 591,000 which maintains at a good and stable return on investment. The Group also anticipates the commercial properties that it holds will bring stable rental revenue after renovation. In addition, the Group will conduct a detailed assessment on the feasibility of aggrandizing investment in banking and property sectors.

For further details on the Group’s acquisitions of equity interests in the local bank and properties, and the disposal of the Project during the Year, please refer to the section headed “Substantial Acquisition and Disposal” in this report.

Being well aware of the risk of type of income being too monotonous and focused, the Group is now considering to develop in other business domains such as energy and metal international trading, and proactively undertakes flexibility assessment and relevant negotiations.

After experiencing the severe test of the global financial tsunami, under the condition of rapid recovery of international and China’s economy, the Board remained confident of and optimistic about the future prospect of the Group. For the year of 2010, the Group had constructive advancements in business development, it is believed under the operation of the Board, which shows great foresight, the Group will definitely be able to broaden its horizon, that opportunities, and advance stably!

Zhongtian International Limited
Chen Jun
Chairman

14 February 2011

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the Year, the Group was principally engaged in three major business segments, which were information technology, equity investment and property.

Information Technology

The Group had gradually faded out from the markets of providing software services to the financial industry and other industries. Meanwhile, taking the advantage of the Group's self-owned technology, human and marketing resources, the development and sale of intelligent electronic products became a new business with fewer obstructions in the course of the transition to the Group's diversified operation. This development and sale proved the advantage of such business in terms of being low input with high output, and with rapid increase of revenue and stable demands from customers, to which the Group attached great importance.

Meanwhile, as the competition in this domain had been keen and the overall cost for exploring new customers had been relatively high, the Board considered that this domain cannot be the only income source.

Equity Investment

In view of the continuing prosperous development of PRC local banks in recent years, the Group acquired equity interests in a PRC commercial bank. The Group obtained continual and stable cash flow due to the return from the bonus dividend received from the commercial bank.

For the details of the above acquisition of equity interests in the commercial bank, please refer to the section headed "Substantial Acquisition and Disposal" below.

Property

Influenced by international situation and China's macroeconomic regulation policies, the level of land tenure and development cost, the price of building materials and wages continued to rise, which posed a heavy burden to the financial condition of the Group. The Board, after analysis and discussion, decided to dispose the "Zhongtian Software Park" project located at Laoshan District, Qingdao City to mitigate the pressure on the liquidity of the Group.

As the commercial property rentals in Qingdao City remained at high level, it was expected that the property lease market would be able to keep its boom within a particular period. After analysis and consideration, the Board decided to acquire quality properties in Qingdao City with potentials for appreciation in the long run. These properties will be available for lease as well after renovation and bring stable rental revenue.

For the details of the above disposal of "Zhongtian Software Park" project and the acquisition of properties, please refer to the section headed "Substantial Acquisition and Disposal" below.

FINANCIAL REVIEW

Turnover and Gross Profit

The Group's total turnover for the Year was approximately RMB10,271,000 (2009: RMB5,402,000), representing an increase of 90.1% for the same period in 2009. This was mainly due to the growth in sales in intelligent electronic products. The gross profit increased by 199.6% to RMB1,471,000 from RMB491,000 in 2009 mainly contributed by profit on the sales of intelligent electronic products.

Selling and Distribution Costs

During the Year, the Group postponed all the marketing activities due to the lack of large-scale tender projects. There was no distribution costs for the Year (2009: Nil).

General and Administrative Expenses

The Group's administrative expenses for the Year were approximately RMB 6,387,000 (2009: approximately RMB7,964,000), representing a decrease of 19.8% over 2009. This was mainly due to decrease in property rental cost during the Year as compared with 2009.

Net Loss

During the Year, the Group recorded a net loss of approximately RMB4,587,000, which was decreased by RMB12,955,000 as compared to the net loss of approximately RMB17,542,000 for 2009. The improvement was mainly due to no impairment loss of land and property under development this Year as compared with one-off impairment RMB 9,048,000 last year. Basic loss per share in 2010 was RMB 2.7 Cents as compared with basic loss per share in 2009 of RMB16.8 Cents.

BUSINESS REVIEW

Analysis by Business Segment

During the Year, the Group's principal source of income was derived from the sale of intelligent electronic products from information technology segment, which accounted for 94.2% of the total turnover of the Group. Equity investment segment accounts for the remaining 5.8% of the total turnover.

During the Year, all of the Group's income was derived from the Shangdong Province, the PRC, accounting for 100% of the Group's total turnover.

FUTURE OUTLOOK

The Group will continue to promote the development and sales of intelligent components products and consolidate the business divisions of the existing and newly acquired subsidiaries.

Meanwhile, the Group acquired quality commercial properties through acquisition that was completed at the beginning of 2010 and has planned for leasing such properties. Such leasing is expected to generate steady rental income in the future. The Group has been also considering the possibility of further investment in commercial properties.

On the other hand, given that the prospect for a rapid development of the PRC local banking industry, it is expected that the equity interests in the commercial bank held by the Group will continue to generate stable income. The Group will also conduct a detailed assessment on the possibility of further investment in the financial industry.

DEBTS

As at 31 December 2010, the Group had no debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease, mortgages or charges, guarantees or major contingent liabilities (31 December 2009: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirement represents mainly working capital in relation to the sale of software and hardware products and related costs of business expansion. The Group used to finance its operation and investment from internal resources.

As at 31 December 2010, the Group had cash and bank balances of approximately RMB27,922,000 (31 December 2009: approximately RMB19,317,000), of which around 76% and 24% was held in RMB and HK$ respectively. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 0% (31 December 2009: 0%).

During the Year, the Group did not employ any material financial instrument for hedging purposes.

FOREIGN EXCHANGE

Since most of the revenue generated from the sale of products by the Group and the payment for purchases of materials, components and equipment are in RMB, the Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements. The Group had not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates and had not adopted any currency hedging policy or other hedging instruments during the Year.

SUBSTANTIAL ACQUISITION AND DISPOSAL

On 3 December 2009, the Company's wholly-owned subsidiary, New East Glory Limited (the "Purchaser") and Mr. Chen Jun ("Mr. Chen") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser had conditionally agreed to acquire and Mr. Chen had conditionally agreed to sell the entire issued share capital of Great Miracle Holdings Limited ("Great Miracle"), together with, among others, the interests of 6,510,000 shares in 青島華豐農村合作銀行 (Qingdao Huafeng Rural Co-operation Bank), a bank established in the PRC, and the interests in two properties located in Qingdao City, the Shandong Province, the PRC, all held by 青島海逸投資諮詢有限公司 (Qingdao Hai Yi Investment and Consultancy Co., Ltd.) which is a wholly-owned subsidiary of Great Miracle, at a consideration of HK$52,704,000 (the "Acquisition"). The consideration under the Acquisition Agreement was to be satisfied by the issue and allotment of 60,859,122 new shares of the Company (the "Consideration Shares") at the issue price of HK$0.866 per Consideration Share to Mr. Chen (or his nominee which shall be a company controlled by him) upon completion of the Acquisition Agreement.

On 3 December 2009, 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Co., Ltd.) (the "Vendor"), a wholly-owned subsidiary of the Company and Mr. Chen entered into a disposal agreement (the "Disposal Agreement"), pursuant to which the Vendor had conditionally agreed to sell and Mr. Chen had conditionally agreed to acquire (i) the 100% equity interest in the entire registered capital of 青島中天軟件園 有限公司 (Qingdao Zhongtian Software Park Co., Ltd.) ("Zhongtian Software Park"), an indirect wholly-owned subsidiary of the Company; and (ii) all amounts due to the Vendor by Zhongtian Software Park and all loans made to Zhongtian Software Park by the Vendor as at 31 October 2009 which amounted to RMB50,026,887.79, at a consideration of RMB35,000,000 (the "Disposal").

As the applicable percentage ratios under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") exceeded 100% for the Acquisition and 75% for the Disposal, the Acquisition and the Disposal constituted a very substantial acquisition and a very substantial disposal of the Company respectively. Mr. Chen is a director and a controlling shareholder of the Company. Therefore, Mr. Chen is a connected person of the Company and accordingly, the Acquisition and the Disposal constituted connected transactions of the Company and were subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The completion of the Acquisition and the Disposal was inter-conditional. On 23 February 2010, the independent shareholders of the Company ("Shareholders") approved, among others, the Acquisition and the Disposal at the extraordinary general meeting held on the same date. The Acquisition and the Disposal completed on 25 February 2010 and all the Consideration Shares were issued and allotted to Fine Mean Investments Limited ("Fine Mean"), a company wholly-owned by Mr. Chen, on the same date.

Details of the Acquisition and the Disposal were announced by the Company in its announcements dated 16 December 2009, 21 December 2009, 23 February 2010 and 25 February 2010, and in its circular dated 29 January 2010 respectively.

Save as disclosed above, during the period, there was no other material acquisition and disposal of subsidiaries and associated companies by the Company.

CHARGE ON ASSET

The Group and the Company had no pledged asset as at 31 December 2010 (31 December 2009: Nil).

CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 December 2010 (31 December 2009: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group had 7 employees (31 December 2009: 14). Most of the Group's employees were based in the head office of the Group in Qingdao City of Shandong Province in the PRC.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the Year was approximately RMB1,166,000 (31 December 2009: approximately RMB1,149,000).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

FINAL DIVIDEND

The Directors do not recommend the payment of any dividend for the Year (year ended 31 December 2009: HK$ Nil).

REPORT OF THE DIRECTORS

The Board presents their report together with the audited financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 20 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income. The Board does not recommend the payment of any dividend for the Year.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the Year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 29 to the financial statements.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 28.

As at 31 December 2010, the Company had reserves available for distribution of RMB88,727,000 (2009: RMB48,844,000).

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 98 of this annual report.

DIRECTORS

The Directors during the Year and up to the date of this report were:

Executive directors

Mr. Chen Jun
Mr. Zhao Yun

Independent non-executive directors

Mr. Hung Randy King Kuen
Mr. Liu Jin Lu *(appointed on 20 May 2010)*
Mr. Chen Wen Ping
Ms. Yuan Kai Hong *(resigned on 20 May 2010)*

Each of Mr. Zhao Yun, Mr. Hung Randy King Kuen, Mr. Chen Wen Ping and Mr. Liu Jin Lu will retire from office as Directors at the forthcoming annual general meeting of the Company.

Mr. Zhao Yun, Mr. Chen Wen Ping and Mr. Liu Jin Lu, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles of Association of the Company (the "Articles"). Due to the need to concentrate on other personal development, Mr. Hung Randy King Kuen will not seek re-election at the forthcoming annual general meeting.

At the forthcoming annual general meeting, an ordinary resolution will be put forward to the Shareholders in relation to the proposed election of Mr. Guo Qiang as an independent non-executive Director to replace Mr. Hung Randy King Kuen.

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract on 6 March 2010 with the Company for a term of three years unless terminated by not less than three months' notice in writing served by either party on the other.

One of the independent non-executive Directors, Mr. Hung Randy King Kuen has entered into a service agreement with the Company for a term commencing on 27 July 2010 and ending at the conclusion of the forthcoming annual general meeting of the Company. The other two independent non-executive Directors namely, Mr. Chen Wen Ping and Mr. Liu Jin Lu have respectively entered into a service contract with the Company for a term of one year commencing on 20 May 2010 and ending at the conclusion of the forthcoming annual general meeting of the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICS

Directors

Executive Directors

CHEN Jun (陳軍), Chairman of the Board, aged 38, is currently a supervisor of 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Co., Ltd.). Mr. Chen is also a director of Success Advantage Limited (成益有限公司), Great Miracle Holdings Limited (精英控股有限公司), Shan Dong Travel Service Holdings Limited (山東旅遊控股有限公司), Qingdao Hai Yi Commercial Management Co., Ltd. (青島海逸商業管理有限公司), Boxing Group Limited (寶勝集團有限公司), Hongkong Zhongtian Mining Limited (香港中天礦業有限公司) and 青島海逸投資諮詢有限公司 (Qingdao Hai Yi Investment and Consultancy Co., Ltd.), all are wholly owned subsidiaries of the Company.

Mr. Chen graduated from 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Chen is also the Visiting Professor and Instructor of Master students of Qingdao Technological University (青島理工大學), School of Civil Engineering. Mr. Chen has over 13 years of experience in corporate planning and management. Mr. Chen is a director and the sole beneficial owner of the entire issued share capital of Fine Mean, being the controlling Shareholder, holding 59.74% interest in the Company alone and together with parties acting in concert with it holding approximately 62.79% interest in the Company as at the date of this report.

ZHAO Yun (趙贇), Chief Executive Officer of the Group, aged 38, is currently a director of Success Advantage Limited (成益有限公司), New East Glory Limited (東耀有限公司), Golden Century Trade Limited (金世紀貿易有限公司), Best Sight Limited (瑋邦有限公司) and 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Co., Ltd.), all are wholly owned subsidiaries of the Company. Prior to joining the Group, Mr. Zhao graduated from 南開大學 (Nankai University) and 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Zhao has over 8 years of experience in corporate investment.

Independent non-executive Directors

HUNG Randy King Kuen (孔敬權), aged 45, is an independent non-executive Director. Mr. Hung is a Fellow Certified Public Accountant of Hong Kong and a Certified Public Accountant of the United States. Mr. Hung holds a bachelor's degree of science in accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Law, Taxation and Finance from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung is currently an independent non-executive director of Zhongyu Gas Holding Limited (stock code: 8070) and was an executive director of China Shineway Pharmaceutical Group Limited (stock code: 2877) and an independent non-executive director of ZZNode Technologies Company Limited (formerly known as ZZNode Holdings Company Limited) (stock code: 2371). Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants, deputy chairman of training committee of the Hong Kong Institute of Directors and a member of the Hong Kong Securities Institutes.

CHEN Wen Ping (陳文平), aged 38, is an independent non-executive Director and graduated from The Shandong Academy of Economy (山東經濟學院), majoring in finance in 1998 and had been qualified as a PRC lawyer in 2001. Mr. Chen has extensive experience in accounting and financial management. He had worked for 山東匯德會計師事務所有限公司 (Shandong Huide Accounting Firm Co., Ltd.) for 3 years as a practicing accountant and valuer. He is currently the department head of the finance department of 青島高校軟控有限公司 (Qingdao Mesnac Co., Ltd.), which is a PRC listed company.

LIU Jin Lu (劉金祿), aged 49, is an independent non-executive Director and graduated from The Beijing Sport University (北京體育大學). Mr. Liu had been the deputy head of 北京金鼎木製品廠 (Beijing Jinding Muzhipin Factory) from 1983 to 1998 and has been the general manager of 北京天頌三佳緣商貿中心 (Beijing Tiansong Sanjiayuan Commercial Centre) since 1998.

DIRECTORS' REMUNERATION

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group. In addition, the Directors' remuneration is reviewed by the remuneration committee of the Company ("Remuneration Committee") annually.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, interests or short positions in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules (the "Model Code") are as follows:

(A) Long position in the Shares

Name of Director	Capacity	Number of Shares held/interested	Approximate Shareholding Percentage
Mr. Chen Jun ("Mr. Chen")	Interest of a controlled Corporation	1,861,384,001 (Note 1)	1,029.19% (Note 1)
	Beneficial owner	60,775,000 (Note 2)	33.60% (Note 2)
		1,922,159,001	1,062.79%

(B) Long position in shares of associated corporations

Name of Director	Name of the associated corporation	Capacity	Number of shares held	Approximate Shareholding Percentage
Mr. Chen	Fine Mean Investments Limited ("Fine Mean")	Beneficial owner	1	100%

Save as disclosed above, as at 31 December 2010, none of the Directors nor chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

(C) Interest in the Shares

Name of Substantial Shareholder	Capacity	Number of Shares held/interested	Approximate Shareholding Percentage
Fine Mean (Note 1)	Beneficial owner	1,861,384,001	1,029.19%
Ms. Su Haiqing (Notes 1, 2 & 3)	Interest of spouse	1,922,159,001	1,062.79%

Notes:

1. Those 1,861,384,001 Shares included (i) the 1,080,427,810 rights shares (the "Rights Shares") which Fine Mean had undertaken to subscribe for in respect of all its provisional entitlement under the proposed rights issue (the "Rights Issue") announced by the Company on 17 December 2010; (ii) all the Rights Shares in the total amount of 672,913,410 Shares which Fine Mean had obligations to subscribe for as the underwriter to the Rights Issue; and (iii) the 108,042,781 Shares which were beneficially held by Fine Mean. Mr. Chen was the sole director of Fine Mean and held the entire issued share capital of Fine Mean, and therefore, was deemed or taken to be interested in all the Shares in which Fine Mean was interested under the SFO. The percentage of shareholding in the Company is calculated on the basis of 180,859,122 Shares in issue as at 31 December 2010. On 26 January 2011, the independent Shareholders disapproved the Rights Issue at the extraordinary general meeting of the Company and as at the date of this report, Fine Mean held 108,042,781 Shares which represented approximately 59.74% of the issued share capital of the Company.

2. Those 60,775,000 Shares included (i) the 55,250,000 Rights Shares which Mr. Chen had undertaken to subscribe for in respect of all his provisional entitlement under the Rights Issue; and (ii) the 5,525,000 Shares which were beneficially held by Mr. Chen. The percentage of shareholding in the Company is calculated on the basis of 180,859,122 Shares in issue as at 31 December 2010. On 26 January 2011, the independent Shareholders disapproved the Rights Issue at the extraordinary general meeting of the Company and as at the date of this report, Mr. Chen held 5,525,000 Shares which represented approximately 3.05% of the issued share capital of the Company.

3. Ms. Su Haiqing is the spouse of Mr. Chen. Under the SFO, Ms. Su Haiqing is deemed, or taken to be, interested in all the Shares in which Mr. Chen is interested.

Save as disclosed above, as at 31 December 2010, the Company had not been notified of any substantial Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Substantial Acquisition and Disposal" in this report, no Director during the Year had a beneficial interest, either direct or indirect, in any contract of significance (as defined in Appendix 16 to the Listing Rules) to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the section headed "Substantial Acquisition and Disposal" and the section headed "Directors' and chief executives' interests and short positions in Shares and underlying Shares and debentures" above, at no time during the Year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective associates to acquire such rights in any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2010 **%**	2009 %
Percentage of purchases:		
From the largest supplier	**100%**	100%
From the five largest suppliers	**100%**	100%
Percentage of turnover:		
From the largest customer	**49.1%**	100%
From the five largest customers	**100%**	100%

None of the Directors, their associates or any Shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers nor suppliers.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2010, the Directors were not aware of any business or interest of the Directors or any substantial Shareholder (as defined under the Listing Rules) and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

PUBLIC FLOAT

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

SHARE OPTION

There was no outstanding share option during the Year. Details of the share option scheme of the Company are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles and the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

During the Year, save as disclosed in the section headed "Substantial Acquisition and Disposal" in this report and note 34 to the financial statements, the Group had not entered into any connected transaction which is not exempt under Rule 14A.31 of the Listing Rules.

Continuing connected transactions

The Group had no continuing connected transactions (other than continuing connected transactions that are exempt under Rule 14A.33 of the Listing Rules) during the Year.

Save as disclosed above, the Directors consider that those material related party transactions disclosed in note 34 to the financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

The Board considered that the Company had complied with the code provisions set out in the Code of Corporate Governance Practices as stipulated in Appendix 14 to the Listing Rules during the Year.

The Group's compliance with the code provisions is set out in the Corporate Governance Report from page 18 to page 22 of this report.

ANNUAL GENERAL MEETING AND BOOK CLOSURE

The annual general meeting of the Company will be held on 8 April 2011 at 10:00 a.m. at 21st Floor, Huaren International Mansion, 2 Shandong Road, Qingdao Province, the PRC.

The transfer books and Register of Members of the Company will be closed from 4 April 2011 to 8 April 2011, both days inclusive. During such period, no share transfers will be effected. In order to qualify for attending the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 1 April 2011.

EVENTS AFTER REPORTING PERIOD

Save as disclosed below, there are no other significant events occurred after the reporting period:

On 17 December 2010, the board of directors of the Company proposed to issue rights shares to the shareholders on the basis of ten rights shares for every one share held on 26 January 2011 (the "Record Date") which was proposed to be underwritten by Fine Mean Investments Limited, a company wholly-owned by Mr. Chen Jun, the controlling shareholder and a director of the Company. Each one existing share held on the Record Date would entitle the holder thereof to subscribe in cash for ten rights shares at a subscription price of HK$0.03 per rights share. On the basis of 180,859,122 shares in issue as at 17 December 2010, 1,808,591,302 rights shares would be issued and approximately HK$54.26 million would be raised for the Company's general working capital and the establishment of a new line of business in trading of precious metals and coal. At the extraordinary general meeting held on 26 January 2011, the proposed issue of rights shares was not approved by the independent shareholders of the Company and the proposed rights issues were lapsed. In the opinion of the directors of the Company, there is no material adverse impact on the financial position and operation of the Group.

AUDITOR

CCIF CPA Limited shall retire in the forthcoming annual general meeting and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of CCIF CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chen Jun
Chairman

Hong Kong, 14 February 2011

CORPORATION GOVERNANCE REPORT

The Group's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Board considered that the Company had complied with the Code Provisions of the CG Code during the Year.

The Group commits to continuously improving its corporate governance practices by periodic review to ensure that the Group continues to meet the requirements of the CG Code.

The key corporate governance practices of the Group are summarised as follows:

BOARD OF DIRECTORS

Composition

The Board includes two executive Directors and three independent non-executive Directors.

Executive Directors

Chen Jun *(Chairman)*
Zhao Yun *(Chief Executive Officer)*

Independent Non-executive Directors

Mr. Hung Randy King Kuen
Mr. Liu Jin Lu *(appointed on 20 May 2010)*
Mr. Chen Wen Ping
Ms. Yuan Kai Hong *(resigned on 20 May 2010)*

More than one-third of the Board is independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of the Directors.

There is no financial, business, family or other material/relevant relationship among the members of the Board, in particular, between the Chairman of the Board and the Chief Executive Officer. One of the independent non-executive Directors, Mr. Hung Randy King Kuen has entered into a service agreement with the Company for a term commencing on 27 July 2010 and ending at the conclusion of the forthcoming annual general meeting. The other two independent non-executive Directors namely, Mr. Chen Wen Ping and Mr. Liu Jin Lu have respectively entered into a service contract with the Company for a term of one year commencing on 20 May 2010 and ending at the conclusion of the forthcoming annual general meeting. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles.

At each annual general meeting, one-third of the Directors are required to retire from office. Each Director shall retire from office once every three years. The Directors to retire in every year shall be those appointed by the Board during the Year and those who have been longest in office since their last election or re-election. New Directors appointed by the Board during the Year shall retire and submit themselves for re-election at the annual general meeting immediately following their appointments.

Each of Mr. Zhao Yun, Mr. Hung Randy King Kuen, Mr. Chen Wen Ping and Mr. Liu Jin Lu will retire from office as Directors at the forthcoming annual general meeting of the Company. Mr. Zhao Yun, Mr. Chen Wen Ping and Mr. Liu Jin Lu, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles. Due to the need to concentrate on other personal development, Mr. Hung Randy King Kuen will not seek re-election at the forthcoming annual general meeting.

At the forthcoming annual general meeting, an ordinary resolution will be put forward to the Shareholders in relation to the proposed election of Mr. Guo Qiang as an independent non-executive Director to replace Mr. Hung Randy King Kuen.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the requirements of the Listing Rules. The Group considers all independent non-executive Directors to be independent in accordance with the independent guidelines set out in the Listing Rules.

Save as disclosed in the section headed "Directors' and Senior Management's Biographics" in this annual report, all members of the Board have no relationship with each others.

Board meetings

The Board meets regularly. In addition to regular meetings, it meets as and when warranted by particular circumstances. During the Year, five Board meetings were held.

A record of the Directors' attendance at the Board meetings is set out as follows:

	Attendance/ Number of Meetings
Executive Directors	
Chen Jun *(Chairman)*	3/5
Zhao Yun	5/5
Independent Non-executive Directors	
Hung Randy King Kuen	4/5
Liu Jin Lu	4/5
Chen Wen Ping	5/5

Board responsibilities and delegation

The Board is responsible to the Shareholders for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the annual development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system and supervising and managing management's performance. The Board delegates the day-to-day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Group. The Board gives clear directions to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Group by the management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group understands that the role of Chairman of the Board and chief executive officer of the Company shall have clear division of responsibilities. The Group has appointed a separate chairman and chief executive officer of the Company since 2007. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Chen Jun, the Chairman, is responsible for the operation of the Board and the formulation of the Group's strategies and policies. Mr. Zhao Yun, the chief executive officer of the Company, with the assistance of other members of the Board and senior management, is responsible for the management of the Group's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation. The chairman ensures that all Directors are properly briefed on issues arising at the Board meetings and receive adequate, complete and reliable information in a timely manner.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Group has not established a nomination committee and retained the functions to the Directors. The Directors from time to time identify individuals suitably qualified to become Board members and make recommendations to the Board. The main consideration in selecting candidates for directorships on the Board is whether their characters, qualifications and experience are appropriate for the businesses of the Group.

Newly appointed Directors will receive induction and reference materials to enable them to familiarise with the Group's business operations and Board policies. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they had complied with such code of conduct during the Year.

REMUNERATION COMMITTEE

The Company established a remuneration committee ("Remuneration Committee") on 25 April 2005, which comprises two independent non-executive Directors and one executive Director.

Members of remuneration committee

Zhao Yun *(Chairman)*
Hung Randy King Kuen
Chen Wen Ping

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for the remuneration of Directors, reviewing and approving their specific remuneration package by reference to market conditions, performance of the Group and corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee held one meeting during the Year and all the members had attended to review the Group's remuneration policy and approve the terms of executive Directors' service contracts. During the Year, the Board as a whole had determined the remuneration policy and packages of the Directors. No individual Director was allowed to participate in the procedures for deciding his/her individual remuneration package.

COMMUNICATION WITH SHAREHOLDERS

Information of the Company and the Group are delivered to the Shareholders through a number of channels, which includes annual report, interim report, announcements and circulars. The latest information of the Company and the Group together with the published documents are also available on the Company's website.

INTERNAL CONTROL

The Board is committed to manage business risks and to maintain a proper and effective system of internal control to safeguard the Shareholders' investment and the Group's assets. The Board, through the audit committee of the Company (the "Audit Committee"), has conducted annual review of the effectiveness of the Group's system of internal control covering all controls, including financial, operational and compliance controls, and risk management processes. The Board, through the review of the Audit Committee, is satisfied that the Group had fully complied with the Code Provisions on internal controls during the Year as set forth in the CG Code.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the external auditor of the Group in 2010 comprised fees for audit services of RMB218,000. The non-audit services rendered by the Company's independent auditor and the relevant fees amounted to RMB9,000 during the Year.

AUDIT COMMITTEE

The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process and internal control system of the Group as well as external auditor of the Group.

The Audit Committee comprises three independent non-executive Directors. Two meetings of the Audit Committee were held during the Year and were attended by all the members of the Audit Committee:

Members of Audit Committee	Attendance/ Number of Meetings
Hung Randy King Kuen *(Chairman)*	2/2
Liu Jin Lu	2/2
Chen Wen Ping	2/2

The Audit Committee held two meetings during the Year to review the financial results and reports (including the interim results of the Group for the six months ended 30 June 2010). Financial controls, internal controls, risk management systems of the Group, and the reappointment of the external auditor had also been reviewed by the Audit Committee at the meetings. The Audit Committee had reviewed this annual report and have confirmed that this annual report is complete, accurate and complies with all applicable rules and regulations, including but not limited to the Listing Rules. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the Year. The auditor of the Company acknowledge their reporting responsibilities in the auditor's report on the financial statements for the Year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

CCIF

CCIF CPA LIMITED
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZHONGTIAN INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Zhongtian International Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 25 to 97, which comprise the consolidated and Company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

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

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 14 February 2011

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
Turnover	6	**10,271**	5,402
Cost of sales		**(8,800)**	(4,911)
Gross profit		**1,471**	491
Other revenue	6	**25**	44
Other net loss	7	**—**	(1,065)
Administrative expenses		**(6,387)**	(7,964)
Fair value gain on investment properties	16	**405**	—
Impairment loss of land and property under development	18, 19	**—**	(9,048)
Loss before taxation	8	**(4,486)**	(17,542)
Income tax	11	**(101)**	—
Loss for the year		**(4,587)**	(17,542)
Attributable to:			
Owners of the Company	12	**(4,587)**	(17,542)
Other comprehensive (loss)/income for the year			
Reclassification adjustment for translation reserve released upon disposal of subsidiaries	27	**—**	1,930
Fair value loss arising from remeasurement of available-for-sale equity investment	17	**(3,255)**	—
Deferred tax arising from gain on remeasurement of available-for-sale equity investment	25(a)	**814**	—
Net other comprehensive (loss)/income for the year		**(2,441)**	1,930
Total comprehensive loss for the year		**(7,028)**	(15,612)
Attributable to:			
Owners of the Company		**(7,028)**	(15,612)
Loss per share	14	**RMB cents**	RMB cents
Basic		**(2.7)**	(16.8)
Diluted		**(2.7)**	(16.8)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Fixed assets	15	**21,876**	159
Investment properties	16	**29,605**	—
Available-for-sale equity investment	17	**30,885**	—
		82,366	159
Current assets			
Trade and other receivables	21	**5,677**	6,353
Cash and bank balances	22	**27,922**	19,317
		33,599	25,670
Assets of a disposal group classified as held for sale	28(a)	**—**	36,334
		33,599	62,004
Current liabilities			
Trade and other payables	23	**6,377**	6,946
Amounts due to directors	24	**2,551**	1,360
Income tax payable		**1,100**	1,100
		10,028	9,406
Liabilities of a disposal group classified as held for sale	28(b)	**—**	1,711
		10,028	11,117
Net current assets		**23,571**	50,887
Total assets less current liabilities		**105,937**	51,046
Non-current liabilities			
Deferred tax liabilities	25	**15,320**	—
Net assets		**90,617**	51,046
Capital and reserves			
Share capital	29	**1,772**	1,237
Reserves	30	**88,845**	49,809
Total equity		**90,617**	51,046

Approved and authorised for issue by the board of directors on 14 February 2011.

Chen Jun
Director

Zhao Yun
Director

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Fixed assets	15	—	—
Interests in subsidiaries	20	**87,421**	43,822
		87,421	43,822
Current assets			
Other receivables	21	**25**	26
Cash and bank balances	22	**6,165**	9,500
		6,190	9,526
Current liabilities			
Other payables	23	**352**	566
Amount due to a subsidiary	20	**1,292**	1,341
Amounts due to directors	24	**1,468**	1,360
		3,112	3,267
Net current assets		**3,078**	6,259
Net assets		**90,499**	50,081
Capital and reserves			
Share capital	29	**1,772**	1,237
Reserves	30	**88,727**	48,844
Total equity		**90,499**	50,081

Approved and authorised for issue by the board of directors on 14 February 2011.

Chen Jun
Director

Zhao Yun
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

		Reserves									
	Share capital	Share premium	Special reserve (note a)	Translation reserve	Statutory reserve (note b)	Public welfare fund (note c)	Share option reserve	Investment revaluation reserve (note d)	Accumulated losses	Total reserves	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	42,428	47,246	6,740	(1,930)	12,065	5,331	8,216	—	(65,244)	12,424	54,852
Capital reduction (note 29(a)(iv))	(41,367)	—	—	—	—	—	—	—	41,367	41,367	—
Forfeiture of share options (note 31)	—	—	—	—	—	—	(8,216)	—	8,216	—	—
Issue of new ordinary shares (note 29(b))	176	11,630	—	—	—	—	—	—	—	11,630	11,806
Transfer	—	—	(6,740)	—	(12,065)	(5,331)	—	—	24,136	—	—
Loss for the year	—	—	—	—	—	—	—	—	(17,542)	(17,542)	(17,542)
Reclassification adjustment for translation reserve released upon disposal of subsidiaries (note 27)	—	—	—	1,930	—	—	—	—	—	1,930	1,930
Total comprehensive loss for the year	—	—	—	1,930	—	—	—	—	(17,542)	(15,612)	(15,612)
At 31 December 2009 and 1 January 2010	1,237	58,876	—	—	—	—	—	—	(9,067)	49,809	51,046
Issue of new ordinary shares (note 29(b))	535	69,009	—	—	—	—	—	—	—	69,009	69,544
Deemed distribution (note 26)	—	—	—	—	—	—	—	—	(22,945)	(22,945)	(22,945)
Loss for the year	—	—	—	—	—	—	—	—	(4,587)	(4,587)	(4,587)
Fair value loss arising from remeasurement of available-for-sale equity investment, net of deferred tax (note 17, 25(a))	—	—	—	—	—	—	—	(2,441)	—	(2,441)	(2,441)
Total comprehensive loss for the year	—	—	—	—	—	—	—	(2,441)	(4,587)	(7,028)	(7,028)
At 31 December 2010	**1,772**	**127,885**	**—**	**—**	**—**	**—**	**—**	**(2,441)**	**(36,599)**	**88,845**	**90,617**

Notes:

a) **Special reserve**

The special reserve represents the difference of the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisitions at the time of reorganisation prior to the listing of the Company's shares in 2004, less RMB13,261,000 transferred to accumulated losses in 2006. Following the disposal of the subsidiaries in 2009 as detailed in note 27, the balance of this reserve was transferred to the accumulated losses of the Group during the year ended 31 December 2009.

b) **PRC statutory reserve**

Articles of Association of the Company's subsidiaries in the People's Republic of China ("PRC") require the appropriation of certain percentage of their profit after income tax each year to the statutory surplus reserve fund until the balance reaches 50% of the registered capital. In normal circumstances, the statutory surplus reserve fund shall only be used for making up losses, capitalization into registered capital and expansion of the subsidiaries' production and operation. For the capitalization of statutory surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital. Following disposal of those subsidiaries in 2009 as detailed in note 27, this balance was transferred to accumulated losses of the Group during the year ended 31 December 2009.

c) **PRC public welfare fund**

Pursuant to the Articles of Association, each of the Company's PRC wholly-owned subsidiaries shall make allocation from their profit after income tax at the rate of 5% to 10% to the public welfare fund. The public welfare fund can only be utilized on capital items for employees' collective welfare. The public welfare fund forms part of the shareholders' equity but it is not distributable other than in liquidation. With effect on 1 January 2006, the appropriation is not a statutory requirement in accordance with the PRC Company Law (2006 Amendment). The appropriation is subject to the shareholders' approval in the annual shareholders meeting of the Company's PRC wholly-owned subsidiaries. Following the disposal of those subsidiaries in 2009 as detailed in note 27, this balance was transferred to accumulated losses of the Group during the year ended 31 December 2009.

d) **Investment revaluation reserve**

The investment revaluation reserve represents the difference between the carrying amount and the fair value of the available-for-sale equity investment at the end of the reporting period.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Operating activities			
Loss before taxation		**(4,486)**	(17,542)
Adjustments for:			
Interest income		**(25)**	(44)
Dividend income		**(591)**	—
Depreciation of fixed assets		**570**	319
Fair value gain on investment properties	16	**(405)**	—
Loss on disposal of fixed assets		**—**	65
Loss on disposal of subsidiaries	27	**—**	1,000
Impairment loss on land and property under development	18, 19	**—**	9,048
Operating cash flows before changes in working capital		**(4,937)**	(7,154)
Decrease in trade and other receivables		**1,052**	3,071
(Decrease)/increase in trade and other payables		**(569)**	1,983
Increase/(decrease) in amounts due to directors		**3,338**	(706)
Cash used in operations		**(1,116)**	(2,806)
Interest received		**25**	44
Dividend received		**591**	—
Net cash used in operating activities		**(500)**	(2,762)
Investing activities			
Payments for property under development		**—**	(8,671)
Payments for fixed assets		**(185)**	(102)
Payments for investment properties		**(500)**	—
Net cash inflow from acquisition of subsidiaries	26	**167**	—
Net cash outflow on disposal of subsidiaries	27	**—**	(34)
Net cash inflow on sale of a disposal group	28(c)	**8,622**	—
Net cash generated from/(used in) investing activities		**8,104**	(8,807)
Financing activities			
Issue of new ordinary shares		**—**	11,806
Net cash generated from financing activities		**—**	11,806
Net increase in cash and cash equivalents		**7,604**	237
Cash and cash equivalents at beginning of the year		**20,318**	20,081
Cash and cash equivalents at end of the year	22	**27,922**	20,318

The accompanying notes form part of these financial statements.

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 December 2003 under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 22 September 2004. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 20.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements have been prepared under the historical cost convention, except the investment properties (see note 2(f)) and available-for-sale equity investment (see note 2(e)) are stated at their fair value and non-current assets of a disposal group held for sale were stated at lower of carrying amount and fair value less costs to sell (see note 2(t)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the financial statements *(Continued)*

The preparation of the consolidated 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 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 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 period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

c) Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Financial instruments: Recognition and Measurement — Eligible Hedged Items
HK(IFRIC) — Int 17	Distributions of non-cash Assets to Owners
HK(IFRIC) — Int 18	Transfers of Assets from Customers
HK (Int) 4 (Revised)	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK (Int) 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

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

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempted entities using the full cost method from the retrospective application of HKFRSs for oil and gas assets or existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)- Int 4 Determining whether an Arrangement contains a Lease when the application of their other accounting requirement produced the same result) and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process. The amendments have no financial impact on the Group.

HKFRS 1 (Revised) is issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the revisions have no financial impact on the Group.

HKFRS 2 Amendments clarify its scope and the accounting for group companies' cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendments have no material financial impact on the Group.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests (previously minority interests) at fair value; (ii) recognising gains or losses from re-measuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in profit or loss; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree. The amendments have no financial impact on the Group as the Group has not entered into any business combination during the year.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments are made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rate, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures. The amendments have no financial impact on the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment has no financial impact on the Group, as the Group has not entered into any such hedges.

HK(IFRIC) — Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. This new interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments are made to HKAS 10 Events After the Reporting Period and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in accounting policy, the Interpretation has no financial impact on the Group.

HK (IFRIC) — Int 18 addresses the accounting by recipients for transfers of fixed assets from "customers" and concludes that when the item of fixed assets transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the assets at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with HKAS 18 Revenue . The interpretation has no financial impact on the Group

HK-Int 4 was revised in December 2009 as a consequence of amendment to HKAS 17 made by Improvements to HKFRSs issued in May 2009. The amendment to HKAS 17 removes the specific guidance which states that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. Following this amendment, the scope of this interpretation has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40. The amendment has no financial impact on the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

HK-Int 5 addresses the classification of term loans with repayment on demand clause as current or non-current liabilities by entities reporting under HKFRSs. The adoption of HK-Int 5 has resulted in a change in disclosure that the entire term loan has been re-classified from repayable within one year to repayment on demand when a repayment on demand clause provides the lender with a clear and unambiguous unconditional right to demand repayment at any time at its sole discretion and a borrower does not have unconditional right to defer payment for at least 12 months after the reporting date. The interpretation has no financial impact on the Group.

HKFRS 5 Amendments clarify that an entity that is committed to a sale plan involving loss of control of a subsidiary shall have relevant disclosures when the subsidiary is a disposal group that meets the definition of a discontinued operation. The amendments have no financial impact on the Group.

In May 2009, the HKICPA issued Improvements to HKFRSs which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. There is a separate transitional provision for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments have a material financial impact on the Group.

HKFRS 2 Share-based Payment: It revises the scope that transactions in which an entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities or business under common controls, or the contribution of a business on the formation of a joint venture do not fall under the scope of this HKFRS.

HKFRS 8 Operating Segments: It clarifies that a measure of total assets for each reportable segment should be reported only if such information is regularly provided to the chief operating decision maker.

HKAS 1 Presentation of Financial Statements: It provides guidance on the classification of current or non-current convertible instruments.

HKAS 7 Statement of Cash Flows: It specifies that only expenditures that result in recognised assets in the consolidated statement of financial position are eligible for classification as investing activities.

HKAS 17 Leases: It removes the previous classification on leases with both land and building elements and requires separate assessment of each element as a finance or an operating lease accordingly.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

HKAS 18 Revenue: It provides additional guidance to determine whether an entity is acting as principal or agent.

HKAS 36 Impairment of Assets: It clarifies that each unit or group of units to which the goodwill is so allocated should not be larger than an operating segment before aggregation.

HKAS 38 Intangible Assets: It introduces amendments to measurement of fair value of an intangible asset acquired in a business combination. Intangible asset acquired in business combination may be separable together with a related contract and identifiable liability in addition to identifiable asset. Additional consequential amendments to this HKAS arising from the revised HKFRS 3 are also incorporated.

Amendment to HKAS 39 Financial Instruments: Recognition and Measurement: It (i) clarifies that prepayment option is considered closely related to the host contract when the exercise price of prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) clarifies that this HKAS is not applicable to forward contract between acquirer and selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date; and (iii) also replaces the term “assets acquired or liability assumed” under cash flow hedges with “hedged forecast cash flows”.

HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives: It revises the scope that this Interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control, or the formation of a joint venture.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

The Group has not early applied any of the following new and revised standards, amendments and interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[2]
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards-Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adoptors[3]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures-Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related party disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[1]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

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

The Group is in the process of making an assessment of what the impact of these standards, amendments and interpretations are expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

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 statement of comprehensive income as an allocation of the total profit or loss and the total comprehensive income for the year between non-controlling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within the consolidated statement of changes in equity to reflect the changes in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 2 (k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Other investment in equity securities

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data for observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any interest or dividends earned on these investments as these are recognised in accordance with the policies set out in note 2(r)(iii) and (iv), respectively.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(k)(i)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with policy set out in note 2(r)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with policy set out in note 2(r)(iii). When these investments are derecognised or impaired (see note 2(k)(i)), the cumulated gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(r)(v).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

g) Fixed assets

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses (see note 2 (k)(ii)).

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Fixed assets

Depreciation is calculated to write off the cost of items of fixed assets less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold land under operating lease	Over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years
Building	Over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

h) Property held for development

When the land (note 18) and property (note 19) are in the course of development for production, rental, for administrative purposes or for sale, the land component is classified as a land under development and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use.

i) Land under development

Land under development are carried at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). Amortisation on land under development for use are charged to profit or loss on a straight-line basis over the terms of the respective leases.

Amortisation on land under development held for development are transferred to and capitalised as part of the costs of the property under development. Capitalisation of the amortisation of land under development held for development is suspended or ceases when substantially all the development activities are interrupted or completed.

j) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of assets

i) Impairment of investment in equity securities and trade and other receivables

Investment in equity securities (other than interests in subsidiaries) classified as available-for-sale equity securities and trade and other receivables (including amounts due from subsidiaries) stated at amortised cost or cost, are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— significant or prolonged decline in the fair value of an investment in an equity investment below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial assets, where the effect of discounting is material. This assessment is made collectively when financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of assets *(Continued)*

i) Impairment of investment in equity securities and trade and other receivables *(Continued)*

— For available-for-sale equity securities, the cumulative loss that has been recognised in other comprehensive income shall be reclassified from equity to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity investment are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets;

— land under development;

— property under development; and

— interests in subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of assets *(Continued)*

ii) Impairment of other assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2 (k)(i)).

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

o) Employees benefits

i) Short term employees benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. When payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Employees benefits *(Continued)*

ii) Share-based payments

The fair value of share options granted to employees and shareholders of the Company and its subsidiaries or consultants, customers and suppliers is recognised as an employee cost or consultancy fees with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees or consultants have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses or consultancy fees qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share option reserve) or the option expires (when it is released directly to accumulated losses).

iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

q) Provisions and contingent liabilities

i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(q)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(q)(ii).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Provisions and contingent liabilities *(Continued)*

ii) Other provision and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or Company 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 expenditure 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.

r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economics benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is stated after deduction of any trade discounts.

ii) Service income

Services income is recognised when the related services are rendered.

iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Revenue recognition *(Continued)*

iv) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

v) Rental income

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

s) Translation of foreign currencies

The functional currency of the Company and its subsidiaries in the PRC is Renminbi. For the purpose of presenting the consolidated financial statements, the Group adopted Renminbi as its presentation currency.

Foreign currency transactions during the year are translated at the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Asset and liability items are translated into Renminbi at the foreign exchange rates ruling at the year end date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified to other comprehensive income when the profit or loss on disposal is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Non-current assets held for sale and discontinued operations

i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the reclassification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Non-current assets held for sale and discontinued operations *(Continued)*

ii) Discontinued operations *(Continued)*

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

u) Related parties

For the purpose 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 the key management personnel of the Group or its 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 member of the family of any individual 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) 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.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise available-for-sale equity investment, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, business risk, currency risk and price risk. The board of directors reviews and agrees policies for managing each of these risks. The objectives, policies and procedures for managing these risks and the methods used to measure these risks are on the same basis with 2009 and the details are summarised below.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

a) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Exposure to these credit risks are monitored on a ongoing basis.

i) Available-for-sale equity investment

Available-for-sale equity investment in a bank in the PRC (note 17) has a credit rating equal to or better than the Group. Given its high credit rating, management considers the credit risk exposure as low.

ii) Trade and other receivables

Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 to 180 days from the date of billing. Debtors with balances that are exceeded their credit period granted are requested to settle all outstanding balances before any further credit is granted.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or the counterparties. The default risk of the industry and country in which customers or the counterparties operate also has an influence on credit risk but to a lesser extent. Further quantitative analysis in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

At the end of the reporting period, none (2009: 100%) of the total trade receivables were due from Group's largest customer and the total trade receivables were receivable from the second largest customer as at 31 December 2010.

iii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings in the PRC. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it 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 tables detail the remaining contractual maturities of the financial liabilities of the Group and the Company at the end of the reporting period, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

Group

	2010			
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	After 1 year but within 5 years RMB'000
Trade and other payables	**6,377**	**6,377**	**6,377**	**—**
Amounts due to directors	**2,551**	**2,551**	**2,551**	**—**
	8,928	**8,928**	**8,928**	**—**

	2009			
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	After 1 year but within 5 years RMB'000
Trade and other payables	6,946	6,946	6,946	—
Amounts due to directors	1,360	1,360	1,360	—
	8,306	8,306	8,306	—

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

b) Liquidity risk *(Continued)*

Company

	2010			
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**	**After 1 year but within 5 years RMB'000**
Other payables	**352**	**352**	**352**	**—**
Amount due to a subsidiary	**1,292**	**1,292**	**1,292**	**—**
Amounts due to directors	**1,468**	**1,468**	**1,468**	**—**
	3,112	**3,112**	**3,112**	**—**

	2009			
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	After 1 year but within 5 years RMB'000
Other payables	566	566	566	—
Amount due to a subsidiary	1,341	1,341	1,341	—
Amounts due to directors	1,360	1,360	1,360	—
	3,267	3,267	3,267	—

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

c) Interest rate risk

The Group and the Company are exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short term bank deposits at market rates.

At 31 December 2010, it is estimated that a general increase/decrease 100 basis points in interest rates, with all other variable held constant, the Group's loss would decrease/increase by RMB1,000 (2009: RMB1,000) and the Company's loss for the year would decrease/increase by RMB1,000 (2009: RMB1,000). This is mainly attributable to the interest earned from bank balances.

The sensitivity analysis above, which include interest rate exposure on variable interest bearing deposits, have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. A 100 basis point change is used which represents the management's assessment of the possible change in interest rates over the period until the next annual reporting period. The analysis is performed on the same basis for 2009.

d) Business risk

The Group's sales for the current year are made to two (2009: one) customers. The Group has a concentration of business risk as 100% (2009: 100%) of the total sales from these two customers. In the event that these customers ceased to purchase from the Group and the Group could not secure orders from other customers, the Group's turnover and profitability would be adversely affected.

The Group's purchases of raw materials are from one (2009: one) supplier. The Group has not entered into long-term agreement with this supplier and there can be no assurance that they will continue to supply the Group as and when needed. The Group has a concentration of business risk as 100% (2009: 100%) of the total purchases from this supplier. If the Group could not purchase adequate quantities of materials from this supplier and failed to identify alternative sources, the Group's turnover and profitability could be adversely affected.

e) Currency risk

The Group is exposed to currency risk primarily through bank deposits that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily the United States dollar ("US dollar") and Hong Kong dollar ("HK dollar"), which are relatively stable against Renminbi. The Group considers that the exposure to the currency risk is not material and no hedging arrangement has been made.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

e) Currency risk *(Continued)*

i) Exposure to currency risk

The following table details the Group's and the Company's major exposure at the end of the reporting period to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
US dollar	**347**	347	**309**	308
HK dollar	**6,859**	10,221	**5,856**	9,179

ii) Sensitivity analysis

The following table indicates the approximate change in the Group's loss for the year (and accumulated losses) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period. The sensitivity analysis includes bank deposits where the denomination of the balances is in a currency other than the functional currency.

Group

	2010			2009		
	Increase/ (decrease) in foreign exchange rates	**Effect on loss for the year and accumulated losses RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss for the year and accumulated losses RMB'000	Effect on other components of equity RMB'000
US dollar	5%	(16)	—	5%	(17)	—
	(5%)	16	—	(5%)	17	—
HK dollar	(5%)	337	—	(5%)	511	—
	5%	(337)	—	5%	(511)	—

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

e) Currency risk *(Continued)*

ii) Sensitivity analysis *(Continued)*

Group *(Continued)*

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

f) Price risk

The Group is exposed to price risk through its investment in available-for-sale equity investment (note 17). The unlisted equity investment is remeasured at 31 December 2010 at fair value estimate performed by a firm of independent qualified professional valuers, taking into account of the price-earnings multiples of comparable banks (10.81 times) listed in recognised stock exchanges and the profit performance of the investee. The Group has adopted the price-earnings multiple of 7.57 times which has reflected a discount for lack of marketability of the unlisted investment. The profit growth rate of the investee for the year 2010 is 6% whilst its average profit growth rate in the past five years between 2006 to 2010 is 23%. During the year ended 31 December 2010, the Group received cash dividend of RMB591,000 from this investment. In the opinion of the directors of the Company, after having taken into account of financial position and the profit performance of the investee, the prospect of banking industry and economic development of the PRC in the future, the decrease in fair value of the investment of RMB3,255,000 is not prolonged and permanent in nature and no impairment is recognised at 31 December 2010. If the fair value of the investment increases/decreases by 5%, the investment revaluation reserve will decrease/increase by approximately RMB1,158,000.

g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to owners or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 2009.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

g) Capital management *(Continued)*

Consistent with the industry practice, the Group monitors its capital structure on the basis of net debt-to-capital ratio, which is calculated as the Group's total borrowings as shown in consolidated statement of financial position less cash and cash equivalents. Debts comprise trade and other payables and amounts due to directors. Shareholders' equity comprises all components of equity attributable to the owners of the Company.

The net debt-to-capital ratio as at 31 December 2010 and 2009 were as follows:

Group

	2010 **RMB'000**	2009 RMB'000
Trade and other payables	**6,377**	6,946
Amounts due to directors	**2,551**	1,360
Total debt	**8,928**	8,306
Less: Cash and cash equivalents	**(27,922)**	(20,318)
Net debt	**N/A**	N/A
Shareholders' equity	**90,617**	51,046
Net debt-to-capital ratio	**N/A**	N/A

Neither the Company nor any of it subsidiaries are subject to externally imposed capital requirements.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

h) Estimation of fair value

i) Financial instruments carried at fair value

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

— Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

— Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

— Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Group

	2010				2009			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale equity investment	**—**	**—**	**30,885**	**30,885**	—	—	—	—

There were no transfers amongst Level 1 and Level 2 in the fair value hierarchy for the years ended 31 December 2010 and 2009.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

h) Estimation of fair value *(Continued)*

i) Financial instruments carried at fair value *(Continued)*

The movement during the year in the balance of Level 3 fair value measurements is as follows:

Group

	RMB'000
Available-for-sale equity investment	
Addition of subsidiaries (note 26)	34,140
Fair value loss arising from remeasurement recognised in other comprehensive income during the year	(3,255)
At 31 December 2010	30,885

Apart from the dividend income of RMB591,000 (2009: Nil), there was no other gain or loss and comprehensive income reported in consolidated statement of comprehensive income related to the Level 3 financial instruments for the year ended 31 December 2010.

There were no financial instruments classified under Level 1 to Level 3 for the year ended 31 December 2009.

ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 31 December 2010 and 2009.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting 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 period are discussed below.

a) Depreciation

Items of fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Directors of the Company review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

b) Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or market valuations. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to such items such as level of turnover and amount of operating costs.

c) Fair value of available-for-sale equity investment

The fair value of available-for-sale equity investment in a bank in the PRC (note 17) which is not traded in an active market is determined by using valuation technique based on the estimated price-earnings multiples of comparable banks listed in HK and the PRC stock exchanges. The Group has adopted an estimated price-earnings multiple of 7.57 times which has reflected a discount for lack of marketability of this unlisted investment. The Group uses its judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of reporting period.

d) Impairment of available-for-sale equity investment

For available-for-sale equity investment in a bank in the PRC, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the investee's profit performance and financial position, the historical data on market volatility, price earning multiples and price to book ratios of the banks which operate in the PRC and listed in recognised stock exchanges are considered. The directors of the Company also takes into account other factors, such as future prospect of the banking industry and sector performance and future economic development in the PRC. In the opinion of the directors of the Company, the decrease in the fair value of the investment of RMB3,255,000 industry as referred to note 17 is not prolonged and permanent in nature and therefore no impairment was recognised at 31 December 2010.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

e) Impairment of trade and other receivables

The Group makes allowance for impairment of trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each counter-party debtors. If the financial conditions of the counter-party debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

f) Income taxes

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and certain tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences will impact the recognition of deferred tax and tax in the periods in which such estimate is changed.

The Group has not recognised deferred tax asset in respect of unused available tax losses as it is considered not probable that future taxable profits, against which the tax losses, will be available in the relevant tax jurisdiction and entity.

g) Impairment on interests in subsidiaries

The Company makes impairment on interests in subsidiaries when the related recoverable amounts of the investments in subsidiaries, with reference to the net asset values of the subsidiaries, are estimated to be less than their carrying amounts.

h) Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position at their fair value. The fair values were based on the valuation on these properties conducted by an independent firm of professional valuers using property valuation technique which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain reported in the consolidated statement of comprehensive income.

5. SEGMENT INFORMATION

The Group manages its business by divisions, which are mainly organised by business lines. In a manner consistent with the way in which information is reported internally to the board of directors (as chief operating decision maker) for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Information technology i.e. sale of intelligent electronics products and system integration

— Property

— Equity investment

As all segments of the Group are operating in the PRC, no geographical information has further been disclosed.

	2010			
	Information technology RMB'000	Property RMB'000	Equity investment RMB'000	Total RMB'000
Revenue				
— external	9,705	—	591	10,296
— inter-segment	—	—	—	—
Reportable segment revenue	9,705	—	591	10,296
Reportable segment (loss)/profit before taxation	(1,981)	(82)	591	(1,472)
Depreciation	83	487	—	570
Fair value gain on investment properties	—	405	—	405
Reportable segment assets	27,772	51,118	30,885	109,775
Reportable segment liabilities	7,108	—	—	7,108
Additions to fixed assets	287	22,000	—	22,287
Additions to investment properties	—	29,200	—	29,200
Additions to available-for-sale equity investment	—	—	34,140	34,140

5. SEGMENT INFORMATION *(Continued)*

	2009			
	Information technology RMB'000	Property RMB'000	Equity investment RMB'000	Total RMB'000
Revenue				
— external	5,446	—	—	5,446
— inter-segment	—	—	—	—
Reportable segment revenue	5,446	—	—	5,446
Reportable segment loss before taxation	(2,958)	(11,837)	—	(14,795)
Depreciation	319	—	—	319
Loss on disposal of subsidiaries	1,000	—	—	1,000
Impairment loss of land and property under development	—	9,048	—	9,048
Loss on disposal of fixed assets	65	—	—	65
Reportable segment assets	16,303	36,334	—	52,637
Reportable segment liabilities	6,380	1,711	—	8,091
Additions to fixed assets	103	—	—	103

5. SEGMENT INFORMATION *(Continued)*

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

Revenue

	2010 RMB'000	2009 RMB'000
Total reportable segment's revenue	**10,296**	5,446
Elimination of inter-segment revenue	**—**	—
Consolidated revenue	**10,296**	5,446

Loss

	2010 RMB'000	2009 RMB'000
Total reportable segment's loss	**(1,472)**	(14,795)
Elimination of inter-segment loss	**—**	—
Reportable segment loss derived from Group's external customers	**(1,472)**	(14,795)
Unallocated corporate expenses	**(3,014)**	(2,747)
Consolidated loss before taxation	**(4,486)**	(17,542)

Assets

	2010 RMB'000	2009 RMB'000
Total reportable segment's assets	**109,775**	52,637
Elimination of inter-segment assets	**—**	—
	109,775	52,637
Unallocated corporate assets	**6,190**	9,526
Consolidated assets	**115,965**	62,163

5. SEGMENT INFORMATION *(Continued)*

Liabilities

	2010 **RMB'000**	2009 RMB'000
Total reportable segment's liabilities	**7,108**	8,091
Elimination of inter-segment liabilities	**—**	—
	7,108	8,091
Income tax payable	**1,100**	1,100
Deferred tax liabilities	**15,320**	—
Unallocated corporate liabilities	**1,820**	1,926
Consolidated liabilities	**25,348**	11,117

Information from major customers

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

	2010 **RMB'000**	2009 RMB'000
Customer A	**5,042**	—
Customer B	**4,638**	—
Customer C	**—**	5,402
	9,680	5,402

Further details of concentration of credit risk arising from these customers are set out in note 3(a)(ii).

6. TURNOVER AND REVENUE

An analysis of the Group's turnover and revenue is as follows:

	2010 RMB'000	2009 RMB'000
Turnover		
Sale of intelligent electronics products	**9,680**	5,402
Dividend income from available-for-sale equity investment	**591**	—
	10,271	5,402
Other revenue		
Interest income on bank deposits	**25**	44
Total revenue	**10,296**	5,446

7. OTHER NET LOSS

	2010 RMB'000	2009 RMB'000
Loss on disposal of subsidiaries (note 27)	—	(1,000)
Loss on disposal of fixed assets	—	(65)
	—	(1,065)

8. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		2010 RMB'000	2009 RMB'000
a)	Staff costs		
	Directors' emoluments	934	845
	Salaries, wages and other benefits	194	229
	Contributions to retirement benefit scheme	38	75
		1,166	1,149
b)	Other items		
	Auditor's remuneration		
	— audit services	218	220
	— non-audit services	9	203
	Cost of inventories	8,800	4,911
	Depreciation of fixed assets	570	319
	Direct outgoings of investment properties	26	—
	Operating leases charges in respect of properties	—	1,013

9. DIRECTORS' EMOLUMENTS

Details of directors' emoluments are as follows:

	2010			
Name of directors	**Fees RMB'000**	**Salaries and other benefits RMB'000**	**Retirement benefit scheme contributions RMB'000**	**Total emoluments RMB'000**
Executive directors				
Chen Jun	—	**500**	—	**500**
Zhao Yun	—	**332**	**9**	**341**
Independent non-executive directors				
Chen Wen Ping	**23**	—	—	**23**
Hung Randy King Kuen	**52**	—	—	**52**
Liu Jin Lu (appointed on 20 May 2010)	**12**	—	—	**12**
Yuan Kai Hong (resigned on 20 May 2010)	**6**	—	—	**6**
	93	**832**	**9**	**934**

	2009			
Name of directors	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Executive directors				
Chen Jun	—	457	—	457
Zhao Yun	—	288	—	288
Independent non-executive directors				
Chen Wen Ping	26	—	—	26
Hung Randy King Kuen	53	—	—	53
Qi Fa Cheng (resigned on 24 April 2009)	9	—	—	9
Yuan Kai Hong (appointed on 24 April 2009)	12	—	—	12
	100	745	—	845

9. DIRECTORS' EMOLUMENTS *(Continued)*

An analysis of directors' emoluments by the number of directors and emoluments range is as follows:

	2010	2009
Nil to RMB870,000 (equivalent to Nil to HK$1,000,000)	**6**	6

There was no arrangement under which a director waived or agreed to waive any emolument during the current and prior year.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include two (2009: two) directors of the Company during the year ended 31 December 2010, whose emoluments are reflected in the analysis presented above. Details of emoluments paid to the remaining three (2009: three) highest paid individuals of the Group are as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries and other benefits	**148**	152
Contributions to retirement benefit scheme	**24**	26
	172	178

Their emoluments all fell within the Nil to RMB870,000 (equivalent to Nil to HK$1,000,000) (2009: Nil to RMB880,000 (equivalent to Nil to HK$1,000,000)) band.

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

11. INCOME TAX

	2010 RMB'000	2009 RMB'000
PRC Enterprise Income Tax		
Current tax	—	—
Deferred tax (note 25(a))	101	—
	101	—

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

	2010 RMB'000	2009 RMB'000
Loss before taxation	(4,486)	(17,542)
Notional tax on loss before taxation calculated at the rates applicable to loss in the countries concerned	(793)	(4,018)
Tax effect of non-taxable income	—	(7)
Tax effect of non-deductible expenses	793	3,322
Tax effect of temporary difference	101	—
Tax effect of unrecognised tax loss	—	703
Tax expenses	101	—

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong Profits Tax has been made for the year as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2010 and 2009.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC Enterprise Income Tax of the Group's subsidiaries is 25% (2009: 25%).

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of RMB6,181,000 (2009: RMB30,355,000) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

No dividend was declared or paid by the Company for both years.

14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of RMB4,587,000 (2009: RMB17,542,000) and the weighted average number of 171,688,569 (2009: 104,273,973) ordinary shares in issue during the year.

	2010 Number of shares '000	2009 Number of shares '000
Ordinary shares issued at 1 January	**120,000**	400,000
Effect of capital reduction (note 29(a))	—	(300,000)
Effect of issue of new ordinary shares (note 29(b))	**51,689**	4,274
Weighted average number of ordinary shares at 31 December	**171,689**	104,274

The diluted loss per share for the years ended 31 December 2010 and 2009 are same as the basic loss per share as there were no dilutive potential ordinary shares during both years.

15. FIXED ASSETS

Group

	Leasehold land under operating lease RMB'000	Building RMB'000	Motor vehicles RMB'000	Furniture, Fixture and equipment RMB'000	Total RMB'000
Cost					
At 1 January 2009	—	—	2,526	1,181	3,707
Additions	—	—	—	103	103
Disposal of subsidiaries (note 27)	—	—	—	(1,110)	(1,110)
Disposals	—	—	—	(70)	(70)
Exchange difference	—	—	—	(1)	(1)
At 31 December 2009 and 1 January 2010	—	—	2,526	103	2,629
Addition of subsidiaries (note 26)	9,900	12,100	100	2	22,102
Additions	—	—	—	185	185
At 31 December 2010	9,900	12,100	2,626	290	24,916
Accumulated depreciation and impairment					
At 1 January 2009	—	—	2,234	861	3,095
Charge for the year	—	—	232	87	319
Disposal of subsidiaries (note 27)	—	—	—	(939)	(939)
Disposals	—	—	—	(5)	(5)
At 31 December 2009 and 1 January 2010	—	—	2,466	4	2,470
Charge for the year	219	268	—	83	570
At 31 December 2010	219	268	2,466	87	3,040
Carrying amount					
At 31 December 2010	9,681	11,832	160	203	21,876
At 31 December 2009	—	—	60	99	159

Notes:

a) Based on the professional valuation performed by Asset Appraisal Limited as at 31 December 2010, the fair value of the leasehold land under operating lease and building at that day were RMB10,033,000 and RMB12,262,000, respectively, which was made on the basis of open market value basis with reference to recent market transactions in the comparable properties. Asset Appraisal Limited has, among their staff, Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of properties being valued. In the opinion of the directors of the Company, no impairment on the leasehold land under operating lease and building is required.

b) The leasehold land under operating lease and building are situated in Qingdao, the PRC, under medium term lease.

15. FIXED ASSETS *(Continued)*

Company

	Motor vehicles RMB'000	Furniture, fixture and equipment RMB'000	Total RMB'000
Cost			
At 1 January 2009	—	70	70
Disposals	—	(68)	(68)
Exchange difference	—	(2)	(2)
At 31 December 2009 and 1 January 2010 and 31 December 2010	—	—	—
Accumulated depreciation and impairment			
At 1 January 2009	—	5	5
Disposals	—	(5)	(5)
At 31 December 2009 and 1 January 2010 and 31 December 2010	—	—	—
Carrying amount			
At 31 December 2010	—	—	—
At 31 December 2009	—	—	—

16. INVESTMENT PROPERTIES

	Group	
	2010	2009
	RMB'000	RMB'000
Investment properties, at fair value		
Addition of subsidiaries (note 26)	**28,700**	—
Renovation costs	**500**	—
Fair value gain	**405**	—
At 31 December	**29,605**	—

Notes:

a) Based on the professional and independent valuation performed by Asset Appraisal Limited as at 31 December 2010, the fair value of the investment properties of RMB29,605,000 at that day was made on the basis of open market value basis with reference to recent market transactions in the comparable properties. Asset Appraisal Limited has, among their staff, Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of properties being valued.

b) The analysis of investment properties is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
In Qingdao, the PRC		
— Medium term lease	**22,295**	—
— Long term lease	**7,310**	—
	29,605	—

The investment properties were vacant during the year when the renovation work was carried out.

17. AVAILABLE-FOR-SALE EQUITY INVESTMENT

	Group	
	2010	2009
	RMB'000	RMB'000
Unlisted equity investment, at fair value		
Addition of subsidiaries (note 26)	**34,140**	—
Fair value loss	**(3,255)**	—
At 31 December	**30,885**	—

Unlisted equity investment represented 2.14% equity interest of Qingdao Huafeng Rural Cooperative Bank Limited ("Huafeng Bank").

Huafeng Bank's principal businesses are corporate banking, personal banking and treasury operations in Qingdao, the PRC. Huafeng Bank is among the first batch of rural cooperative financial unions that have been approved by the State Council and the China Banking Regulatory Commission of the PRC to be reformed into rural cooperative bank. Huafeng Bank has currently being operated with its retail network comprising 12 branches and 49 operating outlets scattering over Shinan District, Shibei District, Loashan District, Sifang District and Licang District of Qingdao City.

Based on the unaudited management accounts of Huafeng Bank for the year ended 31 December 2010, the unaudited revenue and adjusted profit attributable to equity holders of Huafeng Bank amounted to approximately RMB643,880,000 (2009: RMB578,766,000) and approximately RMB190,359,000 (2009: RMB179,349,000), respectively. As at 31 December 2010, the unaudited adjusted net assets of Huafeng Bank amounted to approximately RMB813,288,000 (2009: RMB761,505,000), respectively.

With reference to the valuation on the investment performed by Asset Appraisal Limited, a firm of independent qualified professional valuers which has staff, being Chartered Financial Analysts (CFA), and with experience in the similar investments being valued, the fair value of the investment at 31 December 2010 amounted to RMB30,885,000. The Group has adopted the estimated price-earnings multiple of 7.57 times which has reflected a discount for lack of marketability of this unlisted investment. In the opinion of the directors of the Company, after having taken into account of Huafeng Bank's unaudited financial position as at 31 December 2010, and growth rate of turnover and profit of 11% and 6%, respectively, in 2010 and its average profit growth rate of 23% in the past five years between 2006 to 2010 and other available financial information of the investee, the prospect of the banking industry in the PRC and the economic development in the PRC in the future, the decline in the fair value of the investment of RMB3,255,000 is not prolonged and permanent and therefore, the decrease in the fair value of this investment (after net off the deferred tax of RMB814,000) amounted to RMB2,441,000 was debited to the investment revaluation reserve as a movement in the statement of changes in equity for the year ended 31 December 2010.

18. LAND UNDER DEVELOPMENT

	Group	
	2010	2009
	RMB'000	RMB'000
Cost		
At 1 January	**67,524**	67,524
Disposal of a subsidiary	**(67,524)**	—
At 31 December	—	67,524
Accumulated amortisation and impairment		
At 1 January	**32,901**	32,524
Impairment loss	—	377
Disposal of a subsidiary	**(32,901)**	—
At 31 December	—	32,901
Carrying amount		
At 31 December	—	34,623
Classified as assets of a disposal group held for sale (note 28(a))	—	34,623

Notes:

a) As disclosed in note 28, the land under development was disposed of on 25 February 2010 and at 31 December 2009, it had been classified under assets of a disposal group held for sale which were stated at fair value of RMB35,000,000, determined with reference to the independent professional valuation report issued by Asset Appraisal Limited (a firm of independent qualified professional valuers which has, among their staff, Fellows of the Hong Kong Institute of Surveyors, with qualification and experience in the location and category of properties being valued), less cost to sell of RMB377,000.

18. LAND UNDER DEVELOPMENT *(Continued)*

Notes: *(Continued)*

b) The analysis of land under development at 31 December 2009 was as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
In Qingdao, the PRC		
— Medium term lease	—	34,623

c) No amortisation on the land was made in 2009 and 2010 as the development work was suspended.

19. PROPERTY UNDER DEVELOPMENT

	Group	
	2010	2009
	RMB'000	RMB'000
Other direct costs capitalised	—	8,671
Less: Impairment loss	—	(8,671)
Classified as assets of a disposal group held for sale (note 28(a))	—	—

As disclosed in note 28, the land under development (note 18) and the property under development were disposed of on 25 February 2010.

The development project was at its preliminary stage under construction with mainly some foundation works and architectural design and related works performed on the piece of land located in Qingdao, PRC as referred to note 18 above.

The Group originally planned to redevelop the piece of land into a research and development centre for system integration. The development project was suspended in the second half of 2008 due to the global financial turmoil. However, during the year ended 31 December 2009, non-refundable deposits of RMB8,671,000 were incurred and paid to the local authorities for the city infrastructure related to the development project in order to prevent the possible reclamation of the piece of land and withdrawal of the rights to redevelop the piece of land (note 18) by the PRC local authorities. Impairment of RMB8,671,000 was recognised for the year ended 31 December 2009 to write down the carrying amount to its recoverable amount, based on the agreement dated 3 December 2009 for the disposal of Qingdao Zhongtian Software Park Co., Ltd ("Zhongtian Software Park"), an indirect wholly-owned subsidiary of the Company and an independent professional valuation on the project performed by Asset Appraisal Limited, a firm of independent qualified professional valuers which has, among their staff, Fellows of the Hong Kong Institute of Surveyors, with qualification and experience in the location and category of properties being valued.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	RMB'000
Interest in subsidiaries		
At cost		
Unlisted shares	**53,347**	53,347
Amounts due from subsidiaries (note a)	**105,738**	59,106
Total cost of investment	**159,085**	112,453
Impairment loss (note a)	**(71,664)**	(68,631)
Interests in subsidiaries, net	**87,421**	43,822
Amount due to a subsidiary (note b)	**(1,292)**	(1,341)

Notes:

a) The amounts due from subsidiaries of RMB105,738,000 (2009: RMB59,106,000) are unsecured, interest-free and will not be demanded for repayment and, in substance form part of the Company's investment in subsidiaries as its capital contribution. An allowance for the Company's investment in subsidiaries of RMB71,664,000 (2009: RMB68,631,000) was recognised as at 31 December 2010 because the related recoverable amounts from these subsidiaries were estimated to be less than their carrying amounts.

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

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

c) Details of the Company's subsidiaries as at 31 December 2010 are as follows:

Name	Form of business structure	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Interest held directly	Interest held indirectly	Principal activities
Success Advantage Limited ("Success Advantage")	Limited liability company	British Virgin Islands ("BVI")	US$100	100%	—	Investment holding
Qingdao Zhongtian Enterprise Development Co., Ltd. ("Zhongtian Enterprise")	Wholly foreign-owned enterprise	PRC	RMB70,000,000	—	100%	Inactive
Best Sight Limited	Limited liability company	Hong Kong	HK$1	—	100%	Investment holding
Golden Century Trade Limited	Limited liability company	Hong Kong	HK$1	—	100%	Investment holding
Hong Kong Zhongtian Mining Limited (Formerly known as "Macro Vantage Limited")	Limited liability company	Hong Kong	HK$1	—	100%	Investment holding
New East Glory Limited	Limited liability company	BVI	US$1	100%	—	Investment holding
Boxing Group Limited	Limited liability company	BVI	US$1	100%	—	Investment holding
Great Miracle Holdings Limited	Limited liability company	BVI	US$1	—	100%	Investment holding
Shan Dong Travel Services Holdings Limited	Limited liability company	Hong Kong	HK$10,000	—	100%	Investment holding
Qingdao Hai Yi Commercial Management Co., Ltd.	Wholly foreign-owned enterprise	PRC	US$423,200	—	100%	Investment holding
Qingdao Hai Yi Investment and Consultancy Co., Ltd.	Limited liability company	PRC	RMB25,000,000	—	100%	Properties and investment holding and sale of intelligent electronics products

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

d) On 23 July 2010, 上海工商行政管理局 approved the deregistration of Macro Vantage (Shanghai) Investment & Consultant Co., Limited which was derecognised in the consolidated financial statements for the year ended 31 December 2010. Macro Vantage (Shanghai) Investment & Consultant Co., Limited had no material assets and liabilities upon deregistration. Macro Vantage (Shanghai) Investment & Consultant Co., Limited has insignificant contribution to the results of the Group for the year ended 31 December 2010.

e) On 26 November 2010, the directors approved to deregister its subsidiary, Sunny Legend Limited. As the deregistration was commenced since 30 December 2010, the investment of this subsidiary has been derecognised in the consolidated financial statements for the year ended 31 December 2010. Sunny Legend Limited has no material assets and liabilities upon deregistration. Sunny Legend Limited has insignificant contribution to the results of the Group for the year ended 31 December 2010.

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**5,426**	6,321	**—**	—
Less: Allowance for doubtful debts	**—**	—	**—**	—
	5,426	6,321	**—**	—
Prepayments and deposits	**31**	32	**25**	26
Other receivables	**220**	—	**—**	—
	5,677	6,353	**25**	26

All of the trade receivables are expected to be recovered within one year.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

a) Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis based on the invoice date as of the end of the reporting period:

	Group	
	2010	2009
	RMB'000	RMB'000
Current	**5,426**	6,321
Over 1 month but less than 3 months	**—**	—
Over 3 months but less than 12 months	**—**	—
Over 12 months	**—**	—
	5,426	6,321
Less: Allowance for doubtful debts	**—**	—
	5,426	6,321

Trade receivables are due within 90 to 180 days from the date of invoice.

b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for doubtful debts during the year are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**—**	5,585
Derecognised upon disposal of subsidiaries	**—**	(5,585)
At 31 December	**—**	—

21. TRADE AND OTHER RECEIVABLES *(Continued)*

b) Impairment of trade receivables *(Continued)*

The ageing analysis based on the due date of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**5,426**	6,321

Receivables that were neither past due nor impaired for whom there was no recent history of default.

At 31 December 2010, none of the receivables that were past due but not impaired. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances were fully settled subsequent to the reporting period. The Group does not hold any collateral over these balances.

22. CASH AND BANK BALANCES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**27,922**	19,317	**6,165**	9,500
Cash and cash equivalents included in assets of a disposal group held for sale (note 28(a))	**—**	1,001	**—**	—
Cash and bank balances in the consolidated statement of cash flows	**27,922**	20,318	**6,165**	9,500

Cash at bank earns interest at floating rate based on daily market bank deposit rate at an average rate of 0.01% (2009: 0.30%) per annum.

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**4,934**	5,746	**—**	—
Other payables				
Accruals	**671**	893	**352**	566
Receipts in advance	**—**	—	**—**	—
Value-added tax payables	**233**	84	**—**	—
Others	**539**	223	**—**	—
	6,377	6,946	**352**	566

Notes:

a) The ageing analysis of the Group's trade payables, based on payment due date, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to 30 days	**4,934**	5,746	**—**	—

b) The carrying amounts of trade and other payables approximate their fair values at the end of the reporting period.

24. AMOUNTS DUE TO DIRECTORS

The amounts due to directors represented directors' emoluments payable and advance from directors, are unsecured, interest free and repayable on demand.

25. DEFERRED TAXATION

a) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Group			
	Revaluation of investment properties RMB'000	Revaluation of leasehold land under operating lease and building RMB'000	Revaluation of available-for-sale equity investment RMB'000	Total RMB'000
Addition of subsidiaries (note 26)	5,133	3,993	6,907	16,033
Recognition of temporary difference arising from revaluation gain of investment properties	101	—	—	101
Reversal of temporary difference arising from decrease in fair value of investment	—	—	(814)	(814)
At 31 December	5,234	3,993	6,093	15,320

b) Deferred tax assets/liabilities not recognised

Under the Enterprise Income Tax Law of PRC, withholding tax shall be imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements as these PRC subsidiaries have accumulated losses as at 31 December 2010 and 2009.

At the end of the reporting period, the Group has not recognised deferred tax assets in respect of unused tax losses of RMB5,612,000 (2009: RMB5,612,000) because it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses expire five years after the year the loss occurred under the current tax legislation.

26. PURCHASE OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES — 2010

On 25 February 2010, the Group acquired from Mr. Chen Jun, the controlling shareholder and a director of the Company, 100% equity interest in Great Miracle Holdings Limited and its subsidiaries which are principally engaged in properties and investment holding and sale of building materials and intelligent electronic components in the PRC, for an aggregate consideration of RMB71,432,000, comprising cash consideration of RMB25,000,000 and RMB46,432,000 (equivalent to HK$52,704,000) satisfied by the issue of an aggregate of 60,859,122 new ordinary shares of the Company. This transaction was approved by the Company's independent shareholders at the extraordinary general meeting held on 23 February 2010.

On 25 February 2010, cash portion of the total consideration payable to Mr. Chen Jun of RMB25,000,000 was offset by part of the consideration receivable from Mr. Chen Jun in the sale of disposal group transaction as referred to note 28 to the financial statements.

This acquisition has been accounted for as purchase of assets and liabilities through acquisition of subsidiaries. The assets and liabilities arising from the acquisition were as follows:

	Acquiree's carrying amount RMB'000	Adjustment RMB'000	Fair value RMB'000
Leasehold land under operating lease (note (c) below) (note 15)	9,900	—	9,900
Building (note (c) below) (note 15)	12,100	—	12,100
Investment properties (note (c) below) (note 16)	28,700	—	28,700
Other fixed assets (note 15)	102	—	102
Available-for-sale equity investment (note (c) below) (note 17)	34,140	—	34,140
Trade and other receivables	220	—	220
Amounts due from a related company	156	—	156
Amount due from a relate party, Mr. Chen Jun	2,147	—	2,147
Cash and bank balances	167	—	167
Deferred tax liabilities (note 25)	(16,033)	—	(16,033)
Net assets acquired	71,599	—	71,599
Deemed distribution to the controlling shareholder (note b)			22,945
			94,544
Consideration represented:			
— Amount set off by part of the sales proceeds of disposal group (note 28)			25,000
— Fair value of consideration shares issued (note a)			69,544
			94,544
Net cash inflow arising from the acquisition			
Cash and bank balances acquired			167

26. PURCHASE OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES — 2010 *(Continued)*

Notes:

a) Pursuant to the sale and purchase agreement dated 3 December 2009 for the acquisitions of Great Miracle Holdings Limited and its subsidiaries, 60,859,122 ordinary shares of the Company with par value of HK$0.01 were issued at the issue price of HK$0.866 each. The fair value of the ordinary shares issued for the acquisition amounting to approximately HK$79,117,000 (equivalent to RMB69,544,000) was determined using the published closing price of the shares of the Company at the date of acquisition.

b) Great Miracle Holdings Limited and its subsidiaries were acquired from Mr. Chen Jun, the controlling shareholder and a director of the Company. The deemed distribution represented the excess of the fair value of the consideration over the fair value of net assets acquired, which was resulted from the difference of the shares of the Company issued for part of the consideration of the acquisition based on the agreement date and the published closing price of the shares of the Company at the completion date of the acquisition.

c) The fair value of the leasehold land under operating lease and building, investment properties and available-for-sale equity investment were based on the independent professional valuations at 25 February 2010 performed by Asset Appraisal Limited, a firm of independent qualified professional valuers, with the qualifications and experiences for similar properties and investments in the PRC. These fair value of the land and building were recognised immediately prior to completion.

27. DISPOSAL OF SUBSIDIARIES — 2009

During the year ended 31 December 2009, the Group disposed of its entire equity interest in Money Chain Worldwide Limited, the then indirectly wholly-owned subsidiary of the Company, together with its subsidiary, Sunny Pearl Limited and Qingdao Zhongtian Information Technology Co., Ltd, at a cash consideration of US$1 to an independent third party. The loss on disposal of RMB1,000,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2009.

The net liabilities of the disposed subsidiaries at the date of disposal were as follows:

	RMB'000
Fixed assets	171
Securities held for trading	19
Trade and other receivables, net of allowance of doubtful debts	735
Amounts due from directors	333
Cash and bank balances	34
Trade and other payables	(2,222)
Net liabilities disposed of	(930)
Translation reserve realised	1,930
Loss on disposal of subsidiaries	1,000
Net cash outflow arising from the disposal:	
Cash and bank balances disposed of	34

28. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 3 December 2009, the Company and Mr. Chen Jun, the controlling shareholder and director of the Company entered into a sale and purchase agreement to dispose of its entire equity interest in Zhongtian Software Park at a consideration of RMB35,000,000 which was settled by (i) RMB25,000,000 as set-off of the partial consideration of the acquisition set out in note 26 above and (ii) cash of RMB10,000,000. The transaction was approved by the Company's independent shareholders at its extraordinary general meeting held on 23 February 2010. The transaction was completed on 25 February 2010.

The assets and liabilities of Zhongtian Software Park had been classified as assets and liabilities of a disposal group held for sale in the financial statements for the year ended 31 December 2009.

a) Assets of a disposal group classified as held for sale

	Group	
	2010	2009
	RMB'000	RMB'000
Land and property under development, net (note 18 and 19)	—	34,623
Other receivables	—	710
Cash and bank balances (note 22)	—	1,001
	—	36,334

b) Liabilities of a disposal group classified as held for sale

	Group	
	2010	2009
	RMB'000	RMB'000
Other payables	—	1,711

28. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

c) Net cash inflow arising from the sale of a disposal group

	2010 RMB'000	2009 RMB'000
Cash and bank balances of disposal group disposed of	**(1,001)**	—
Sale proceeds from the disposal	**10,000**	—
Direct cost incurred for disposal	**(377)**	—
Net disposal proceed	**9,623**	—
	8,622	—

Note:

At 31 December 2009, the carrying amount of the land under development (note 18) and the property under development (note 19), net of impairment losses recognised of RMB9,048,000, was determined with reference to the fair value of RMB35,000,000 based on an independent professional valuation report issued by Asset Appraisal Limited, a firm of independent qualified professional valuers, with qualifications and experiences for similar properties being valued in the PRC, dated 31 October 2009 less the cost of RMB377,000 to complete the disposal.

29. SHARE CAPITAL

	Number of shares		Share capital	
	2010 '000	2009 '000	**2010 HK$'000**	2009 HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January	**10,000,000**	1,000,000	**100,000**	100,000
Subdivision of every 1 ordinary share into 40 ordinary shares (note a(ii))	**—**	39,000,000	**—**	—
Consolidation of every 4 ordinary shares into 1 ordinary shares (note a(iii))	**—**	(30,000,000)	**—**	—
At 31 December	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid:				
At 1 January	**120,000**	400,000	**1,200**	40,000
Capital reduction (note a(i))	**—**	—	**—**	(39,000)
Consolidation of every 4 ordinary shares into 1 ordinary share (note a(iii))	**—**	(300,000)	**—**	—
Issue of new ordinary shares (note b)	**60,859**	20,000	**608**	200
At 31 December	**180,859**	120,000	**1,808**	1,200
Equivalent to RMB'000			**1,772**	1,237

29. SHARE CAPITAL *(Continued)*

a) Capital reorganisation

On 10 July 2009, the Cayman Islands Court approved the capital reorganisation of the Company ("Capital Reorganisation"). The Capital Reorganisation was completed and became effective on 15 July 2009, details of which are set out below:

i) the nominal value of the then shares of the Company in issue was reduced from HK$0.10 to HK$0.0025 each by cancelling the issued share capital to the extent of HK$0.0975 paid up on each of the then issued shares of the Company ("Capital Reduction");

ii) each of the authorised but unissued ordinary shares of the Company was subdivided into 40 new ordinary shares of HK$0.0025 each;

iii) immediately thereafter every four issued and unissued ordinary shares of the Company of HK$0.0025 each were consolidated into one new ordinary share of HK$0.01 of the Company; and

iv) credit arising from the Capital Reduction of RMB41,367,000 (equivalent to HK$39,000,000) was entirely applied to set off the accumulated losses of the Company.

b) Issue of new ordinary shares

On 25 February 2010, the Company issued 60,859,122 new ordinary shares of HK$0.01 each at a price of HK$0.866 each which rank pari passu in all respects with the then existing shares of the Company as part of the consideration for the acquisitions of subsidiaries (note 26).

On 15 October 2009, the Company issued 20,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.67 each which rank pari passu in all respects with the then existing shares of the Company.

30. RESERVES

Group

The amount of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

Company

	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	47,253	50,837	(15,592)	8,216	(80,104)	10,610
Capital Reduction (note 29(a)(i))	—	—	—	—	41,367	41,367
Transfer	—	(50,837)	—	—	50,837	—
Forfeiture of share options (note 31)	—	—	—	(8,216)	8,216	—
Issue of new ordinary shares (note 29(b))	11,630	—	—	—	—	11,630
Loss for the year	—	—	—	—	(30,355)	(30,355)
Derecognition of foreign operations	—	—	15,592	—	—	15,592
Total comprehensive loss for the year	—	—	15,592	—	(30,355)	(14,763)
At 31 December 2009 and 1 January 2010	58,883	—	—	—	(10,039)	48,844
Issue of new ordinary shares (note 29(b))	69,009	—	—	—	—	69,009
Deemed distribution (note 26)	—	—	—	—	(22,945)	(22,945)
Loss for the year	—	—	—	—	(6,181)	(6,181)
Total comprehensive loss for the year	—	—	—	—	(6,181)	(6,181)
At 31 December 2010	**127,892**	**—**	**—**	**—**	**(39,165)**	**88,727**

30. RESERVES *(Continued)*

Company *(Continued)*

Notes:

a) **Share premium**

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

b) **Special reserve**

The special reserve of the Company represented the difference between the nominal value of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying assets of the subsidiaries pursuant to the Group reorganisation prior to listing of the Company's shares in 2004, less the transfer of RMB13,261,000 to the accumulated loss in 2006. Subject to the Companies Law of the Cayman Islands and the Article of Association of the Company, the special reserve is distributable to the shareholders of the Company. Following the completion of disposal of subsidiaries in 2009 as detailed in note 27, the balance of this special reserve was transferred to the accumulated loss of the Company during the year ended 31 December 2009.

c) **Translation reserve**

The translation reserve comprised all foreign exchange differences arising from the translation of the financial statements of foreign operations and/or foreign subsidiaries. The reserve was dealt with in accordance with the accounting policies in note 2(s).

d) **Share option reserve**

The share option reserve represents the fair value of the actual or estimated number of expected share options granted to the eligible participants recognised in accordance with the accounting policy adopted for equity-settled payments in note 2(o)(ii)).

The balance of the reserve was transferred to the accumulated loss as an equity movement when the attributable share options were waived by the grantees during the year ended 31 December 2009.

30. RESERVES *(Continued)*

Distributability of reserves

The Company's reserves available for distribution represent the share premium and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31 December 2010, the Company had reserves available for distribution to owners of RMB88,727,000 (2009: RMB48,844,000).

31. SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company dated 27 July 2004 (the "Scheme"), the Company may grant options to the directors, employees and shareholders of the Company and its subsidiaries and consultants, customers and suppliers, for the recognition of their contributions to the Group, to subscribe for shares in the Company with a payment of HK$1.00 upon each grant of options offered and the options granted must be taken up within 28 days from the date of grant. The exercise price of the share option will be determined at the higher of the average of closing prices of shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Company's shares on the Stock Exchange on the date of grant, and the nominal value of the shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme, the relevant PRC laws and regulations and any conditions of grant as may be stipulated by the board of directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue as at the date of approval of the Scheme unless further shareholders' approval has been obtained pursuant to the conditions set out in the Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of the Company.

31. SHARE OPTION SCHEME *(Continued)*

The total number of shares available for issue under the Scheme as at the end of the reporting period was 18,086,000 shares (2009: 12,000,000) which represented 10% of the issued share capital of the Company as at the end of the reporting period. There is no minimum period for which an option must be held before it can be exercised under the Scheme.

At 31 December 2010, there were no outstanding share options (2009: Nil). No share option was granted during the year ended 31 December 2010 (2009: Nil).

During the year ended 31 December 2009 and prior to the Capital Reduction of the Company as referred to note 29(a), the outstanding 40,000,000 share options brought forward from 2007 were cancelled as they were waived by the grantees who are the employees of the Group. The share option reserve balance of these waived option was transferred to the accumulated loss as equity movement during the year ended 31 December 2009.

32. COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments

At 31 December 2010, the Group had commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**—**	187	**—**	—

b) Capital commitments

At 31 December 2010 and 2009, the Group and the Company did not have material commitment.

c) Contingencies

The Group and the Company did not have material contingent liabilities at 31 December 2010 and 2009.

33. RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to consolidated statement of comprehensive income of approximately RMB47,000 (2009: RMB75,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

34. RELATED PARTY TRANSACTIONS

a) Key management personnel remuneration

Remuneration for key management personnel, including amount paid to the Company's directors as disclosed in note 9 is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Salaries and allowances	**832**	745
Retirement scheme contributions	**9**	—
Share-based payments	**—**	—
	841	745

Total remuneration is included in staff cost in note 8.

b) Balances with related parties

Details of the balances with related parties as at 31 December 2010 and 2009 are set out in note 24 to the financial statements.

34. RELATED PARTY TRANSACTIONS *(Continued)*

c) Transactions with related parties

	Group	
	2010	2009
	RMB'000	RMB'000
Rental expenses paid to Qingdao Hai Yi Investment and Consultancy Co., Ltd. ("Hai Yi Investment")	—	188

Mr. Chen Jun is a common director of Hai Yi Investment and the Company.

As set out on notes 26 and 28 respectively, on 3 December 2009, the Group entered into agreements with Mr. Chen Jun, the controlling shareholder and a director of the Company, to dispose of its entire equity interests in Zhongtian Software Park and to acquire the entire equity interests in Great Miracle Holdings Limited and its subsidiaries. These transactions were inter-conditional and approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 23 February 2010 and were completed on 25 February 2010.

35. EVENTS AFTER REPORTING PERIOD

On 17 December 2010, the board of directors of the Company proposed to issue rights shares to the shareholders on the basis of ten rights shares for every one share held on 26 January 2011 (the "Record Date") which was proposed to be underwritten by Fine Mean Investments Limited, a company wholly-owned by Mr. Chen Jun, the controlling shareholder and a director of the Company. Each one existing share held on the Record Date would entitle the holder thereof to subscribe in cash for ten rights shares at a subscription price of HK$0.03 per rights share. On the basis of 180,859,122 shares in issue as at 17 December 2010, 1,808,591,220 rights shares would be issued and approximately HK$54.26 million would be raised for the Company's general working capital and the establishment of a new line of business in trading of precious metals and coal. At the extraordinary general meeting held on 26 January 2011, the proposed issue of rights shares was not approved by the independent shareholders of the Company and the proposed rights issues was lapsed. In the opinion of the directors of the Company, there would be no material adverse impact on the financial position and operation of the Group.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Turnover	23,466	6,966	8,826	5,402	**10,271**
Loss from operations	(16,115)	(32,994)	(53,849)	(17,542)	**(4,486)**
Share of result of an associate	(81)	—	—	—	**—**
Finance costs	—	(10)	(1,704)	—	**—**
Loss before taxation	(16,196)	(33,004)	(55,553)	(17,542)	**(4,486)**
Income tax	—	—	—	—	**(101)**
Loss for the year	(16,196)	(33,004)	(55,553)	(17,542)	**(4,587)**
Attributable to:					
Owners of the Company	(16,192)	(33,004)	(55,553)	(17,542)	**(4,587)**
Non-controlling interest	(4)	—	—	—	**—**
Loss per share					
— Basic	(16.2cents)	(33.0cents)	(55.6cents)	(16.8cents)	**(2.7cents)**
— Diluted	(16.2cents)	(33.0cents)	(55.6cents)	(16.8cents)	**(2.7cents)**

	As at 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and liabilities					
Total assets	143,055	145,840	66,581	62,163	**115,965**
Total liabilities	(7,037)	(35,321)	(11,729)	(11,117)	**(25,348)**
	136,018	110,519	54,852	51,046	**90,617**