Annual Report 2010

KAI YUAN HOLDINGS LIMITED
開源控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1215)

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Corporate Information

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors

Mr. Xue Jian (re-designated on 06 Jan 2011)
Ms. Kwong Wai Man, Karina
Mr. Yip Kar Hang, Raymond (resigned on 06 Jan 2011)

Non-executive Directors

Mr. Hu Yishi (Chairman) (re-designated on 29 Dec 2010)
Mr. Hu Jin Xing

Independent non-executive Directors

Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

AUDIT COMMITTEE

Mr. Tam Sun Wing (Chairman)
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

REMUNERATION COMMITTEE

Mr. Ko Ming Tung, Edward (Chairman)
Ms. Kwong Wai Man, Karina (appointed on 29 Dec 2010)
Mr. Tam Sun Wing
Mr. Hu Yishi (resigned on 29 Dec 2010)

NOMINATION COMMITTEE

Mr. Ng Ge Bun (Chairman)
Ms. Kwong Wai Man, Karina (appointed on 06 Jan 2011)
Mr. Ko Ming Tung, Edward
Mr. Yip Kar Hang, Raymond (resigned on 06 Jan 2011)

COMPANY SECRETARY

Mr. Fong Kwok Kin (appointed on 21 Oct 2010)

STOCK CODE

1215

WEBSITE

www.kaiyuanholdings.com

PRINCIPAL REGISTRAR

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

SHARE REGISTRAR

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Quees's Road East
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

28th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

SOLICITORS

Kirkpatrick & Lockhart Gates
Solicitors
44th Floor, Edinburgh Tower
The Landmark,
15 Queen's Road, Central,
Hong Kong

PRINCIPAL BANKERS

The Hong Kong & Shanghai Banking Corporation Limited
Fubon Bank
Bank of China

Chairman's Statement

I hereby present the results of Kai Yuan Holdings Limited (the "Company" or "Kai Yuan") together with its subsidiaries (the "Group") for year ended 31 December 2010.

Since completing the acquisition of the Group's associates engaged in steel and steel product manufacturing name in 2009, Kai Yuan's asset base had significantly strengthened and its business portfolio now covers steel manufacturing and trading investment, heat energy supply and property investments, all of which are industries that are essential in the development of China. Though challenges may be faced in any industry from time to time, we are confident that the Group's operations in these vital industries will prevail along the PRC's relentless engine of growth. At the same time, we will also continue to seek for business opportunities presenting synergies with our business portfolio, with the aim of further enhancing our business and providing the best returns for all our stakeholders.

I would also like to take this opportunity to thank all our Board, management and staff members for their continued contributions.

Hu Yishi
Chairman
25 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2010 (the "Year"), turnover of the Group has decreased to approximately HK$124.2 million from approximately HK$200.8 million for the year ended 31 December 2009 (the "Preceding Year"). The decrease was mainly attributable to decreased revenues for the Group's heat energy supply operations which has led to the recording of a gross loss of HK$13.1 million, as compared with a gross profit of HK$74.5 million of the Preceding Year in view of inflating direct costs. During the year, the Group recorded a loss of approximately HK$23.0 million, as compared with a profit of approximately HK$1,744.2 million for the Preceding Year, which was principally attributable to (i) the excess over cost on acquisition of a subsidiary with its associates of approximately HK$1,626.3 million recorded in 2009 was a one-off transaction, which did not recur during this Year; (ii) the decrease in share of profit from the Group's associates engaged in steel manufacturing, which was mainly attributable to reduced profit margins as a result of increase in production cost; (iii) the loss from the Group's heat energy supply operations, which was mainly due to the decrease in revenue in pipeline connection services, and certain impairment provision of assets made by a subsidiary; and (iv) the increase in administrative expenses from approximately HK$115.7 million to approximately HK$135.8 million, which was largely due to an increase in share-based payments resulting from share options granted during the Year. The Group recorded profit attributable to owners of the Company of approximately HK$101.2 million after excluding non-controlling interests (Preceding Year: HK$1,857.8 million), resulting basic profit per share of HK$1 cent for the Year.

Segmental review of the Group's operations during the Year is as follows:

Steel Manufacturing and Trading Investment

During the Year, output of the Group's steel-making associates, namely Rizhao Steel Co., Ltd. Rizhao Medium Section Mill Co., Ltd. and Rizhao Steel Wire Co., Limited remained at near designed capacity, producing approximately 12 million tonnes of steel and steel products for the Year. The associates contributed a profit of approximately HK$293.5 million to the Group for the Year (Preceding Year: HK$567.1 million). Due to the appreciation of raw material costs compounded with the lack of corresponding recovery in market price for the products, the associates' profit margins diminished. As disclosed in an announcement of the Company dated 1 September 2010, further to the asset restructuring and co-operation agreement (the "Restructuring Agreement") between these associates, amongst others, and 山東鋼鐵集團有限公司 (for English identification, Shandong Steel Group Co., Limited), the relevant parties have further entered into a second asset restructuring agreement (the "Second Restructuring Agreement") on 30 August 2010, pursuant to which, amongst other matters, the restructuring shall be completed via a one-time acquisition of assets held by these associates (the "Proposed Asset Acquisition"). Procedures relevant to the Proposed Asset Acquisition are still being undertaken, and the Proposed Asset Acquisition has yet to be completed. Further disclosures on any new development regarding the above shall be made as and when required under the Listing Rules.

Heat Energy Supply

During the Year, the heat energy supply operations of the Group generated turnover of approximately HK$119.6 million and segmental loss of approximately HK$192.0 million, as compared with approximately HK$196.1 million and segmental loss of approximately HK$292.5 million of the Preceding Year. The decrease in revenue was largely due to reduced connection fee income resulting from a lack of sizable new real estate projects that requiring connection of heating facilities in the area covered by the Group's heat energy supply operations and the ceasing of revenue contribution from an agreement relating to the granting of certain operating rights related to pipeline connection services, which was terminated in 2009. The decreased revenues, in conjunction with certain impairment provision of assets made by a subsidiary, had led to the segmental loss recorded. During the Year, the three heat energy supply projects, namely the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project operated by the Group's heat energy supply subsidiaries in Tianjin have maintained the coverage of approximately 5.1 million sq.m. for the 2010/2011 heating season.

Property Investment

During the Year, the Group's commercial properties recorded turnover of approximately HK$4.5 million, as compared with approximately HK$4.6 million for the Preceding Year, which mainly resulted from the lesser leasable area after disposal of 3 office units in Beijing with an aggregate area of 439.47 sq.m. in October 2010. A segmental profit of approximately HK$10.8 million was recorded for the Year as compared with segmental loss of approximately HK$6.9 million for the Preceding Year, which was mainly due to fair value gain relating to the properties. The Group's remaining 32 A-grade commercial offices at Wangfujing, Dong Cheng District were fully occupied as at the end of the Year.

In Shanghai, operations of Shanghai Underground Centre Company Limited ("SUCCL") remained stable, recording revenue approximately HK$55 million for the Year (Preceding Year: approximately HK$57 million). As a result of cost control measures, SUCCL contributed a profit of approximately HK$0.6 million for the Year, versus a loss of HK$2.6 million for the Preceding Year.

PROSPECTS

Steel Manufacturing and Trading Investment

The continued rally in material prices in the global market has exerted significant pressure on the profitability of the steel industry. The Group is optimistic about improving operating performance of the Group's associates engaged in steel manufacturing and trading as and when steel product prices and material costs become more in line with one another, and the industry-leading abilities of the associates in management inventory control and margin maintenance can once again be best demonstrated.

Heat Energy Supply

Given China's continued economic growth, it is expected that the Group's heat energy supply operations shall benefit as the property development of Tianjin gains momentum. Although the operating environment in this utility industry continues to be challenged by fixed prices and inflating operating costs, heat energy supply is an essential public service and it is expected that stable revenue stream can be generated for the Group as the over 21 million sq.m. of maximum aggregate heat energy supply coverage of the Group's heat energy supply business is utilized to efficient levels.

Property Investment

China's vibrant properties market provides strong support for the Group's quality investment property portfolio in Beijing and Shanghai, and it is expected that stable rental income will continue to be generated. Given the market opportunities, the Group entered into an agreement to dispose External Fame Limited on 14 March 2011, which holds all of the Group's 32 office units and the two levels underground parking area located in Beijing, the disposal is scheduled to be completed in May 2011, which shall be reflected in the Group's interim results of 2011. The Group shall continue to monitor market situation and review its non-core property investment portfolio from time to time in order to capture market opportunities and maximize returns.

Looking ahead

Through recent years, the Group has gradually expanded its business portfolio, focusing on businesses essential to the development of a country, including utilities business such as heat energy supply and material supply business such as steel manufacturing and trading. The Group continually endeavors to further broaden its business operation and income stream by exploring new investment and business development opportunities. During the year, the Group has initiated the development into the financial service sector. However, the management of the Company considered it in the best interests of the Group to focus its resources on the existing core businesses of the Group instead of venturing into the financial service sector subsequent to the resignation of an executive director responsible for setting such business, and the Group entered into an agreement in January 2011 with Sheng Yuan Financial Services Group Limited to dispose of Kai Yuan Securities Limited at a consideration of HK$17,700,000. The transaction constitutes a connected transaction for the Company under Chapter 14A of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the details of which were disclosed in an announcement dated 17 January 2011. Completion has not taken place as at the date of this annual report.

The Group shall from time to time review its business portfolio and consider expanding it as opportunities arise. As the Group's business strategically expands in conjunction with the organic growth of existing businesses, the Group is confident that return and value for all stakeholders will be commensurably enhanced.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, total assets and net assets of the Group were approximately HK$4,674.9 million and HK$3,791.3 million respectively, as compared with HK$4,846.8 million and HK$3,607.0 million as at 31 December 2009. Cash and bank balance and pledged bank deposits of the Group as at 31 December 2010 totaled approximately HK$225.8 million (31.12.2009: HK$305.9 million), representing a decrease of 26.2%, which was largely due to acquisition of office premises made by the Group's subsidiary. Correspondingly, current assets decreased by 61.2% to approximately HK$439.8 million during the Year (31.12.2009: HK$1,132.6 million). As at 31 December 2010, the Group's outstanding bank and other borrowings amounted to approximately HK$80.0 million (31.12.2009: HK$90.0 million), approximately HK$71.5 million of which was due within one year. Net current liabilities as at 31 December 2010 was approximately HK$268.2 million. (31.12.2009: Net current assets HK$304.0 million). However, given due assessment on the Group's financial situation and the undertaking of the holder of the outstanding convertible notes of the company to not redeem such convertible notes for at least 12 months from the date of the consolidated financial statements, the Group believes that its operations shall not be adversely effected. As at 31 December 2010, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 4.0% (31.12.2009: 4.0%).

Acquisitions and Disposals

The Group entered into agreements in February 2010 to dispose of 3 office units with an aggregate area of 439.47 sq.m. for an aggregate consideration of approximately HK$6.9 million, the completion of which took place in October 2010 and a loss on disposal of HK$1.3 million was resulted.

Foreign Exchange Exposure

The operations of the Group are located in the PRC. Loans and borrowings taken in relation to such operations are mostly denominated in the local currency to match with their relevant local expenditures, thus mitigating risks arising from foreign exchange fluctuations. However, exchange risks may arise as a result of fluctuations in the value of Renminbi when translations and exchanges are made between Renminbi and Hong Kong dollar, as the Group's head office operating expenses are incurred in Hong Kong dollars. Furthermore, a small portion of the Group's borrowings incurred by one of the subsidiaries of Tianjin Heating was denominated in US dollars and exchange risks may arise as a result of fluctuations in the value of Renminbi against the US dollar. However, as Renminbi is not freely convertible into other foreign currencies and cost effective hedging instruments are not widely available, no further hedging was provided and no financial instrument for hedging was employed by the Group during the Year. The Group will from time to time review and monitor the exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

The Group provided guarantee, with no charge, to a bank in connection with a banking facility of up to HK$117,647,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds 16% equity interest. As at 31 December 2010, the banking facility was utilised to the extent of approximately HK$58,823,500. No contingent liabilities were provided for by the Group in the financial statements as the directors believe it is not probable that an outflow will be required to settle the obligation.

Pledge on the Group's Assets

As at 31 December 2010, bank balances amounting to approximately HK$17,647,000 were pledged to banks for bills payables (2009: HK$711,000 were pledged to banks for securing banking facilities granted to the Group).

Employees and Remuneration

The Group had approximately 226 employees as at 31 December 2010 (31.12.2009: 208). Apart from basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Group has a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Directors' Profile

The followings are the profile of the Directors of the Company (the "Directors").

EXECUTIVE DIRECTORS

Mr. Xue Jian

Mr. Xue Jian, aged 45, was appointed as a non-executive Director of the Company on 7 January 2009, and was re-designated as executive Director on 06 January 2011. Mr. Xue received his master's degree in business administration from Zhongnan University of Finance, Economics, Politics and Law. Mr. Xue has over two decades of experience in the steelmaking industry and in the commercial sector in the People's Republic of China. He is the legal representative of Rizhao Steel Co., Ltd., and a director and vice general manager of Rizhao Steel Holding Group Co., Ltd. The Rizhao Steel group of companies is one of the largest private steel makers in the People's Republic of China. Mr. Xue is also a director of Rizhao Bank (formerly known as Rizhao City Commercial Bank) and a director of Laishang Bank. Apart from his engagement in private sector, Mr. Xue is active in the pursuit for public causes, holding positions including the deputy director of Center for Studies on China's Circular Economy and Environment, the senior consultant of China Health & Medical Development Foundation, vice president of Shandong Enterprise Confederation, Shandong Entrepreneur Association, Shandong Federation of Industrial Economy and Shandong Association of Quality respectively.

Ms. Kwong Wai Man, Karina

Ms. Kwong Wai Man, Karina, aged 41, was appointed as an executive Director and chief financial officer of the Company on 4 July 2008. Ms. Kwong joined the Company as financial controller on 15 February 2005. Ms. Kwong is responsible for the overall finance and administration functions and corporate governance enforcement of the Group. Ms. Kwong holds a bachelor's degree in business administration from the Simon Fraser University, Canada and is a member of the American Institute of Certified Public Accountants. Ms. Kwong has extensive experience in accounting, financial management and corporate finance.

Prior to joining the Company, Ms. Kwong worked for sizable organisations in various industries as senior executives in both Canada and Hong Kong. Ms. Kwong had previously served as an executive director and non-executive director of Grandmass Enterprise Solution Limited (now known as FAVA International Holdings Limited), the shares of which are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Mr. Yip Kar Hang, Raymond

Mr. Yip Kar Hang, Raymond, aged 43, was appointed as an executive Director and the Chief Executive Officer of the Company on 3 March 2008 and was further appointed as company secretary of the Company on 4 July 2008. Mr. Yip is responsible for the overall financial and business operations, company secretarial matters and management of the Group. Mr. Yip has extensive experience in financial management, corporate mergers and acquisitions and company secretarial matters with various listed companies in Hong Kong.

Mr. Yip is the executive director and chief executive officer of Sheng Yuan Holdings Limited, a company which shares are listed on the main board of Stock Exchange. Mr. Yip Was an executive director, chief financial officer and company secretary of Imagi International Holdings Limited, a company the issued shares of which are listed on the main board of The Stock Exchange.

Mr. Yip is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He received his Master of Science degree in finance from University of Leicester and bachelor of science degree in business administration from California State Polytechnic University, Pomona.

Mr. Yip resigned as company secretary on 21 October 2010, and resigned as an executive Director and chief executive officer of the Company on 6 January 2011.

Directors' Profile

NON-EXECUTIVE DIRECTORS

Mr. Hu Yishi (Chairman)

Mr. Hu Yishi, aged 35, was appointed as an executive Director and the Chairman of the Company on 17 April 2007 and has been re-designated as a non-executive director on 29 December 2010. Mr. Hu has extensive experience in China affairs and business. He graduated from Shanghai International Tourism Vocational Technology School and is the President of Shanghai Holdeasy Advertising Company Limited and the Director and General Manager of Shanghai Chuang Yang Advertising & Broadcasting Co., Ltd. Mr. Hu was previously an executive director of China Pipe Group Limited and Tidetime Sun (Group) Limited (formerly known as Sun Media Group Holdings Limited), both companies listed on the Main Board of the Stock Exchange. Mr. Hu Yishi is the son of Mr. Xu Jin Xing, non-executive Director of the Company.

Mr. Hu Jin Xing

Mr. Hu Jin Xing, aged 67, was appointed as an non-executive Director of the Company on 04 June 2007. Mr. Hu graduated from Shanghai Normal University with a major in Chinese Language & Literature. He is the president of Shanghai Morelove Foundation and a vice president and general secretary of Shanghai Huajie Affection Foundation. He was a vice principal of Shanghai Hainen Secondary School from February 1994 to July 1997. He was the vice principal of Shanghai Fu Xing High School from October 1997 to February 2005 and then he become the principle for over seven years. Mr. Hu was a member of the Tenth Shanghai Committee of the Chinese People's Political Consultative Conference of Hong Kou District, Shanghai, the PRC. Mr. Hu was previously a non-executive director of China Pipe Group Limited, a company listed on the Stock Exchange. Mr. Hu Jin Xing is the father of Mr. Hu Yishi, non-executive Director and Chairman of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam Sun Wing

Mr. Tam Sun Wing, aged 53, was appointed as an independent non-executive Director of the Company on 14 December 2001. Mr. Tam is a professional accountant having more than 20 years of audit and business advisory experience of which 8 years were with an international accounting firm. He has also been in private practice since 1992. Mr. Tam is a director of FTW & Partners CPA Limited. He has extensive experience in providing business advisory service and conducting audits of listed and other companies in the businesses of toy manufacturing and trading, electronics, property development and holding, securities, insurance and retailing.

Mr. Ko Ming Tung, Edward

Mr. Ko Ming Tung, Edward, aged 50, was appointed as an independent non-executive director of the Company on 29 March 2004. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 19 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel, the Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko has been appointed as Tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of Chiu Chow Association Secondary School.

Other than the directorship in the Company, currently, Mr. Ko is also an independent non-executive director of Sinofert Holdings Limited, Wai Chun Group Holdings Limited and Interchina Holdings Company Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Ko was previously an independent non-executive director of China Pipe Group Limited and a non-executive director of New Smart Energy Group Limited, whose shares are listed on the Main Board of the Stock Exchange.

Mr. Ng Ge Bun

Mr. Ng Ge Bun, aged 53, was appointed as an independent non-executive Director of the Company on 30 September 2004. Mr. Ng holds the Degree in Bachelor of Science and Degree in Bachelor in Laws. He obtained a postgraduate certificate in laws from The University of Hong Kong. He is a solicitor of the High Court of Hong Kong and currently serves as a partner of Tang, Lai & Leung Solicitors.

Corporate Governance Report

The Board and management of the Company are committed to maintaining high standards of corporate governance. Continuous efforts are made to review and enhance the Group's internal control policy and procedures in light of local and international developments to instill best practices.

The Board of Directors has set up procedures on corporate governance that comply with the requirements of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Company had complied with the CG Code throughout the year ended 31 December 2010 with the following deviation:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

- A4.2 The Chairman and the Group Managing Director are not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep this matter under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

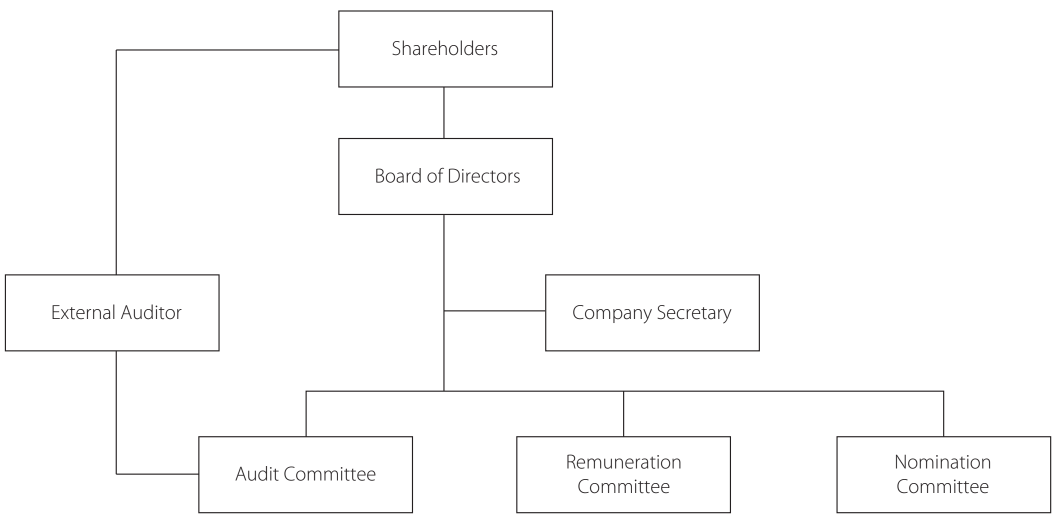
The key corporate governance principles and practices of the Company are summarized as follows:

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. The Company has confirmed with the Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

THE BOARD AND CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The Directors are responsible for leadership and control of the Group. The overall corporate governance structure of the Company is depicted in the following chart:



BOARD

(A) BOARD COMPOSITION

The Board currently comprises two executive Directors, two non-executive Directors and three independent non-executive Directors, serving the important function of guiding the management.

The Board members during the year and up to the date of this annual report are as follows:-

Chairman
Mr. Hu Yishi* *(Chairman and non-executive Director)* (re-designated as non-executive Director on 29 December 2010)

Executive Directors
Mr. Xue Jian (re-designated as executive Director on 06 January 2011)
Ms. Kwong Wai Man, Karina
Mr. Yip Kar Hang, Raymond (resigned on 06 January 2011)

Non-executive Directors
Mr. Hu Jin Xing*

Independent non-executive Directors
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

* Mr. Hu Yishi is the son of Mr. Hu Jin Xing

(B) ROLE AND FUNCTION

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support of the chief executive officer and senior management to discharge its responsibilities. Appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Company.

For the year ended 31 December 2010, the Board:-

1 reviewed the internal control system and risk management of the Group;

2 discussed the annual result of the Group for the year ended 31 December 2009 and the interim result of the Group for the period ended 30 June 2010 respectively ;

3 considered the recommendation of any final dividend for the year ended 31 December 2009 and the book close period, if any;

4 proposed re-election of Directors;

5 re-appointed Ernst & Young as a auditors of the company, and discussed the Auditors remuneration for the annual audit;

6 resolve the change of company secretary;

7 review the effects on the changes of the Accounting standards and principles;

8 approved the composition of the Board;

9 approved change of bank signatories;

10 proposed the general mandates to issue and repurchase shares of the Company;

11 approved the grant and exercise of share options under share options scheme;

12 approved to enter into a tenancy agreement;

(C) MEETING RECORDS

There were 11 board meetings held for the year ended 31 December 2010.

The following was an attendance record of the Board meetings held by the Board during the year:

Board Members	Attendance at meetings held for the year ended 31 December 2010
Mr. Hu Yishi	8/11
Mr. Xue Jian	8/11
Ms. Kwong Wai Man, Karina	11/11
Mr. Hu Jin Xing	8/11
Mr. Tam Sun Wing	8/11
Mr. Ng Ge Bun	8/11
Mr. Ko Ming Tung, Edward	8/11
Mr. Yip Kar Hang, Raymond	11/11

(D) INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2010, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman provides leadership for the Board and the Chief Executive Officer has overall chief executive responsibility for the Group's business development and day-to-day management generally.

The division of the responsibilities between the Chairman and Chief Executive Officer is clearly established and set out in the Code of Corporate Governance of the Company. During the year, Mr. Hu Yishi is the Chairman of the Company and has been re-designated as non-executive Director on 29 December 2010. Mr. Yip Kar Hang, Raymond was the Chief Executive Officer of the Company until his resignation on 6 January 2011.

Following the resignation of Mr. Yip Kar Hang, Raymond on 6 January 2011, Mr. Yip ceased to act as executive Director, chief executive officer and authorised representative of the Company. The Company is still looking for a suitable candidate to fill the vacancy of chief executive officer and further announcement will be made by the Company upon fulfillment of this requirement under the Listing Rules.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:-

- Audit Committee
- Remuneration Committee
- Nomination Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

(A) AUDIT COMMITTEE

On 14 December 2001, the Audit Committee had been established. It currently consists of three independent non-executive Directors.

Composition of Audit Committee members for the year ended 31 December 2010:

Mr. Tam Sun Wing *(Chairman)*
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

Role and function

The Audit Committee is mainly responsible for:

1 discussing with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;

2 reviewing the Company's interim and annual financial statements before submission to, and providing advice and comments thereon to the Board of Directors;

3 considering the appointment of external auditors and their audit fees;

4 discussing problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and

5 assessing the risk environment and review internal control procedure manual of the Group.

Meeting Record

The Audit Committee met four times during the year to discuss and review the interim and annual results, and to review the internal control procedures of the Group.

The following was an attendance record of the Audit Committee meetings for the year ended 31 December 2010:

Committee member	Attendance at meetings held for the year ended 31 December 2010
Mr. Tam Sun Wing	4/4
Mr. Ko Ming Tung, Edward	4/4
Mr. Ng Ge Bun	4/4

During the meetings, the Audit Committee discussed the following matters:-

(1) Financial Reporting

The Audit Committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The auditors, the Chief Financial Officer of the Company were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Group reviewed by the Audit Committee, the management of the Company would provide breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendation to the Board.

(2) External Auditors

The appointment of the external auditors and the audit fee were considered by the Audit Committee and recommendations were made to the Board on the selection of external auditors of the Company.

(3) Internal Control

The sufficiency and efficiency of the internal control system and risk management.

(B) REMUNERATION COMMITTEE

The Remuneration Committee was established on 21 March 2005. It currently consists of one executive Director and two independent non-executive Directors.

Composition of Remuneration Committee members for the year ended 31 December 2010:

Mr. Ko Ming Tung, Edward *(Chairman)*
Ms. Kwong Wai Man, Karina (appointed on 29 December 2010)
Mr. Tam Sun Wing
Mr. Hu Yishi (resigned on 29 December 2010)

Role and function

The Remuneration Committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;

2. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

3. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;

4. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

5. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

6. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. reviewing and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

8. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

9. advising the shareholders on how to vote in respect of any service contract of Director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some Remuneration Committee decisions are approved by way of written resolutions passed by all the committee members.

For the year ended 31 December 2010, there were 5 meetings held. The following was an attendance record of the Remuneration Committee meeting for the year ended 31 December 2010:

Committee member	**Attendance at meetings held for the year ended 31 December 2010**
Mr. Ko Ming Tung, Edward	5/5
Ms. Kwong Wai Man, Karina	0/5
Mr. Tam Sun Wing	5/5
Mr. Hu Yishi	4/5

During the meeting, the Remuneration Committee discussed the remuneration packages of Directors and senior management with reference to the prevailing market conditions and reviewed the incentive scheme for all staff to enhance their motivation.

(C) NOMINATION COMMITTEE

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director and two independent non-executive Directors.

Composition of Nomination Committee members for the year ended 31 December 2010:

Mr. Ng Ge Bun *(Chairman)*
Mr. Ko Ming Tung, Edward
Mr. Yip Kar Hang, Raymond (resigned on 06 January 2011)

Role and function

The Nomination Committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the CG Code in September 2005. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

For the year ended 31 December 2010, there were 1 meeting held. The following was an attendance record of the Nomination Committee meeting for the year ended 31 December 2010:

Committee member	**Attendance at meeting held for the year ended 31 December 2010**
Mr. Ng Gen Bun	1/1
Mr. Ko Ming Tung, Edward	1/1
Mr. Yip Kar Hang, Raymond	1/1

During the meeting, the Nomination Committee reviewed the composition of the Board member.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders – to communicate with them and encourage their participation - through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. The notice of meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered shareholders are entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or Chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:-

Hotline no. : 2804-2221

By post : 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

EXTERNAL AUDITORS

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

Apart from the provision of annual audit services, the Group's external auditors also provided interim review of the Group's results and taxation advisory service of the Group.

For the year ended 31 December 2010, Ernst & Young ("EY"), the external auditors provided following services to the Group:–

	Ernst & Young *HK$,000*
Audit services	4,700

INTERNAL CONTROL

The Audit Committee assisted the Board to perform its duties to maintain an effective and sound internal control system for the Group. The committee reviewed the Group's procedures and workflow for the financial, operational and compliance, and also the risk assessment and its initiatives for business risks management and control. Recommendations will also put forward to the Board for consideration and approval.

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

For the year ended 31 December 2010, the following shareholder meeting was held by the Company:-

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
25 January 2010	Plaza 1 & 2, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong	Special General Meeting	1. approve the appointment of Ernst & Young as the auditor of the Group 2. authorising the board of directors of the company to the fix the remuneration of the auditor	By poll
20 May 2010	Plaza 1 & 2, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong	Annual General Meeting	1. To adopt the audited financial statements and the reports of the Directors and auditors 2. To re-elect Directors and to authorize the Board of Directors to fix their remuneration 3. To re-appoint Ernst & Young as the auditors and authorize the Board to determine their remuneration 4. To approve the general mandates to issue and repurchase shares of the Company	By poll

FINANCIAL CALENDAR FOR 2011

Event	Proposed Date
Announcement of 2010 annual results	25 March 2011
Annual General Meeting	17 May 2011
Announcement of interim result	Late August 2011

Directors' Report

The Directors present their annual report and audited financial statements for the year ended 31 December 2010.

PRINCIPLE ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries is set out in note 19 to the audited financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Group and the Company at that date are set out in the financial statement page 24 to 100.

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

SUMMARY FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate is set out on page 102. This summary does not form part of the audited financial statement.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the audited financial statements, respectively. Further details of the Group's investment properties are set out on page 101.

SHARE CAPITAL, SHARE OPTIONS, AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options, and convertible notes during the year are set out in notes 36, 37 and 34 to the audited financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the audited financial statement and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At as 31 December 2010, the Company does not have any distributable reserves.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable donations amounting to HKD1,250,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 5% of the total sales for the year and sales to the largest customer included therein amounted to 2%. Purchases from the Group's five largest suppliers accounted for 65% of the total purchases for the year and purchases from the largest supplier included therein amounted to 36%. None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Xue Jian (re-designated on 06 January 2011)
Ms. Kwong Wai Man, Karina
Mr. Yip Kar Hang, Raymond (resigned on 06 January 2011)

Non-executive Directors:

Mr. Hu Yishi (re-designated on 29 December 2010)
Mr. Hu Jin Xing

Independent non-executive Directors:

Mr. Tam Sun Wing
Mr. Ko Ming Tung Edward
Mr. Ng Ge Bun

The Directors of the Company, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with clauses 87(1) and 87(2) of the Company's Bye-laws.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to the guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 7 to 8 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTOR'S REMUNERATION

Subject to shareholders' approval at annual general meetings authorising the Board, remuneration of Directors are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND CONVERTIBLE NOTES

At 31 December 2010, the interests of the Directors and their associates in the shares underlying shares and convertible notes of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position – ordinary shares of HK$0.10 each of the Company

Name of Directors	Capacity	Number of shares held as corporate Interests	Percentage of the issued share capital of the Company
Ms. Kwong Wai Man, Karina	Personal	10,000,000	0.10%
Mr. Yip Kar Hang Raymond (resigned on 6 January 2011)	Personal	22,000,000	0.23%

Long positions – share options

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	94,260,000	94,260,000
Mr. Xue Jian	Beneficial owner	94,260,000	94,260,000
Ms. Kwong Wai Man, Karina	Beneficial owner	10,000,000	10,000,000
Mr. Hu Jin Xing	Beneficial owner	137,980,000	137,980,000
Mr. Tam Sun Wing	Beneficial owner	1,000,000	1,000,000
Mr. Ko Ming Tung, Edward	Beneficial owner	1,000,000	1,000,000
Mr. Ng Ge Bun	Beneficial owner	1,000,000	1,000,000
Mr. Yip Kar Hang, Raymond (resigned on 6 January 2011)	Beneficial owner	50,000,000	50,000,000

Long positions – convertible notes

Name of Directors	Capacity	Amount of convertible notes	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	230,100,000	1,300,000,000

Note: The Company and Mr. Hu Yishi entered into a subscription agreement in relation to the convertible notes on 26 May 2008. On 2 July 2009, the Company issued convertible notes in the amount of HK$265,500,000 to Mr. Hu Yishi, the director of the Company according to the convertible notes subscription agreement dated 26 May 2008. The convertible notes carry interest at 3.5% per annum. The holder has the option to convert the convertible notes into ordinary shares of HK$0.10 per share of the Company at a conversion price of HK$0.177 per share. Subsequently on 7 August 2009, convertible notes with principal amount of HK$35,400,000 were converted into 200,000,000 ordinary shares of the Company. At 31 December 2010 the remaining balance of convertible notes is HK$230,100,000.

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executive had registered an interest or short position in the shares, underlying shares or convertible notes of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and convertible notes" above and in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 37 to the audited financial statements.

CONTRACT OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

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

Ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of ordinary shares held	Percentage of issued share capital
Mr. Du Shuang Hua [1]	Interest of controlled corporation	708,000,000	7.40%
Happy Sino International Limited [1]	Beneficial interest	708,000,000	7.40%
Mr. Zhang He Yi [1]	Beneficial interest	1,400,000,000	14.63%
Mr. Qi Shi An	Beneficial interest	600,000,000	6.27%
Ms. Lu Xiao Mei [2]	Interest of controlled corporation	753,190,000	7.87%
Sincere Profit Group Limited [2]	Beneficial interest	753,190,000	7.87%

1 Mr. Du Shuang Hua and Mr. Zhang He Yi beneficially owns 85% interest and 15% interest respectively in the issued share capital of Happy Sino International Limited

2 Ms. Lu Xiao Mei beneficially owns 100% interest in the issued share capital of Sincere Profit Group Limited

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

Directors' Report

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on page 9 to 17 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float throughout the year ended 31 December 2010.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 48 to the audited financial statements.

EMOLUMENT POLICY

Emolument policy on the remuneration of the Directors and the employees of the Group is reviewed periodically and determined by reference to market terms, Company performance and individual qualifications and performance.

AUDITORS

The Financial statements have been audited by Ernst & Young ("EY"). EY shall retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of EY as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Kwong Wai Man, Karina
25 March 2011

Independent Auditors' Report

ERNST & YOUNG
安永

TO THE SHAREHOLDERS OF KAI YUAN HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Kai Yuan Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 24 to 100, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

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

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 21 (a) to the consolidated financial statements, which discloses details of a restructuring agreement entered into by the Company's three associates.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

(Prepared in accordance with HKFRSs)

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**124,160**	200,793
Cost of sales		**(137,261)**	(126,264)
Gross (loss)/profit		**(13,101)**	74,529
Excess over cost of acquisition		**–**	1,626,284
Other income and gains	6	**7,334**	7,640
Other expenses	7	**(152,439)**	(408,736)
Fair value gain/(loss) on investment properties		**10,171**	(10,100)
Administrative expenses		**(135,763)**	(115,660)
Finance costs	8	**(29,683)**	(18,540)
Share of profits and losses of:			
A jointly-controlled entity		**612**	(2,640)
Associates		**293,525**	567,055
(LOSS)/PROFIT BEFORE TAX	9	**(19,344)**	1,719,832
Income tax (expense)/credit	11	**(3,685)**	24,411
(LOSS)/PROFIT FOR THE YEAR		**(23,029)**	1,744,243
Attributable to:			
Owners of the Company		**101,248**	1,857,758
Non-controlling interests		**(124,277)**	(113,515)
		(23,029)	1,744,243
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic			
– For profit for the year		**HK$1 cent**	HK$22 cents
Diluted			
– For profit for the year		**HK$1 cent**	HK$21 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

(Prepared in accordance with HKFRSs)

	Notes	2010 HK$'000	2009 HK$'000
(LOSS)/PROFIT FOR THE YEAR		**(23,029)**	1,744,243
Share of other comprehensive income of associates		**811**	12,239
Exchange differences on translation of foreign operations		**132,514**	3,714
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**133,325**	15,953
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**110,296**	1,760,196
Attributable to:			
Owners of the Company		**234,573**	1,873,711
Non-controlling interests		**(124,277)**	(113,515)
		110,296	1,760,196

Consolidated Statement of Financial Position

As at 31 December 2010

(Prepared in accordance with HKFRSs)

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**712,251**	577,062
Investment properties	15	**98,885**	91,473
Prepaid land lease payments	16	**44,904**	46,371
Goodwill	17	**–**	10,757
Intangible assets	18	**107,060**	109,717
Investments in a jointly-controlled entity	20	**116,119**	120,414
Investments in associates	21	**3,150,183**	2,753,197
Available-for-sale investments	22	**5,471**	5,225
Other long term assets		**205**	–
Total non-current assets		**4,235,078**	3,714,216
CURRENT ASSETS			
Inventories	23	**3,983**	4,390
Trade receivables	24	**183**	9,644
Other receivables and prepayments	25	**12,691**	18,788
Prepaid land lease payments	16	**3,370**	2,951
Amounts due from associates	26, 28	**2,000**	450,955
Amounts due from related companies	27	**133,086**	283,865
Dividend receivable from a jointly-controlled entity	20	**58,671**	56,035
Financial assets at fair value through profit or loss		**24**	–
Pledged bank deposits	29	**17,647**	711
Cash and cash equivalents	29	**208,183**	305,219
Total current assets		**439,838**	1,132,558
Total assets		**4,674,916**	4,846,774
CURRENT LIABILITIES			
Trade and bills payables	30	**47,465**	35,212
Other payables and accruals	31	**83,646**	58,449
Dividend payable to former shareholders of a subsidiary	28	**–**	416,955
Receipt in advance		**88,932**	61,605
Amounts due to related companies	27	**40,374**	53,403
Obligations under finance leases		**37**	45
Interest-bearing bank and other borrowings	32	**71,469**	64,465
Loan from a related company	33	**104,273**	101,566
Income tax payable		**39,470**	36,874
Convertible notes – current portion	34	**232,357**	–
Total current liabilities		**708,023**	828,574
NET CURRENT (LIABILITIES)/ASSETS		**(268,185)**	303,984
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,966,893**	4,018,200

Consolidated Statement of Financial Position (continued)

As at 31 December 2010

(Prepared in accordance with HKFRSs)

	Notes	2010 HK$'000	2009 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,966,893**	4,018,200
NON-CURRENT LIABILITIES			
Convertible notes	34	**–**	206,630
Obligations under finance leases		**144**	56
Interest-bearing bank and other borrowings	32	**8,533**	25,578
Deferred tax liabilities	35	**166,939**	178,937
Total non-current liabilities		**175,616**	411,201
Net assets		**3,791,277**	3,606,999
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	36	**956,849**	942,733
Equity component of convertible notes		**109,072**	109,072
Reserves	38	**2,438,388**	2,143,949
		3,504,309	3,195,754
Non-controlling interests		**286,968**	411,245
Total equity		**3,791,277**	3,606,999

Approved on behalf of the Board of Directors:

Mr. Xue Jian
Director

Ms. Kwong Wai Man, Karina
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

(Prepared in accordance with HKFRSs)

		Attributable to owners of the Company									
	Notes	Issued capital	Equity component of convertible notes	Share premium*	Share options reserve*	Translation reserve*	Retained profits / (accumulated losses)*	Other reserve*	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009		711,761	–	266,208	15,467	46,834	(434,606)	–	605,664	524,760	1,130,424
Total comprehensive income/(loss) for the year		–	–	–	–	3,714	1,857,758	12,239	1,873,711	(113,515)	1,760,196
Equity-settled share option arrangements	37	–	–	–	10,054	–	–	–	10,054	–	10,054
Issue of shares		200,000	–	330,000	–	–	–	–	530,000	–	530,000
Issue of convertible notes	34	–	125,852	–	–	–	–	–	125,852	–	125,852
Conversion of convertible notes	34	20,000	(16,780)	27,400	–	–	–	–	30,620	–	30,620
Exercised equity-settled share options	37	10,972	–	17,176	(8,295)	–	–	–	19,853	–	19,853
At 31 December 2009		942,733	109,072	640,784	17,226	50,548	1,423,152	12,239	3,195,754	411,245	3,606,999
Total comprehensive income/(loss) for the year		–	–	–	–	132,514	101,248	811	234,573	(124,277)	110,296
Equity-settled share option arrangements	37	–	–	–	45,444	–	–	–	45,444	–	45,444
Exercised equity-settled share options	37	14,116	–	26,039	(11,617)	–	–	–	28,538	–	28,538
At 31 December 2010		**956,849**	**109,072**	**666,823**	**51,053**	**183,062**	**1,524,400**	**13,050**	**3,504,309**	**286,968**	**3,791,277**

* These reserve accounts comprise the consolidated reserves of HK$2,438,388,000 (2009: HK$2,143,949,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

(Prepared in accordance with HKFRSs)

	Notes	**2010** **HK$'000**	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(19,344)**	1,719,832
Adjustments for:			
Finance costs		**29,683**	18,540
Share of (profits)/losses of a jointly-controlled entity		**(612)**	2,640
Share of profits of associates		**(293,525)**	(567,055)
Equity-settled share option expenses		**45,444**	10,054
Changes in fair value of derivative financial instruments		**–**	90,000
Changes in fair value of investment properties		**(10,171)**	10,100
Excess over cost of acquisition		**–**	(1,626,284)
Impairment of property, plant and equipment		**–**	38,614
Impairment of intangible assets		**–**	241,774
Goodwill impairment		**10,757**	38,348
Impairment of amounts due from related companies		**140,423**	–
Depreciation of property, plant and equipment		**33,913**	21,097
Recognition of prepaid land lease payments		**3,292**	3,218
Amortisation of intangible assets		**8,255**	23,979
Loss on disposal of items of property, plant and equipment		**31**	–
Loss on disposal of investment property		**1,259**	–
Interest income		**(1,753)**	(1,755)
		(52,348)	23,102
Decrease in inventories		**407**	4,689
Decrease in trade receivables		**9,461**	57,763
Decrease in other receivables and prepayments		**6,097**	9,851
Increase/(decrease) in trade and bills payables		**12,253**	(9,125)
Increase in other payables and accruals		**25,197**	17,277
Increase in receipt in advance		**27,327**	13,539
Decrease in deferred revenue		**–**	(9,814)
Cash generated from operations		**28,394**	107,282
Income tax paid		**–**	(835)
Net cash flows from operating activities		**28,394**	106,447

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2010

(Prepared in accordance with HKFRSs)

	Notes	**2010 HK$'000**	2009 HK$'000
Net cash flows from operating activities		**28,394**	106,447
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(144,782)**	(60,806)
Purchases of intangible assets		**(500)**	–
Purchases of other long term assets		**(205)**	–
Acquisition of financial assets at fair value through profit or loss		**(24)**	–
Acquisition of subsidiaries		**–**	(10,987)
Disposal of property, plant and equipment		**2,806**	1,760
Disposal of investment property		**5,715**	–
(Increase)/decrease in pledged bank deposits		**(16,936)**	5,789
Return of investment from a jointly-controlled entity		**10,588**	10,111
Interest received		**1,753**	1,755
Dividend received from associates in relation to pre-acquisition retained profits attributable to the former shareholders	28	**426,423**	2,589,808
Decrease in amounts due from associates		**–**	164,080
Decrease in amounts due from related companies		**10,356**	112,706
Net cash flows from investing activities		**295,194**	2,814,216
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in amounts due to related companies		**(13,029)**	(1,898)
Decrease in amounts due to associates		**–**	(30,026)
Repayment of obligations under finance leases		**(80)**	(36)
New bank loan		**42,204**	–
Issuance of convertible notes		**–**	265,500
New loans from a related company		**2,707**	–
Repayment of bank loans		**(52,245)**	(18,405)
Repayment of a loan from a director		**–**	(20,230)
Repayment of a loan from a related company		**–**	(263,699)
Interest paid		**(13,667)**	(9,099)
Cash proceeds from exercise of share options	37	**28,538**	19,853
Dividends paid to former shareholders of a subsidiary	28	**(416,955)**	(2,590,304)
Net cash flows used in financing activities		**(422,527)**	(2,648,344)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(98,939)**	272,319
Cash and cash equivalents at beginning of year		**305,219**	32,088
Effect of foreign exchange rate changes, net		**1,903**	812
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**208,183**	305,219

Statement of Financial Position

As at 31 December 2010

(Prepared in accordance with HKFRSs)

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	150	180
Investments in subsidiaries	19	541,988	540,988
Total non-current assets		542,138	541,168
CURRENT ASSETS			
Amounts due from subsidiaries	19	611,056	698,120
Other receivables and prepayments	25	825	784
Cash and cash equivalents	29	111,267	32,599
Total current assets		723,148	731,503
CURRENT LIABILITIES			
Amounts due to subsidiaries	19	197,815	198,377
Other payables and accruals	31	3,122	3,843
Convertible notes-current portion	34	232,357	–
Total current liabilities		433,294	202,220
NET CURRENT ASSETS		289,854	529,283
TOTAL ASSETS LESS CURRENT LIABILITIES		831,992	1,070,451
NON-CURRENT LIABILITIES			
Convertible notes	34	–	206,630
Total non-current liabilities		–	206,630
Net assets		831,992	863,821
EQUITY			
Issued capital	36	956,849	942,733
Equity component of convertible notes		109,072	109,072
Reserves	38	(233,929)	(187,984)
Total equity		831,992	863,821

Approved on behalf of the Board of Directors:

Mr. Xue Jian
Director

Ms. Kwong Wai Man, Karina
Director

Notes to the Financial Statements

For the year ended 31 December 2010

(Prepared in accordance with HKFRSs)

1. CORPORATE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, and principal place of business of the Company is 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding, including material investments in associates engaged in the steel and steel products manufacturing and trading as detailed in note 21. Its subsidiaries are principally engaged in supply of heat and property investment. as detailed in note 19.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss, which have been measured at fair value, as explained in the accounting policies set out below.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars for the convenience of users of financial statements as the Company is a listed company in Hong Kong and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2010, the Group's current liabilities exceeded its current assets by HK$268,185,000. As the holder of the convertible notes undertakes not to demand repayment of the notes, if the repayment will affect the ability of the Group to meet its liabilities as and when they fall due (at least 12 months from the date of the consolidated financial statements), and the directors are of the opinion that the Group will have sufficient cash flows for its future operation (at least 12 months from the date of the consolidated financial statements) based on its cash flow forecast, the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

Basic of Consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

Basis of consolidation prior to 1 January 2010

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

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[5]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirements[3]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

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

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (Continued)

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

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

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

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

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

(b) HKAS 1 Presentation of Financial Statements: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

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

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

Business combinations and goodwill

Business combinations from 1 January 2010

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

Business combinations prior to 1 January 2010

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

	Useful life *(years)*	**Depreciation rate**
Heat supply facilities	18	5.28%
Buildings	18 – 27	3.33 – 5.28%
Leasehold improvements	2 – 5	20 – 50%
Motor vehicles	5	18 – 20%
Office equipment (including capital leased equipment)	5 – 6	15 – 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Construction in progress representing property, plant and equipment under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

The useful lives of intangible assets are assessed to be either finite or indefinite and are shown as follows:

	Useful life *(years)*
Existing fee contract	18
Existing construction contracts	2
Operating rights	18
Trading rights	indefinite

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance costs. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Convertible bonds

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

(b) from the rendering of services:

- revenue from heat energy supply is recognized when heat is provided;

- revenue from heat energy supply facilities connection fee is recognised on the stage of completion basis, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The stage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered;

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

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

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

In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date.

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 37 to the financial statements.

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

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

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

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

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

Other employee benefits

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

The functional currency of certain subsidiaries, associates and a jointly-controlled entity of the Group are currencies other than the Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated at the exchange rates ruling at the end of the reporting period and their income statements are translated at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiaries incorporated in the PRC are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiaries throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the group of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the group of cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment of goodwill was approximately HK$10,757,000 (2009: HK$38,348,000). The carrying amount of goodwill at 31 December 2010 was nil (2009: approximately HK$10,757,000). More details are given in note 17.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2010 was approximately HK$98,885,000 (2009: approximately HK$91,473,000). More details are given in note 15.

Estimation of fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Depreciation

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Useful lives are determined based on management's past experience with similar assets and estimated changes in technologies. If the estimated useful lives changed significantly adjustment of depreciation will be provided in the future year. The carrying amount of property, plant and equipment at 31 December 2010 was approximately HK$712,251,000 (2009: approximately HK$577,062,000). More details are given in note 14.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As at 31 December 2010 and 2009, management estimated there were no adequate future taxable profits to utilise the unused tax losses. The unused tax losses are disclosed in note 35.

Impairment of non-current assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets other than intangible assets with indefinite lives are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment of non-current assets (other than goodwill) of the Group was nil (2009: HK$280,388,000). More details are given in note 7.

4. OPERATING SEGMENT INFORMATION

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

(a) the heat energy supply segment is engaged in the production and heat energy supply, installation, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality of Tianjin;

(b) the property investment segment invests in commercial offices, underground parking areas and underground shopping plazas located in Beijing and Shanghai for their rental income potential; and

(c) the steel manufacturing and trading investment segment holds significant interests in three associates located in Shandong Province, engaged in steel and steel product manufacturing and trading.

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

4. OPERATING SEGMENT INFORMATION (Continued)

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, derivative financial instruments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank and other borrowings, convertible notes, tax payable, deferred tax liabilities and other unallocated head office and corporate assets as these liabilities are managed on a group basis.

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

2010	Heat energy supply *HK$'000*	Property investment *HK$'000*	Steel manufacturing and trading investment *HK$'000*	Total *HK$'000*
Segment revenue				
Sales to external customers	119,591	4,569	–	124,160
Revenue				124,160
Segment results	(191,959)	10,826	293,547	112,414
Reconciliation:				
Share of profits of a jointly-controlled entity				612
Interest income				1,753
Corporate and other unallocated expenses				(104,440)
Finance costs				(29,683)
Loss before tax				(19,344)
Segment assets	1,052,451	270,073	3,149,919	4,472,443
Reconciliation:				
Corporate and other unallocated assets				202,473
Total assets				4,674,916
Segment liabilities	479,552	459	48,712	528,723
Reconciliation:				
Corporate and other unallocated liabilities				354,916
Total liabilities				883,639

4. OPERATING SEGMENT INFORMATION (Continued)

2010	Heat energy supply HK$'000	Property investment HK$'000	Steel manufacturing and trading investment HK$'000	Corporate and unallocated HK$'000	Total HK$'000
Other segment information					
Share of profits and losses of:					
A jointly-controlled entity	–	612	–	–	612
Associates	(22)	–	293,547	–	293,525
Fair value gain on investment properties	–	10,171	–	–	10,171
Impairment losses recognised in the income statement	(151,180)	–	–	–	(151,180)
Depreciation and amortisation	(42,540)	(1,319)	–	(1,601)	(45,460)
Investments in associates	274	–	3,149,909	–	3,150,183
Investments in a jointly-controlled entity	–	116,119	–	–	116,119
Capital expenditure (i)	79,142	59,285	–	6,855	145,282

(i) Capital expenditure consists of additions to property, plant and equipment, intangible assets and other long term assets.

4. OPERATING SEGMENT INFORMATION (Continued)

2009	Heat energy supply *HK$'000*	Property investment *HK$'000*	Steel manufacturing and trading investment *HK$'000*	Total *HK$'000*
Segment revenue				
Sales to external customers	196,181	4,612	–	200,793
Revenue				200,793
Segment results	(292,512)	(6,952)	567,055	267,591
Reconciliation:				
Share of losses of a jointly-controlled entity				(2,640)
Interest income				1,755
Excess over cost of acquisition				1,626,284
Corporate and other unallocated expenses				(154,618)
Finance costs				(18,540)
Profit before tax				1,719,832
Segment assets	1,094,809	268,006	3,192,840	4,555,655
Reconciliation:				
Corporate and other unallocated assets				291,119
Total assets				4,846,774
Segment liabilities	340,749	848	416,955	758,552
Reconciliation:				
Corporate and other unallocated liabilities				481,223
Total liabilities				1,239,775

4. OPERATING SEGMENT INFORMATION (Continued)

2009	Heat energy supply *HK$'000*	Property investment *HK$'000*	Steel manufacturing and trading investment *HK$'000*	Corporate and unallocated *HK$'000*	Total *HK$'000*
Other segment information					
Share of profits and losses of:					
A jointly-controlled entity	–	(2,640)	–	–	(2,640)
Associates	–	–	567,055	–	567,055
Fair value loss on investment properties	–	(10,100)	–	–	(10,100)
Impairment losses recognised in the income statement	(318,736)	–	–	–	(318,736)
Depreciation and amortisation	(43,678)	(38)	–	(1,360)	(45,076)
Interests in associates	283	–	2,752,914	–	2,753,197
Interests in a jointly-controlled entity	–	120,414	–	–	120,414
Capital expenditure	53,550	–	–	5,803	59,353

Geographical information

(a) *Revenue from external customers*

	2010 ***HK$'000***	2009 *HK$'000*
Hong Kong	**–**	278
Mainland China	**124,160**	200,515
	124,160	200,793

The revenue information above is based on the location of the customers.

(b) *Non-current assets*

	2010 ***HK$'000***	2009 *HK$'000*
Hong Kong	**5,471**	5,425
Mainland China	**4,229,607**	3,708,791
	4,235,078	3,714,216

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

4. OPERATING SEGMENT INFORMATION (Continued)

Information about a major customer

In 2010, no revenue from transactions with a single external customer exceeded 10% of the total revenues (2009: HK$52,091,000 was derived from service fee income (note 5) by the heat energy supply segment to a single customer).

5. REVENUE

Revenue represents the value of heat energy supply income, heat energy supply facilities connection fees, other service fees and rental income from investment properties during the year. An analysis for the Group's revenue is as follows:

	2010	2009
	HK$'000	*HK$'000*
Heat energy supply	**106,248**	105,501
Heat energy supply facilities connection fees	**13,343**	38,589
Other service fees (i)	**–**	52,091
Property rental	**4,569**	4,612
	124,160	200,793

(i) According to an agreement dated on 28 September 2007 signed between a subsidiary and 天津城西供熱有限公司 ("Chengxi Heating"), Chengxi Heating agreed to pay the subsidiary a fee annually. In return, the subsidiary would grant Chengxi Heating its operating right related to connecting pipelines for its customers to the main pipelines of the subsidiary. The subsidiary will supply heat energy to the relevant customers thereafter.

Such fees are recognised as income in the consolidated income statement when the operating rights were exclusively exercised by Chengxi Heating, and the relevant customers are connected to the main pipelines of the subsidiary for heat energy supply service. The amount of fees would be negotiated and agreed by Chengxi Heating and the subsidiary annually. At the end of 2009, such agreement was terminated as mutually agreed by the counterparties.

6. OTHER INCOME AND GAINS

	2010	2009
	HK$'000	*HK$'000*
Other income		
Interest income on bank deposits	**1,753**	1,755
Gains		
Government grants on value added tax ("VAT") refund	**4,781**	4,402
Government grants on heat energy supply	**–**	1,483
Others	**800**	–
	7,334	7,640

7. OTHER EXPENSES

	2010 **HK$'000**	2009 HK$'000
Impairment of amounts due from related companies *(note 27)*	**140,423**	–
Loss on disposal of investment property	**1,259**	–
Fair value loss on derivative financial instruments	**–**	90,000
Impairment of property, plant and equipment *(note 14)*	**–**	38,614
Impairment of intangible assets *(note 18)*	**–**	241,774
Impairment of goodwill *(note 17)*	**10,757**	38,348
	152,439	408,736

8. FINANCE COSTS

	2010 **HK$'000**	2009 HK$'000
Interest on bank borrowings		
– wholly repayable within five years	**5,485**	6,765
Interest on convertible notes *(note 34)*	**24,070**	11,764
Interest on other borrowings	**128**	385
Interest on a loan from a related company	**3,684**	27,548
	33,367	46,462
Less: amounts capitalised in construction in progress	**(3,684)**	(27,922)
	29,683	18,540

9. (LOSS)/PROFIT BEFORE TAX

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

	2010 **HK$'000**	2009 HK$'000
Cost of sales	**137,261**	126,264
Changes in fair value of investment properties *(note 15)*	**(10,171)**	10,100
Depreciation of property, plant and equipment *(note 14)*	**33,913**	21,097
Amortisation of intangible assets *(note 18)*	**8,255**	23,979
Impairment of property, plant and equipment *(note 7)*	**–**	38,614
Impairment of intangible assets *(note 7)*	**–**	241,774
Impairment of goodwill *(note 7)*	**10,757**	38,348
Impairment of amounts due from related companies *(note 7)*	**140,423**	–
Auditors' remuneration	**4,700**	2,425
Interest income *(note 6)*	**(1,753)**	(1,755)
Excess over cost of acquisition	**–**	(1,626,284)
Employee benefit expense (including directors' remuneration *(note 10)*)	**78,118**	43,798

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	2010 HK$'000	2009 HK$'000
Fees	2,000	1,997
Other remuneration:		
Salaries and other benefits	23,286	21,500
Retirement scheme contributions	197	182
Share-based payment	28,263	7,628
	51,746	29,310
Total remuneration	53,746	31,307

During the year, all the directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 37 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

The remuneration paid or payable to each of the eight (31 December 2009: eight) directors is as follows:

2010	Fees HK$'000	Salaries and other benefits HK$'000	Retirement scheme contributions HK$'000	Share-based payment HK$'000	Total HK$'000
Executive directors:					
Mr. Yip Kar Hang, Raymond *(i)*	200	7,742	120	5,218	13,280
Ms. Kwong Wai Man, Karina	200	1,944	65	1,044	3,253
	400	9,686	185	6,262	16,533
Non-executive directors:					
Mr. Hu Jin Xing	600	–	–	10,162	10,762
Mr. Hu Yi Shi *(iii)*	200	13,600	12	9,354	23,166
Mr. Xue Jian *(ii)*	200	–	–	2,173	2,373
	1,000	13,600	12	21,689	36,301
Independent non-executive directors:					
Mr. Tam Sun Wing	200	–	–	104	304
Mr. Ko Ming Tung, Edward	200	–	–	104	304
Mr. Ng Ge Bun	200	–	–	104	304
	600	–	–	312	912
Total	2,000	23,286	197	28,263	53,746

(i) Mr. Yip Kar Hang, Raymond resigned as an executive director on 6 January 2011.

(ii) Mr. Xue Jian was re-designated as an executive director on 6 January 2011.

(iii) Mr. Hu Yishi was re-designated as a non-executive director on 29 December 2010.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

2009	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement scheme contributions *HK$'000*	Share-based payment *HK$'000*	Total *HK$'000*
Executive directors:					
Mr. Hu Yi Shi	200	12,700	12	1,212	14,124
Mr. Yip Kar Hang, Raymond	200	7,020	111	–	7,331
Ms. Kwong Wai Man, Karina	200	1,780	59	–	2,039
	600	21,500	182	1,212	23,494
Non-executive directors:					
Mr. Hu Jin Xing	600	–	–	1,212	1,812
Mr. Xue Jian	197	–	–	5,204	5,401
	797	–	–	6,416	7,213
Independent non-executive directors:					
Mr. Tam Sun Wing	200	–	–	–	200
Mr. Ko Ming Tung, Edward	200	–	–	–	200
Mr. Ng Ge Bun	200	–	–	–	200
	600	–	–	–	600
Total	1,997	21,500	182	7,628	31,307

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

The five highest paid employees during the year included four (2009: four) directors of the Company whose remuneration is included above. The remuneration of the remaining one (2009: one) individual is as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Salaries and other benefits	**1,371**	1,381
Retirement benefit scheme contributions	**54**	52
Total	**1,425**	1,433

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

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

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**1**	1
Total	**1**	1

11. INCOME TAX EXPENSE/(CREDIT)

The major components of income tax expense/(credit) for the year ended 31 December 2010 and 2009 are as follows:

	2010	2009
	HK$'000	*HK$'000*
Current income tax		
Hong Kong income tax	**–**	–
PRC income tax	**663**	667
	663	667
Deferred income tax *(note 35)*	**3,022**	(25,078)
Income tax expense/(credit) for the year	**3,685**	(24,411)

Hong Kong profit tax should be provided at the rate of 16.5% (2009: 16.5%) of the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made in the financial statements as the Group does not have any assessable profit arising in Hong Kong.

The provision for PRC current income tax is based on the statutory rate of 25% (2009: 25%) of the assessable profits of the Group's subsidiaries in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC Corporate Income Tax Law, which came into effect on 1 January 2008.

11. INCOME TAX EXPENSE/(CREDIT) (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate for the year ended 31 December 2010 and 2009, are as follows:

2010	**Mainland China**		**Hong Kong**		**Others (i)**		**Total**	
	HK$'000	***%***	***HK$'000***	***%***	***HK$'000***	***%***	***HK$'000***	***%***
Profit/(loss) before tax	**(181,260)**		**270,635**		**(108,719)**		**(19,344)**	
Tax at the statutory income tax rate	**(45,315)**	**25.0**	**44,655**	**16.5**	**–**	**–**	**(660)**	**3.4**
Expenses not deductible for tax	**216**	**(0.1)**	**261**	**0.1**	**–**	**–**	**477**	**(2.5)**
Deferred tax related to temporary differences not recognised	**35,105**	**(19.3)**	**–**	**–**	**–**	**–**	**35,105**	**(181.5)**
Income not subject to tax	**(1,900)**	**1.0**	**(48,232)**	**(17.8)**	**–**	**–**	**(50,132)**	**259.2**
Tax losses not recognised	**901**	**(0.5)**	**3,316**	**1.2**	**–**	**–**	**4,217**	**(21.8)**
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	**–**	**–**	**14,678**	**5.4**	**–**	**–**	**14,678**	**(75.9)**
Tax (credit)/charge at Group's effective rate	**(10,993)**	**6.1**	**14,678**	**5.4**	**–**	**–**	**3,685**	**(19.1)**

2009	Mainland China		Hong Kong		Others (i)		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(254,416)		545,964		1,428,284		1,719,832	
Tax at the statutory income tax rate	(63,604)	25.0	90,084	16.5	–	–	26,480	1.5
Expenses not deductible for tax	4,567	(1.8)	936	0.2	–	–	5,503	0.3
Income not subject to tax	(461)	0.2	(93,563)	(17.1)	–	–	(94,024)	(5.5)
Tax losses not recognised	7,087	(2.8)	2,543	0.4	–	–	9,630	0.6
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	–	–	28,353	5.2	–	–	28,353	1.6
Effect of tax losses utilised from previous periods	(353)	0.1	–	–	–	–	(353)	(0.0)
Tax (credit)/charge at Group's effective rate	(52,764)	20.7	28,353	5.2	–	–	(24,411)	(1.5)

(i) Others represent the results of the Company and certain subsidiaries which are tax exempted companies incorporated in Bermuda and the British Virgin Islands.

12. DIVIDENDS

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 9,460,402,000 (2009: 8,420,980,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all potentially dilutive ordinary shares into ordinary shares.

The calculation of basic and diluted earnings per share amounts is based on:

	2010	2009
Earnings (HK$ '000)		
Profit attributable to ordinary equity holders of the Company	**101,248**	1,857,758
Interest on convertible notes	**–**	11,764
Profit attributable to ordinary equity holders of the Company before interest on convertible notes *(Note)*	**101,248**	1,869,522
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**9,460,402**	8,420,980
Effect of dilution–weighted average number of ordinary shares:		
Share options	**22,253**	59,622
Convertible notes	**–**	541,667
Weight average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *(Note)*	**9,482,655**	9,022,269
– Basis	**HK$1 cent**	HK$22 cents
– Diluted	**HK$1 cent**	HK$21 cents

Note: The effect of convertible notes is not included in the calculation of diluted earnings per share, since the effect of the conversion of the convertible notes would result in increase in earnings per share as an anti-dilutive effect.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Heat supply facilities HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
As at 1 January 2009	315,624	64,816	944	5,828	2,687	198,830	588,729
Additions	312	–	1,417	4,134	793	52,697	59,353
Transfers	128,198	(1,540)	–	521	633	(127,812)	–
Disposals	(1,287)	–	(944)	(420)	(305)	–	(2,956)
As at 31 December 2009	442,847	63,276	1,417	10,063	3,808	123,715	645,126
Additions	8,527	57,110	1,646	7,123	5,338	65,038	144,782
Transfers	188,163	–	–	–	–	(188,163)	–
Disposals	(2,236)	–	–	(1,078)	–	–	(3,314)
Exchange differences on translation	20,840	2,978	67	474	179	5,821	30,359
As at 31 December 2010	658,141	123,364	3,130	16,582	9,325	6,411	816,953
Accumulated depreciation							
As at 1 January 2009	(6,046)	(1,375)	(747)	(835)	(546)	–	(9,549)
Charge for the year	(15,130)	(3,325)	(546)	(1,490)	(606)	–	(21,097)
Transfer	(22)	102	–	(41)	(39)	–	–
Disposals	11	–	944	148	93	–	1,196
As at 31 December 2009	(21,187)	(4,598)	(349)	(2,218)	(1,098)	–	(29,450)
Charge for the year	(25,446)	(5,105)	(684)	(2,026)	(652)	–	(33,913)
Disposals	57	–	–	420	–	–	477
Exchange differences on translation	(997)	(216)	(16)	(104)	(52)	–	(1,385)
As at 31 December 2010	(47,573)	(9,919)	(1,049)	(3,928)	(1,802)	–	(64,271)
Impairment loss							
As at 1 January 2009	–	–	–	–	–	–	–
Provided for the year	(38,614)	–	–	–	–	–	(38,614)
As at 31 December 2009	(38,614)	–	–	–	–	–	(38,614)
Provided for the year	–	–	–	–	–	–	–
Exchange differences on translation	(1,817)	–	–	–	–	–	(1,817)
As at 31 December 2010	(40,431)	–	–	–	–	–	(40,431)
Net carrying amount							
As at 31 December 2010	**570,137**	**113,445**	**2,081**	**12,654**	**7,523**	**6,411**	**712,251**
As at 31 December 2009	383,046	58,678	1,068	7,845	2,710	123,715	577,062

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK$'000	Office equipment HK$'000	Total HK$'000
Cost			
As at 1 January 2009	944	600	1,544
Disposals	(944)	(305)	(1,249)
As at 31 December 2009 and 31 December 2010	**–**	**295**	**295**
Accumulated depreciation			
As at 1 January 2009	(747)	(139)	(886)
Charge for the year	(197)	(69)	(266)
Disposals	944	93	1,037
As at 31 December 2009	–	(115)	(115)
Charge for the year	–	(30)	(30)
As at 31 December 2010	**–**	**(145)**	**(145)**
Net carrying amount			
As at 31 December 2010	**–**	**150**	**150**
As at 31 December 2009	–	180	180

15. INVESTMENT PROPERTIES

	2010 HK$'000	2009 HK$'000
Carrying amount at 1 January	**91,473**	101,573
Net gain/(loss) from adjustment in fair value recognised in consolidated income statement	**10,171**	(10,100)
Disposal during the year	**(6,974)**	–
Exchange differences on translation	**4,215**	–
Carrying amount at 31 December	**98,885**	91,473

The Group's investment properties were revalued on 31 December 2010 by Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), independent qualified professional valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same location and condition.

All of the Group's property interests held under operating leases to earn rentals for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

All the investment properties are located outside Hong Kong.

16. PREPAID LAND LEASE PAYMENTS

The prepaid land lease payments of the Group represent leasehold interests in state-owned land in Mainland China with rights to use the land of HK$48,274,000 (2009: HK$49,322,000) under leases of 18 years.

	2010 HK$'000	2009 HK$'000
Carrying amount at 1 January	**49,322**	52,540
Recognised during the year	**(3,292)**	(3,218)
Exchange differences on translation	**2,244**	–
Carrying amount at 31 December	**48,274**	49,322
Current portion	**(3,370)**	(2,951)
Non-current portion	**44,904**	46,371

17. GOODWILL

	2010 **HK$'000**	2009 HK$'000
At beginning of year		
Cost	**49,105**	49,105
Accumulated impairment	**(38,348)**	–
Net carrying amount	**10,757**	49,105
Impairment during the year	**(10,757)**	(38,348)
	–	10,757
At end of year		
Cost	**49,105**	49,105
Accumulated impairment	**(49,105)**	(38,348)
Net carrying amount	**–**	10,757

Impairment testing of goodwill

Goodwill amounting to HK$49,105,000 was acquired through the business combination of Tianjin Heating Group, and thus has been allocated to the following cash-generating units ("CGUs"), which in aggregate constitute the heat energy supply segment, for impairment testing:

- Tianjin Heating Development Company Limited
- Tianjin Baosheng Heating Investment Company Ltd.
- Tianjin Meijiang Heating Company Ltd.

The recoverable amount of the CGUs has been determined based on a value in use calculation using cash flow projections based on a five year financial budgets approved by management. The discount rate applied to the cash flow projections was 15% as at 31 December 2010 (2009: 16%). The cash flows beyond the five-year period are forecasted with a declining trend because the revenue from heat energy supply facility connection and heat energy supply generated by the CGUs is not expected to grow at a steady rate beyond the five-year period and will start to decline in the later stage during the operating periods, which is the same as the long term average trend of the heat energy supply industry.

Key assumptions were used in the value in use calculation of the CGUs as at 31 December 2010 and 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the budgeted revenue from heat energy supply, revenue from heat energy supply facility connection fee and relevant variable cost and depreciation which increased in line with the enlarged heating areas. These estimations are based on the unit's past performance and management's expectations for the market development.

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

The values assigned to key assumptions are consistent with external information sources.

As a result of the impairment test, an impairment provision of approximately HK$10,757,000 (2009: HK$38,348,000) is provided arising from Tianjin Meijiang Heating Company Ltd. and Tianjin Baosheng Heating Investment Company Ltd. as the carrying amount of the CGU with goodwill allocated to it exceeded the recoverable amount.

18. INTANGIBLE ASSETS

	Existing fee contract HK$'000	Existing construction contracts HK$'000	Operating rights HK$'000	Trading rights HK$'000	Total HK$'000
Cost					
As at 1 January 2009 and 31 December 2009	263,754	5,519	118,192	–	387,465
Additions	–	–	–	500	500
Exchange differences on translation	12,412	260	5,562	–	18,234
As at 31 December 2010	**276,166**	**5,779**	**123,754**	**500**	**406,199**
Amortisation					
As at 1 January 2009	(7,332)	(1,380)	(3,283)	–	(11,995)
Provided for the year	(14,648)	(2,760)	(6,571)	–	(23,979)
As at 31 December 2009	(21,980)	(4,140)	(9,854)	–	(35,974)
Provided for the year	–	(1,379)	(6,876)	–	(8,255)
Exchange differences on translation	(1,034)	(260)	(464)	–	(1,758)
As at 31 December 2010	**(23,014)**	**(5,779)**	**(17,194)**	**–**	**(45,987)**
Impairment					
As at 1 January 2009	–	–	–	–	–
Provided for the year	(241,774)	–	–	–	(241,774)
As at 31 December 2009	(241,774)	–	–	–	(241,774)
Exchange differences on translation	(11,378)	–	–	–	(11,378)
As at 31 December 2010	**(253,152)**	**–**	**–**	**–**	**(253,152)**
Net carrying amount					
As at 31 December 2010	**–**	**–**	**106,560**	**500**	**107,060**
As at 31 December 2009	–	1,379	108,338	–	109,717

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	**541,988**	540,988

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of approximately HK$611,056,000 (2009: HK$698,120,000) and HK$197,815,000 (2009: HK$198,377,000), respectively, are unsecured, interest-free and are repayable on demand.

Particulars of the subsidiaries at 31 December 2010 are as follows:

Name of subsidiary	Legal form of business	Place of incorporation or registration/ operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of issued share / registered capital held by the Company Direct %	Indirect %	Principal activities
Achieve (China) Limited	Incorporated	Hong Kong	HK$1	–	100	Investment holding
Ample Land International Limited	Incorporated	Hong Kong/ Macau	HK$1	100	–	Investment holding
Beijing Boya Property Management Company Limited (北京博雅宏遠物業有限公司)	Wholly-owned foreign enterprise	The PRC / Mainland China	RMB20,000,000	–	100	Property investment
Burlingame (Chinese) Investment Limited	Incorporated	Hong Kong/ Mainland China	HK$10,000	–	100	Investment holding
Charter Best Investments Limited	Incorporated	British Virgin Islands	US$1	100	–	Investment holding
Eland Success Limited	Incorporated	British Virgin Islands	US$1	100	–	Investment holding
Ever Profit Management Limited	Incorporated	Hong Kong	HK$1,000,000	100	–	Service provision
External Fame Limited	Incorporated	British Virgin Islands	US$1	–	100	Investment holding
Fame Risen Development Limited	Incorporated	Hong Kong	HK$ 20,000,000	100	–	Steel manufacturing and trading
Goalreach Investments Limited	Incorporated	British Virgin Islands	US$1	100	–	Investment holding
Omnigold Resources Limited	Incorporated	British Virgin Islands/ Mainland China	US$1	–	100	Property investment
Shanghai Mianwang Investment Consulting Co., Ltd. (上海綿旺投資咨詢有限公司)	Wholly-owned foreign enterprise	The PRC / Mainland China	US$3,000,000	–	100	Investment holding

19. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Legal form of business	Place of incorporation or registration/ operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of issued share / registered capital held by the Company Direct %	Indirect %	Principal activities
Tianjin Heating Development Company Limited (天津市供熱發展有限公司)(i)	Sino-foreign owned enterprise	The PRC / Mainland China	RMB 50,000,000	–	49	Heat energy supply in Tianjin, the PRC
Tianjin Baosheng Heating Investment Company Ltd. (天津市寶勝熱能投資有限公司)(ii)	Limited enterprise	The PRC / Mainland China	RMB 20,000,000	–	26.95	Heat energy supply in Tianjin, the PRC
Tianjin Meijiang Heating Company Ltd. (天津市梅江供熱有限公司) (ii)	Limited enterprise	The PRC / Mainland China	RMB 66,000,000	–	25.97	Heat energy supply in Tianjin, the PRC
Global Strategy International Limited	Incorporated	British Virgin Islands	US$100	100	–	Investment holding
Global Rich Time Limited	Incorporated	Hong Kong	HK$ 10,000	–	100	Financial advisory services
Kai Yuan Securities Limited	Incorporated	Hong Kong	HK$ 20,000,000	–	100	Securities brokerage and financial services
Shinning Profit Limited	Incorporated	Hong Kong	HK$ 10,000	–	100	Service provision
Global Strategic Management Limited	Incorporated	Hong Kong	HK$ 5,000,000	–	100	Investment holding

(i) Tianjin Heating Development Company Limited ("Tianjin Heating") is accounted for as a subsidiary of the Group because the Group has the power to control the board of directors and operation of Tianjin Heating. Through an entrustment agreement dated 30 June 2008 entered into between one wholly-owned subsidiary of the Company and a shareholder of Tianjin Heating holding a 5% equity interest, the Group has the right to exercise all powers as the shareholder of a 5% equity interest, the Group is entitled to an extra right to appoint one director to the board of directors of Tianjin Heating. Together with the Group's original right to appoint directors to the board of directors of Tianjin Heating as its shareholder holding a 49% equity interest, the Group is entitled to appoint up to six directors out of nine directors to the board of directors of Tianjin Heating.

(ii) Tianjin Baosheng Heating Investment Company Ltd. and Tianjin Meijiang Heating Company Ltd. are subsidiaries of Tianjin Heating, a non-wholly-owned subsidiary of the Company, and accordingly are accounted for as subsidiaries by virtue of the Company's control over them.

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

20. INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY

	2010 HK$'000	2009 HK$'000
Share of net assets (i) (ii)	76,532	86,508
Goodwill on acquisition	33,906	33,906
Exchange differences on translation	5,681	–
	116,119	120,414

(i) In accordance with the relevant PRC law, as the jointly-controlled entity is a Sino-foreign cooperative joint venture, the Group is entitled to advance recovery of investment. In 2009, as agreed between the Group and its PRC joint venture partner, the Group is entitled to a maximum investment recovery of RMB60,000,000 (approximately HK$67,400,000), starting from 2009 and subject to agreement by the Group and the PRC joint venture partner on an annual amount of recovery. As a result, an investment of approximately HK$10,588,000 was agreed and received from the jointly-controlled entity in 2010 (2009: HK$10,111,000).

(ii) Included in the share of post-acquisition changes in net assets are dividends declared but not received of HK$58,671,000 (2009: HK$56,035,000).

Particulars of the jointly-controlled entity are as follows:

Name of jointly-controlled entity	Legal form of business	Place of establishment and operations	Nominal value of registered capital	Percentage of voting power held by the Company Directly	Percentage of voting power held by the Company Indirectly	Principal activities
上海地下商城有限公司 (SUCCL)	Sino-foreign cooperative joint venture	The PRC/ Mainland China	USD9,000,000	–	50%	Operation and management of shopping mall in Mainland China

20. INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY (Continued)

The following table sets out the summarised financial information of the Group's investments in the jointly-controlled entity which is accounted for using the equity method:

	2010 HK$'000	2009 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	14,203	11,576
Non-current assets	124,926	136,312
Current liabilities	(36,343)	(36,603)
Non-current liabilities	(22,169)	(24,777)
Net assets	80,617	86,508
Share of the jointly-controlled entity's results:		
Revenue	27,615	28,502
Total expense	(26,998)	(32,240)
Tax (charge)/credit	(5)	1,098
Profit/(loss) after tax	612	(2,640)

21. INVESTMENTS IN ASSOCIATES

	2010 HK$'000	2009 HK$'000
Share of net assets	3,150,183	2,753,197

21. INVESTMENTS IN ASSOCIATES (Continued)

The amounts due from associates are disclosed in note 26 to the financial statements.

Particulars of the associates are as follows:

Name	Legal form of business	Place of incorporation	Registered capital	Percentage of ownership interest attributable to the Group Directly	Indirectly	Principal activities
天津市梅江供熱運行管理有限公司 Tianjin Meijiang Heat Supply Operating Management Company Limited *(i)*	Limited enterprise	The PRC	RMB2,000,000	–	40%	Sale of heating materials
日照鋼鐵有限公司 Rizhao Steel Co., Limited	Limited enterprise	The PRC	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照型鋼有限公司 Rizhao Medium Section Mill Co., Limited	Limited enterprise	The PRC	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照鋼鐵軋鋼有限公司 Rizhao Steel Wire Co., Limited	Limited enterprise	The PRC	RMB80,000,000	–	25%	Manufacturing and trading of steel products

(i) Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements with adjustments made to bring their accounting policies in line with those of the Group:

	2010 HK$'000	2009 HK$'000
Revenue	**95,061,322**	46,138,779
Profit	**1,210,258**	2,119,922
Total assets	**61,021,689**	43,638,160
Total liabilities	**49,593,012**	33,792,516

21. INVESTMENTS IN ASSOCIATES (Continued)

Certain matters occurred during the year in relation to the three associates of the Group located in Shandong province are disclosed as follows:

(a) On 6 September 2009, the Group's Three Associates together with their parent company, Rizhao Steel Holding Group Company Limited, and their two fellow subsidiaries (collectively as the "Rizhao Steel Group"), entered into an asset restructuring and co-operation agreement (the "Restructuring Agreement") with Shandong Iron and Steel Group Co., Ltd. ("Shandong Steel Group"), a state-owned company. Pursuant to the Restructuring Agreement, (a) Rizhao Steel Group and Shandong Steel Group shall jointly invest in a new joint venture enterprise (the "New JV") and hold 33% and 67% equity shares in the New JV respectively. The New JV will construct and operate a steel manufacturing base in Rizhao, Shandong; (b) Rizhao Steel Group shall transfer to the New JV its entire property, plant and equipment and land use rights (the "Injection Assets") and its relevant bank loans, as well as other liabilities (the "Assumed Liabilities"). The value of the aforesaid Injection Assets and Assumed Liabilities shall be assessed by an independent valuation company and shall take effect upon mutual confirmation by both parties and submission to and confirmation by the State Owned Assets Supervision and Administration Commission of the Shandong Provincial Government. The net amount of the agreed value of the Injection Assets and Assumed Liabilities shall constitute the capital contribution by Rizhao Steel Group. Shandong Steel Group shall contribute cash to the New JV in the same proportion as its shareholding. The capital contributions to the New JV shall be completed within 180 days after the date of the Restructuring Agreement (the "Completion"). The Completion shall be conditional upon the execution of all legal documents relevant to the restructuring; and (c) During the period from the Completion to the commencement of the operation of the phase I project of the New JV (the "Transitional Period"), Rizhao Steel Group can lease back the Injection Assets from the New JV and continue its operation with the Injection Assets at its own discretion. The rental fee payable by Rizhao Steel Group to the New JV shall be determined by negotiation amongst both parties.

On 30 August 2010, Rizhao Steel Group entered into an agreement with Shandong Steel Group ("Second Restructuring Agreement"). Pursuant to the Second Restructuring Agreement, (a) Rizhao Steel Group and Shandong Steel Group agreed to proceed with the restructuring within the basic framework as described in the Restructuring Agreement; (b) The restructuring shall be completed via a one-time acquisition of assets held by Rizhao Steel Group; (c) Procedures relevant to such acquisition, including due diligence, asset valuation and audit, are to commence immediately; and (d) Rizhao Steel Group and Shandong Steel Group shall further negotiate and confirm the definitive scope and consideration of the aforementioned one-time acquisition of assets based upon the results of the procedures (including due diligence, asset valuation and audit) described above, and completion of the acquisition shall take place before 30 November 2010.

Up till the date of annual report, the relevant negotiation of the above acquisition are still being undertaken and not completed yet.

22. AVAILABLE-FOR-SALE INVESTMENTS

	2010 **HK$'000**	2009 *HK$'000*
Unlisted equity investments – at cost		
Balance at 1 January	**5,875**	5,111
Additions during the year	**–**	764
Exchange differences on translation	**276**	–
Balance at 31 December	**6,151**	5,875
Impairment loss		
Balance at 1 January	**(650)**	(650)
– Exchange differences on translation	**(30)**	–
Balance at 31 December	**(680)**	(650)
Carrying value		
At 31 December	**5,471**	5,225

As at 31 December 2010, the Group's available-for-sale investments included a 16% equity interest in 天津市津熱物流有限公司 (Tianjin Jinre Logistics Company Limited) and a 4% equity interest in 天津津濱供熱有限公司 (Tianjin Jinbin Heat Supply Company Limited). They are measured at cost less impairment at the end of the reporting period because there is no quoted market price in an active market and their fair value cannot be measured reliably.

23. INVENTORIES

	2010 **HK$'000**	2009 *HK$'000*
Raw materials	**3,288**	3,736
Consumables	**695**	654
	3,983	4,390

24. TRADE RECEIVABLES

	2010 **HK$'000**	2009 *HK$'000*
Trade receivables	**183**	9,644

Trade receivables are non-interest-bearing.

For heat energy supply income and heat energy supply facilities connection income, the Group generally receives the relevant fees in advance. Payment terms of other fee income are pre-determined between the Group and the counterparty.

An aged analysis of trade receivables is stated as follows:

	2010 **HK$'000**	2009 *HK$'000*
Within 1 month	**–**	12
1 to 3 months	**–**	–
Over 3 months	**183**	9,632
	183	9,644

Trade receivables at 31 December 2010 mainly comprise receivables of property rental income. No impairment allowance is necessary in respect of trade receivables because there has not been a significant change in credit quality and the balances are still considered fully recoverable.

25. OTHER RECEIVABLES AND PREPAYMENTS

	Group		**Company**	
	2010 **HK$'000**	2009 *HK$'000*	**2010** **HK$'000**	2009 *HK$'000*
Prepayments	**1,821**	7,209	**825**	–
Deposits and other receivables	**10,870**	11,579	**–**	784
	12,691	18,788	**825**	784

Included in other receivables are advances to independent third parties with a carrying amount of HK$8,579,000 (2009: HK$11,579,000). The amounts are unsecured, non-interest-bearing and repayable on demand. Management believes that no impairment allowance is necessary in respect of these receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

26. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are not trade in nature, and are unsecured, interest-free and repayable on demand.

Management believes that no impairment allowance is necessary in respect of the amounts due from associates because there has not been a significant change in credit quality and the balances are still considered fully recoverable.

27. AMOUNTS DUE FROM/TO RELATED COMPANIES

Amounts due from related companies

	2010	2009
	HK$'000	*HK$'000*
Tianjin Jinbin Heat Supply Company Limited (ii), (iii)	**140,423**	136,745
Tianjin Jinre Co., Ltd. (i)	**112,537**	121,244
Tianjin Heating Supply Co., Ltd. (ii)	**10,794**	11,994
Tianjin Jinre Logistics Company Limited (ii)	**8,109**	12,299
Others (ii)	**1,646**	1,583
	273,509	283,865
Less: Impairment provision (note 7)	**(140,423)**	–
	133,086	283,865

Amounts due to related companies

	2010	2009
	HK$'000	*HK$'000*
Tianjin Jinre Construction and Development Co., Ltd. (ii)	**38,828**	33,813
Tianjin Jinre Logistics Company Limited (ii)	**1,546**	129
Tianjin Heating Electromechanical Equipment Co., Ltd. (ii)	**–**	14,832
Tianjin Jinbin Heat Supply Company Limited (ii)	**–**	4,494
Others (ii)	**–**	135
	40,374	53,403

(i) Tianjin Jinre Co., Ltd. is a minority shareholder of a subsidiary of the Group.

(ii) The related companies are under significant influence from a minority shareholder of a subsidiary of the Group.

(iii) During the year, the Group assessed the recoverability of HK$140,423,000 due from Tianjin Jinbin Heat Supply Company Limited, a company in which a subsidiary of the Group holds 4% equity interests and a minority shareholder of a subsidiary has significant influence, and concluded that the chance of recovering the balance is low. Accordingly, full provision for impairment was made.

27. AMOUNTS DUE FROM/TO RELATED COMPANIES (Continued)

The amounts are not trade in nature, and are unsecured, interest-free and repayable on demand.

Apart from the impairment loss on amounts due from related companies as detailed above, management believes that no further impairment allowance is necessary in respect of the remaining amounts due from related companies because there has not been a significant change in credit quality and the balances are still considered full receivable.

28. PRE-ACQUISITION DIVIDENDS

In connection with the acquisition of Fame Risen Development Limited ("Fame Risen") and its associates, retained profits of Fame Risen and its associates prior to the acquisition date on 29 May 2009 were to be distributed to the formers shareholders. In this regard, on 28 May and 30 June 2009, the associates declared a cash dividend with a total amount of HK$3,082,753,000 to Fame Risen, and Fame Risen on 27 May and 30 June 2009 declared a cash dividend to its former shareholders with a total amount of HK$3,007,259,000.

Upon the acquisition date, Fame Risen became a wholly-owned subsidiary of the Company. During the period from the acquisition date to 31 December 2009, Fame Risen received such dividend of HK$2,589,808,000, net of withholding tax, from its associates and paid to its former shareholders of HK$2,590,304,000. As at 31 December 2009, the balances of dividend receivable of HK$440,052,000 and dividend payables to Fame Risen's former shareholders of HK$416,955,000, represent the unsettled dividend in relation to the abovementioned dividend announced.

As at 31 December 2010, the above outstanding dividend receivable has been received and corresponding dividend payable to Fame Risen's former shareholders has been settled.

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2010 **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
Cash and bank balances	**225, 830**	305,930	**111,267**	32,599
Less: Pledged bank deposits	**(17,647)**	(711)	**–**	–
Cash and cash equivalents	**208,183**	305,219	**111,267**	32,599

As at 31 December 2010, bank balances amounting to approximately HK$17,647,000 were pledged to banks for bills payables (2009: HK$711,000 were pledged to banks for securing banking facilities granted to the Group).

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$73,978,000 (2009: HK$262,026,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term bank deposits are made for varying periods of between one day and three months in Hong Kong and Mainland China depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of these assets approximate to their fair values.

30. TRADE AND BILLS PAYABLES

	2010 **HK$'000**	2009 HK$'000
Trade payables	**27,465**	35,212
Bills payable	**20,000**	–
	47,465	35,212

The trade payables are non-interest-bearing and are normally settled on 90-day terms. Trade payables have no significant balances with ageing over one year. The average credit period on purchases is 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The carrying amount of trade payables approximates to their fair value.

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

	2010 **HK$'000**	2009 HK$'000
Within 1 month	**1,758**	9,601
1 to 3 months	**4,013**	312
Over 3 months	**41,694**	25,299
	47,465	35,212

31. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2010 **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
Other payables	**78,870**	52,382	**3,122**	3,843
Accruals	**4,776**	6,067	**–**	–
	83,646	58,449	**3,122**	3,843

Other payables have no significant balance with ageing over one year.

The directors of the Company consider that the carrying amount of other payables and accruals approximated to their fair value as at the end of the reporting period.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2010			2009		
	Effective interest rate (%)	**Maturity**	***HK$'000***	Effective interest rate (%)	Maturity	*HK$'000*
Current						
Bank loans – unsecured	**5.84**	**2011**	**17,647**	5.84	2010	33,708
Bank loans – secured *(ii)*	**5.65**	**2011**	**47,029**	5.84	2010	22,472
Current portion of long term bank loans – secured	**–**	**–**	**–**	5.94	2010	1,753
Current portion of other long term loans – unsecured *(i)*	**–**	**2011**	**6,793**	–	2010	6,532
			71,469			64,465
Non-current						
Long term bank loans – secured	**–**	**–**	**–**	5.94	2016	12,794
Other long term loans – unsecured *(i)*	**–**	**2013**	**8,533**	–	2013	12,784
			8,533			25,578
			80,002			90,043

An aged analysis of the interest-bearing bank and other borrowings as at the end of the reporting period is as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**64,676**	57,933
In the second year	**–**	2,287
In the third to fifth years, inclusive	**–**	6,862
Beyond five years	**–**	3,645
	64,676	70,727
Analysed into:		
Other borrowings repayable:		
Within one year or on demand	**6,793**	6,532
In the second year	**5,689**	5,105
In the third to fifth years, inclusive	**2,844**	7,679
	15,326	19,316
	80,002	90,043

(i) Other long term loan – unsecured is a loan from Tianjin Jinre Construction and Development Co., Ltd. It transferred its Denmark government non-interest loan to Tianjin Meijiang Heat Supply Co., Ltd. ("Meijiang Heat"). Meijiang Heat paid back the loan on schedule during the year.

(ii) The secured bank loans were pledged by the assets of a related company, Tianjin Jinre Co., Ltd.

33. LOAN FROM A RELATED COMPANY

The amount is a loan from Tianjin Jinre Co., Ltd., a minority shareholder of a group entity, which is unsecured, bears interest at 8% per annum and is repayable on demand.

34. CONVERTIBLE NOTES

On 26 May 2008, the Company entered into a convertible notes subscription agreement with Mr. Hu Yishi, chairman of the board of the Company, to issue to the latter HK$265,000,000 convertible notes, which can be convertible at option of the noteholder into 1,500,000,000 ordinary shares of the Company (i.e., the conversion price is HK$0.177 per share) within the period ending on the second anniversary of the date of issuance of the convertible notes (the "Maturity Date). The notes carry interest at a rate of 3.5% per annum on the outstanding principal amount and is payable yearly.

Before the issuance of the convertible notes, according to the subscription agreement, the subscriber and issuer may by notice in writing to each other call for completion of subscription in respect of the entire or part of the aggregate amount of the convertible notes prior to 8 July 2009. On 8 July 2009, the subscription and issuance shall take place in respect of the entire aggregate principal amount or the remaining aggregate principal amount of the convertible notes. In this regard, before the issuance of the convertible notes, the subscription agreement is a forward contract within the scope of HKAS 39 and is recognised as an asset or a liability on the commitment date and is subsequently measured at its fair value. On 2 July 2009, the convertible notes were issued to Mr. Hu Yishi.

The convertible notes are considered a compound instrument and the fair value of its liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount (i.e., the fair value of the compound financial instrument as a whole less the liability component) is assigned as an equity component and is included in shareholders' equity.

The convertible notes issued during the year have been split as to the liability and equity components, as follows:

	2010	2009
	HK$'000	*HK$'000*
Fair value of convertible notes at issuance date		355,500
Equity component		(125,852)
Liability component at 1 January/issuance date	**206,630**	229,648
Interest charge	**24,070**	11,764
Interest paid	**(8,054)**	(4,162)
Conversion of convertible notes *(i)*	**–**	(30,620)
Exchange differences on translation	**9,711**	–
Liability component at 31 December	**232,357**	206,630

(i) On 7 August 2009, Mr. Hu Yishi converted part of the convertible notes with a principal amount of HK$35,400,000 for 200,000,000 shares.

35. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Group – 2010

Deferred tax liabilities

	Revaluation of investment properties *HK$'000*	Fair value adjustment from acquisition of subsidiaries *HK$'000*	Deferred revenue *HK$'000*	Withholding tax *HK$'000*	Total *HK$'000*
As at 1 January 2010	1,660	136,420	21,810	54,405	214,295
Deferred tax charged/ (credited) to consolidated income statement during the year *(note 11)*	808	(11,654)	(1,966)	14,678	1,866
Released upon receipt of dividends from associates	–	–	–	(22,532)	(22,532)
Exchange differences on translation	96	6,564	974	1,998	9,632
Gross deferred tax liabilities As at 31 December 2010	2,564	131,330	20,818	48,549	203,261

Deferred tax assets

	Fair value adjustment from acquisition of subsidiaries *HK$'000*	Impairment of property, plant and equipment *HK$'000*	Total *HK$'000*
As at 1 January 2010	25,704	9,654	35,358
Deferred tax charged to consolidated income statement during the year *(note 11)*	(635)	(521)	(1,156)
Exchange differences on translation	1,678	442	2,120
Gross deferred tax assets at 31 December 2010	26,747	9,575	36,322

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

	HK$ '000
Net deferred tax liabilities recognised in the consolidated statement of financial position	166,939

35. DEFERRED TAX (Continued)

Group – 2009

Deferred tax liabilities

	Revaluation of investment properties HK$'000	Fair value adjustment from acquisition of subsidiaries HK$'000	Deferred revenue HK$'000	Withholding tax HK$'000	Total HK$'000
As at 1 January 2009	1,619	203,421	–	–	205,040
Deferred tax charged/ (credited) to consolidated income statement during the year *(note 11)*	41	(67,001)	21,810	28,353	(16,797)
Released upon receipt of dividends from associates	–	–	–	(52,891)	(52,891)
Acquisition of subsidiaries	–	–	–	78,943	78,943
Gross deferred tax liabilities at 31 December 2009	1,660	136,420	21,810	54,405	214,295

Deferred tax assets

	Fair value adjustment from acquisition of subsidiaries *HK$'000*	Impairment of property, plant and equipment *HK$'000*	Total *HK$'000*
As at 1 January 2009	27,077	–	27,077
Deferred tax (charged)/credited to consolidated income statement during the year *(note 11)*	(1,373)	9,654	8,281
Gross deferred tax assets at 31 December 2009	25,704	9,654	35,358

35. DEFERRED TAX (Continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

	HK$ '000
Net deferred tax liabilities recognised in the consolidated statement of financial position	178,937

Deferred tax assets have not been recognised in respect of the following items:

	2010 **HK$'000**	2009 HK$'000
Tax losses arising in Hong Kong (i)	**62,493**	39,603
Tax losses arising in Mainland China (ii)	**30,062**	27,024
Impairment provision of amounts due from related companies	**140,423**	–
	232,978	66,627

(i) The Group has tax losses arising in Hong Kong of HK$62,493,180 (2009: HK$39,603,180) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

(ii) The Group also has tax losses arising in Mainland China of HK$30,062,135 (2009: HK$27,024,384) that will expire in one to five years for offsetting against future taxable profit.

Deferred tax assets have not been recognised in respect of these losses and timing differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

36. ISSUED CAPITAL

		Number of shares		Share capital	
		2010	2009	**2010**	2009
		'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.10 each					
Authorised					
At beginning of year		**20,000,000**	20,000,000	**2,000,000**	2,000,000
Increase of authorised share capital		**–**	–	**–**	–
At end of year		**20,000,000**	20,000,000	**2,000,000**	2,000,000
Issued and fully paid					
At beginning of year		**9,427,333**	7,117,613	**942,733**	711,761
Issue of shares	*(i)*	**–**	2,000,000	**–**	200,000
Conversion of convertible notes	*(ii)*	**–**	200,000	**–**	20,000
Exercised equity-settled share option	*(iii)*	**141,160**	109,720	**14,116**	10,972
At end of year		**9,568,493**	9,427,333	**956,849**	942,733

(i) In May 2009, the Group completed the acquisition of a 100% interest in Fame Risen by the allotment and issue of 2,000,000,000 ordinary shares of the Company.

(ii) On 7 August 2009, the Company issued 200,000,000 shares of HK$0.10 each in respect of the conversion of the convertible notes with a principal amount of HK$35,400,000 held by Mr. Hu Yishi (note 34).

(iii) The subscription rights attaching to 131,160,000 and 10,000,000 share options were exercised at subscription prices of HK$0.205 and HK$0.165 per share, respectively (2009: 43,720,000 and 66,000,000 share options were exercised at subscription prices of HK$0.205 and HK$0.165 per share, respectively) (note 37), resulting in the issue of 141,160,000 shares (2009: 109,720,000) of HK$ 0.10 each at a total cash consideration, before expense, of approximately HK$ 28,537,800 (2009: HK$19,853,000). An amount of HK$11,617,000 was transferred from the share options reserve to the share premium account upon the exercise of the share options (2009: HK$8,295,000).

37. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 17 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 17 April 2012. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Pursuant to the Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options might be granted to a participant, when aggregated with the total number of shares issued and issuable under the Scheme, must not exceed 25% of the aggregate number of shares under the Scheme from time to time. The offer of a grant of options may be accepted within 28 days from the date of the offer with signed acceptance letter together with consideration of HK$1.00 received by the Company. The exercise period of the share options granted is determinable by the directors. The subscription price for the shares in respect of which options are granted is determinable by the directors of the Company, but in any case must be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

37. SHARE OPTION SCHEME (Continued)

At 31 December 2010, the number of shares of the Company in respect of which options had been granted and remained outstanding under the Scheme of the Company was 540,760,000 (2009: 255,880,000), representing 5.65% (2009: 2.71%) of the shares of the Company in issue at that date.

The following table discloses details of the share options of the Company held by directors and employees and movements in such holdings during the year.

Grantees	Date of grant	Outstanding at 1 January 2009	Granted/ (exercised) during the year	Outstanding at 31 December 2009	Granted/ (exercised) during the year	Outstanding at 31 December 2010	Exercisable period	Exercise price per share (subject to anti-dilutive adjustment)	Closing price per share before the date on which the options were granted
		'000	'000	'000	'000	'000		HK$	HK$
Directors of the Company	22 August 2007 (note b)	87,440	–	87,440	(43,720)	43,720	22 August 2010-21 August 2011	0.205	0.205
	22 April 2008 (note c)	66,000	(56,000)	10,000	(10,000)	–	22 April 2008-16 April 2012	0.165	0.165
	16 Jan 2009 (note d)	–	71,000	71,000	–	71,000	16 January 2009-16 April 2012	0.265	0.265
	29 Jan 2010 *(note e)*	–	–	–	163,000	163,000	29 January 2010-16 April 2012	0.35	0.34
	19 Apr 2010 *(note f)*	–	–	–	111,780	111,780	19 April 2010-16 April 2012	0.33	0.33
		153,440	15,000	168,440	221,060	389,500			
Other employees	22 August 2007 *(note a)*	43,720	(43,720)	–	–	–	22 February 2008-21 August 2011	0.205	0.205
	22 August 2007 *(note b)*	87,440	–	87,440	(87,440)	–	22 August 2010-21 August 2011	0.205	0.205
	22 April 2008 *(note c)*	10,000	(10,000)	–	–	–	22 April 2008-16 April 2012	0.165	0.165
	29 Jan 2010 *(note e)*	–	–	–	57,000	57,000	29 January 2010-16 April 2012	0.35	0.34
	19 Apr 2010 *(note f)*	–	–	–	94,260	94,260	19 April 2010-16 April 2012	0.33	0.33
		141,160	(53,720)	87,440	63,820	151,260			
		294,600	(38,720)	255,880	284,880	540,760			
Exercisable at the end of the year		119,720		81,000		540,760			
Weighted average exercise price per share (HK$)		0.215		0.235		0.319			

(a) The interests are by virtue of 43,720,000 share options accepted by a director of the Company on 22 August 2007, which entitle the relevant director to subscribe for shares in the Company at an exercise price of HK$0.205 per share. The share options are vested and exercisable in whole or in part on 22 February 2008 and expire on 21 August 2011. The estimated fair values of the options granted amounted to HK$3,637,000, of which the entire amount was charged to the consolidated income statement during the period ended 30 June 2008. The director resigned as director on 25 November 2008 and became an employee of the Group.

(b) The interests are by virtue of 87,440,000 share options accepted by the directors of the Company and 87,440,000 accepted by the employees of the Group, which entitle the relevant directors and employees to subscribe for shares in the Company at an exercise price of HK$0.205 per share. The share options are vested and exercisable in whole or in part on 22 August 2010 and expire on 21 August 2011. The estimated fair values of the options granted amounted to HK$14,549,000 of which HK$3,233,000 was charged to the consolidated income statement during the year (2009: HK$4,850,000).

37. SHARE OPTION SCHEME (Continued)

(c) The interests are by virtue of 66,000,000 share options accepted by a director of the Company and 10,000,000 accepted by the employees of the Group, which entitle the relevant director and employees to subscribe for shares in the Company at an exercise price of HK$0.165 per share. The share options are vested and exercisable in whole or in part on 22 April 2008 and expire on 16 April 2012. The estimated fair values of the options granted amounted to HK$5,363,000, of which the entire amount was charged to the consolidated income statement during the year ended 30 June 2008. An employee of the Group holding 10,000,000 share options was appointed as director of the Company during the six months' period ended 31 December 2008.

(d) The interests are by virtue of 71,000,000 share options accepted by a non-executive director of the Company, which entitle the relevant director to subscribe for shares in the Company at an exercise price of HK$0.265 per share. The share options are vested and exercisable in whole or in part on 16 January 2009 and expire on 16 April 2012. The estimated fair values of the options granted are HK$5,204,000, of which the entire amount was charged to the consolidated income statement during the year ended 31 December 2009.

(e) The interests are by virtue of 163,000,000 share options accepted by the directors of the Company and 57,000,000 accepted by the employees of the Group, which entitle the relevant directors and employees to subscribe for shares in the Company at an exercise price of HK$0.35 per share. The share options are vested and exercisable in whole or in part on 29 January 2010 and expire on 16 April 2012. The estimated fair values of the options granted amounted to HK$22,961,053 of which the entire amount was charged to the consolidated income statement during the year.

(f) The interests are by virtue of 111,780,000 share options accepted by the directors of the Company and 94,260,000 accepted by the employees of the Group, which entitle the relevant directors and employees to subscribe for shares in the Company at an exercise price of HK$0.33 per share. The share options are vested and exercisable in whole or in part on 19 April 2010 and expire on 16 April 2012. The estimated fair values of the options granted amounted to HK$19,250,281 of which the entire amount was charged to the consolidated income statement during the year.

The fair values of equity-settled share options granted during the years and outstanding as at year end were calculated using the binomial model. The inputs into the model were as follows:

	22 August 2007	**16 January 2009**	**29 January 2010**	**19 April 2010**
Closing share price per share at the date of offer	HK$0.205	HK$0.265	HK$0.340	HK$0.325
Exercise price per share	HK$0.205	HK$0.265	HK$0.350	HK$0.330
Expected volatility	45.74%	96.97%	76.66%	69.89%
Risk-free interest rate	4.06%	0.77%	0.63%	0.53%
Expected dividend yield	0%	0%	0%	0%
Forfeiture rate	0%	0%	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share prices over the previous four years. The suboptimal exercise factor used in the model has been based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$45,444,000 for the year (2009: HK$10,054,000) in relation to share options granted by the Company.

At the date of approval of these financial statements, the Company had 540,760,000 share options outstanding under the Scheme, which represented approximately 5.65% of the Company's shares in issue as at that date.

38. RESERVES

Group

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

Company

	Share premium	Share option reserve	Translation reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	266,208	15,467	15,758	(724,582)	(427,149)
Total comprehensive loss for the year	–	–	(47)	(137,123)	(137,170)
Equity-settled share option arrangements	–	10,054	–	–	10,054
Issue of shares	330,000	–	–	–	330,000
Conversion of convertible notes	27,400	–	–	–	27,400
Exercised equity-settled share options	17,176	(8,295)	–	–	8,881
At 31 December 2009	640,784	17,226	15,711	(861,705)	(187,984)
Total comprehensive loss for the year	–	–	(8,370)	(97,441)	(105,811)
Equity-settled share option arrangements	–	45,444	–	–	45,444
Exercised equity-settled share options	26,039	(11,617)	–	–	14,422
At 31 December 2010	**666,823**	**51,053**	**7,341**	**(959,146)**	**(233,929)**

39. PENSION SCHEME AND OTHER RETIREMENT BENEFITS

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

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The total pension cost charged to the consolidated income statement is approximately HK$746,000 (2009: approximately HK$627,000).

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction for investing and financing activities

	2010	2009
	HK$'000	*HK$'000*
Conversion of convertible notes	–	47,400
Acquisition of a subsidiary and its associates by issuing shares	–	2,167,271

41. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2010	2009
	HK$'000	*HK$'000*
Within one year	**2,263**	2,376
In the second to fifth years, inclusive	**1,740**	2,557
Balance at 31 December	**4,003**	4,933

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2010, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2010	2009
	HK$'000	*HK$'000*
Within one year	**4,276**	1,320
In the second to fifth years, inclusive	**6,507**	675
Balance at 31 December	**10,783**	1,995

42. CAPITAL COMMITMENTS

At 31 December 2010, the Group had the following capital commitments:

	2010 *HK$'000*	2009 *HK$'000*
Contracted, but not provided for:		
Property, plant and equipment	75,530	113,829

43. CONTINGENT LIABILITIES

The Group provided a guarantee, with no charge, to a bank in connection with a banking facility up to HK$117,647,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. As at 31 December 2010, the banking facility was utilised to the extent of approximately HK$58,823,500. No contingent liabilities were provided for by the Group in the financial statements as the directors believe it is not probable that an outflow will be required to settle the obligation.

44. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party transactions:

The Group entered into the following transactions with related parties:

	2010 *HK$'000*	2009 *HK$'000*
Purchase of coal from an associate	37,475	32,142
Interest expense to a minority shareholder of a subsidiary of the Group	3,684	27,933
Management fee to a minority shareholder of a subsidiary of the Group	6,207	12,135

(b) Compensation of key management personnel of the Group

The remuneration of key management during the year was as follows:

	2010 *HK$'000*	2009 *HK$'000*
Short term employee benefits	11,481	9,000
Post-employment benefits	251	182
Performance-related bonuses	13,450	12,500
Share-based payment	28,263	7,628
Total compensation paid to key management personnel	53,445	29,310

Further details of directors' remuneration are included in note 10 to the financial statements.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

44. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Outstanding balances with related parties

Details of the balances with associates and related parties as at the end of the reporting period are set out in the statement of financial position and notes 26 and 27 to the financial statements.

Details of the balance of a loan from a related company as at the end of the reporting period are set out in the statement of financial position and note 33 to the financial statements.

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

2010 **Group**

Financial assets

	Financial assets at fair value through profit or loss *HK$'000*	Loans and receivables *HK$'000*	Available–for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale investments	–	–	5,471	5,471
Trade receivables	–	183	–	183
Other receivables and prepayments	–	12,691	–	12,691
Amounts due from associates	–	2,000	–	2,000
Amounts due from related companies	–	133,086	–	133,086
Dividend receivable from a jointly-controlled entity	–	58,671	–	58,671
Financial assets at fair value through profit or loss	24	–	–	24
Pledged bank deposits	–	17,647	–	17,647
Cash and cash equivalents	–	208,183	–	208,183
	24	432,461	5,471	437,956

45. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	–	47,465	47,465
Other payables and accruals	–	83,646	83,646
Amounts due to related companies	–	40,374	40,374
Obligations under finance leases	–	181	181
Interest-bearing bank and other borrowings	–	80,002	80,002
Loan from a related company	–	104,273	104,273
Convertible notes	–	232,357	232,357
	–	588,298	588,298

2009 Group

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	–	5,225	5,225
Trade receivables	–	9,644	–	9,644
Other receivables and prepayments	–	18,788	–	18,788
Amounts due from associates	–	450,955	–	450,955
Amounts due from related companies	–	283,865	–	283,865
Dividend receivable from a jointly-controlled entity	–	56,035	–	56,035
Pledged time deposits	–	711	–	711
Cash and cash equivalents	–	305,219	–	305,219
	–	1,125,217	5,225	1,130,442

45. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Trade and bills payables	–	35,212	35,212
Other payables and accruals	–	58,449	58,449
Dividend payable to former shareholders of a subsidiary	–	416,955	416,955
Amounts due to related companies	–	53,403	53,403
Obligation under finance leases	–	101	101
Interest-bearing bank and other borrowings	–	90,043	90,043
Loan from a related company	–	101,566	101,566
Convertible notes	–	206,630	206,630
	–	962,359	962,359

2010 **Company**

Financial assets

	Loans and receivables ***HK$'000***
Other receivables and prepayments	**825**
Amounts due from subsidiaries	**611,056**
Cash and cash equivalents	**111,267**
	723,148

Financial liabilities

	Financial liabilities at amortised cost ***HK$'000***
Other payables and accruals	**3,122**
Amounts due to subsidiaries	**197,815**
Convertible notes	**232,357**
	433,294

45. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2009 — Company

Financial assets

	Loans and receivables HK$'000
Other receivables and prepayments	784
Amounts due from subsidiaries	698,120
Cash and cash equivalents	32,599
	731,503

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Other payables and accruals	3,843
Amounts due to subsidiaries	198,377
Convertible notes	206,630
	408,850

46. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Available-for-sale investments	**5,471**	5,225	**5,471**	5,225
Trade receivables	**183**	9,644	**183**	9,644
Other receivables and prepayments	**12,691**	18,788	**12,691**	18,788
Amounts due from associates	**2,000**	450,955	**2,000**	450,955
Amounts due from related companies	**133,086**	283,865	**133,086**	283,865
Dividend receivable from a jointly-controlled entity	**58,671**	56,035	**58,671**	56,035
Financial assets at fair value through profit or loss	**24**	–	**24**	–
Pledged bank deposits	**17,647**	711	**17,647**	711
Cash and cash equivalents	**208,183**	305,219	**208,183**	305,219
	437,956	1,130,442	**437,956**	1,130,442
Financial liabilities				
Trade and bills payables	**47,465**	35,212	**47,465**	35,212
Other payables and accruals	**83,646**	58,449	**83,646**	58,449
Dividend payable to former shareholders of a subsidiary	**–**	416,955	**–**	416,955
Amounts due to related companies	**40,374**	53,403	**40,374**	53,403
Obligations under finance leases	**181**	101	**181**	101
Interest-bearing bank and other borrowings	**80,002**	90,043	**80,002**	90,043
Loan from a related company	**104,273**	101,566	**104,273**	101,566
Convertible notes	**232,357**	206,630	**232,357**	206,630
	588,298	962,359	**588,298**	962,359

46. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Company

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Other receivables and prepayments	**825**	784	**825**	784
Amounts due from subsidiaries	**611,056**	698,120	**611,056**	698,120
Cash and cash equivalents	**111,267**	32,599	**111,267**	32,599
	723,148	731,503	**723,148**	731,503
Financial liabilities				
Other payables and accruals	**3,122**	3,843	**3,122**	3,843
Amounts due to subsidiaries	**197,815**	198,377	**197,815**	198,377
Convertible notes	**232,357**	206,630	**232,357**	206,630
	433,294	408,850	**433,294**	408,850

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged bank deposits, trade receivables, trade and bills payables, financial assets included in other receivables and prepayments, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, amounts due to related companies and loans from a related company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of obligations under finance leases, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar convertible bond.

The fair values of listed equity investments are based on quoted market prices.

46. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value

Group

As at 31 December 2010

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss	24	–	–	24
Investment properties	–	98,885	–	98,885
	24	98,885	–	98,909

As at 31 December 2009

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment properties	–	91,473	–	91,473
	–	91,473	–	91,473

During the year, there were no transfers into or out of Level 3 fair value measurements (2009: Nil).

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise loans and borrowings, cash and cash equivalents, convertible notes and deposits from customers. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables, and trade and bills 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 and foreign currency risk. Management reviews and agrees policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to financial instruments are set out in note 2.4 to the financial statements.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, amounts due from its associates and a jointly-controlled entity, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis by customer/counterparty and by geographical region. At the end of the reporting period, the Group had certain concentrations of credit risk as 80.0% of the Group's trade receivables were due from the Group's five largest customers within the property investment segment (2009: 99.9% of the trade receivables due from the largest customer within the heat energy supply segment).

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

Liquidity risk

The Group's treasury department monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are positive and closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available, obtaining debentures from specific financial institutions and borrowing loans from banks.

As at 31 December 2010, the Group's current liabilities exceeded its current assets by HK$258,474,000. The relevant stakeholders of the Group have undertaken to provide continuing financial support (at least 12 months from the date of the financial statements) to enable the Company and its subsidiaries to meet their liabilities as and when they fall due. Therefore, the Company and its subsidiaries will have sufficient funds to meet their daily working capital requirements for the foreseeable future, and will not encounter going concern problems due to inadequate working capital.

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period based on the contractual undiscounted payments.

Group

	31 December 2010					
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Longer than 5 years HK$'000	Total HK$'000
Trade and bills payables	–	5,771	41,694	–	–	47,465
Other payables	–	–	78,870	–	–	78,870
Amounts due to related companies	40,374	–	–	–	–	40,374
Obligations under finance leases	–	11	26	150	–	187
Interest-bearing bank and other borrowings	–	11,764	59,705	8,664	–	80,133
Loan from a related company	104,273	–	–	–	–	104,273
Convertible notes	–	–	234,127	–	–	234,127
	144,647	17,546	414,422	8,814	–	585,429

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Group (Continued)

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Longer than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills payables	–	9,913	25,299	–	–	35,212
Other payables	–	–	27,329	–	–	27,329
Dividend payable to former shareholders of a subsidiary	–	–	416,955	–	–	416,955
Amounts due to related companies	53,403	–	–	–	–	53,403
Obligations under finance leases	–	11	34	60	–	105
Interest-bearing bank and other borrowings	–	14,429	50,036	5,559	4,295	74,319
Loan from a related company	–	–	101,566	–	–	101,566
Convertible notes	–	–	–	230,100	–	230,100
	53,403	24,353	621,219	235,719	4,295	938,989

Company

	31 December 2010					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Longer than 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Other payables	**–**	**–**	**3,122**	**–**	**–**	**3,122**
Amounts due to subsidiaries	**197,815**	**–**	**–**	**–**	**–**	**197,815**
Convertible notes	**–**	**–**	**234,127**	**–**	**–**	**234,127**
	197,815	**–**	**237,249**	**–**	**–**	**435,064**

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Longer than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	–	–	3,843	–	–	3,843
Amounts due to subsidiaries	198,377	–	–	–	–	198,377
Convertible notes	–	–	–	230,100	–	230,100
	198,377	–	3,843	230,100	–	432,320

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group currently has not entered into interest rate swaps to hedge against its exposure of interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *HK$'000*
2010		
If interest rate increases	**100**	**(733)**
If interest rate decreases	**(100)**	**733**
2009		
If interest rate increases	100	(420)
If interest rate decreases	(100)	420

Foreign currency risk

The Group has foreign currency risk as its long term borrowings are denominated in United States dollars ("US dollar") and monetary assets denominated in Hong Kong dollars.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US dollar and Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the translation reserve).

2010	**Increase/ (decrease) in foreign exchange rate %**	**Increase/ (decrease) in profit before tax** ***HK$'000***	**Increase/ (decrease) in equity** ***HK$'000***
If US dollar weakens against RMB	**5%**	**762**	**–**
If US dollar strengthens against RMB	**(5%)**	**(762)**	**–**
If Hong Kong dollar weakens against RMB	**5%**	**(3,300)**	**450**
If Hong Kong dollar strengthens against RMB	**(5%)**	**3,300**	**(450)**

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

2009	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
If US dollar weakens against RMB	5%	736	–
If US dollar strengthens against RMB	(5%)	(736)	–
If Hong Kong dollar weakens against RMB	5%	(1,200)	149
If Hong Kong dollar strengthens against RMB	(5%)	1,200	(149)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

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 shareholders, return capital to shareholders, issue new shares or issue new debt. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2010 and 2009.

48. EVENTS AFTER THE REPORTING PERIOD

(a) On 17 January 2011, Global Strategy International Limited, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement to dispose of its entire interest in its wholly-owned subsidiary, Kai Yuan Securities Limited, to Sheng Yuan Financial Services Group Limited ("SYFSGL") at a consideration of HK$17,700,000.

SYFSGL is a wholly-owned subsidiary of Sheng Yuan Holdings Limited ("SYHL"), a company listed on the Hong Kong Stock Exchange, in which a director of the Company holds a 62.39% equity interest.

There is no material gain or loss expected from this transaction.

(b) On 14 March 2011, Eland Success Limited, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement to dispose of its entire interest in its wholly owned subsidiary, External Fame Limited, to an independent third party for a total consideration of HK$72,000,000. The expected gain or loss cannot be made at the date of the consolidated financial statements, because the fair value of investment properties held by subsidiaries of External Fame Limited upon completion of the disposal cannot be estimated reliably.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2011.

Particulars of Investments Properties

PARTICULARS OF INVESTMENTS PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
Carpark Basement 2 and 3 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing	Commercial	Medium-term lease	100%
Units 302, 303A, 309AB, 320 408B, 525, 620, 621, 622, 623B, 820, 919B, 920, 921A, 922A, 926AB, 1006, 1008B, 1015, 1020, 1021AB, 1022AB, 1023B, 1025, 1026AB, 1027, 1108, 1110A, 1110B, 1120, 1122AB, 1125, 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing	Commercial	Medium-term lease	100%

Financial Summary

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

	Year ended 31 December 2010 *HK$'000*	Year ended 31 December 2009 *HK$'000*	Six months' period ended 31 December 2008 *HK$'000*	Year ended 30 June 2008 *HK$'000*	2007 *HK$'000* (restated)
Revenue	**124,160**	200,793	83,300	4,157	13,050
(LOSS)/PROFIT BEFORE TAX	**(19,344)**	1,719,832	17,823	(79,332)	(10,063)
Income tax (expense)/ credit	**(3,685)**	24,411	(11,769)	(14)	(1,898)
(LOSS)/PROFIT FOR THE YEAR	**(23,029)**	1,744,243	6,054	(79,346)	(11,961)

ASSETS, LIABILITIES AND MINORITY INTERESTS

TOTAL ASSETS	**4,674,916**	4,846,774	2,067,843	1,899,340	375,344
TOTAL LIABILITIES	**(883,639)**	(1,239,775)	(937,419)	(721,794)	(25,090)
NON-CONTROLLING INTERESTS	**(286,968)**	(411,245)	(524,760)	(558,506)	–
	3,504,309	3,195,754	605,664	619,040	350,254