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Futong Technology Development Holdings Limited
富通科技發展控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 465

Annual Report 2010

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CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the board (the "Board") of directors (the "Directors") of Futong Technology Development Holdings Limited (the "Company"), I would like to thank all the shareholders and investors very much for their trust in and support for the Company and its subsidiaries (with the Company collectively referred to as the "Group") in the past. I am pleased to present to all the shareholders the annual results of the Group for the year ended 31 December 2010.

During the year, the Company recorded a profit attributable to equity holders of the Company of approximately HK$80.1 million, representing a growth of approximately 18.6% compared with the corresponding period last year.

As a result of increase in contribution from provision of services to end-users, which generally has a higher gross profit margin, the gross profit margin of the Group for the year increased by 0.6% to 9.1%.

The Board recommends the payment of a final dividend for the year of HK7.8 cents per share of the Company, representing a payout ratio of 30%. The final dividend is subject to approval by shareholders at the forthcoming annual general meeting.

In 2010, financial institutions resume their capital expenditures following the financial downturn in prior years. We see that demand for enterprise IT infrastructure products and services from financial institutions increases. The Group swiftly adjusts its sales strategy and grasps this market opportunity. As a result, revenue contributed from financial institutions recorded satisfactory results for the year.

Revenue from each product line recorded increase during the year and sales of Oracle's and Huawei Symantec's products recorded substantial increase. This proved the Group's effort in strengthening and enriching its product line. Moreover, following the completion of share subscription in a subsidiary of the Group with EMC, the Group has broadened its range of products and services offered to its customers by introducing EMC's storage products, software and related services to the Group's product line and further strengthened its market position as a leading enterprise IT infrastructure solution provider. EMC is a well-known international enterprise IT products vendor. Through this deeper cooperation, we are confident that we can offer a more comprehensive solution to our customers with EMC's experience in storage products solution.

While strengthening its position in sales of enterprise IT products within the People's Republic of China (the "PRC") market, at the same time, the Group enhanced its capacity in the provision of IT services. In the year, the Group set up an associated company, Centrin-Futong IT Services Co., Ltd. ("Centrin-Futong") with Centrin Data Systems Co., Ltd., Mr. Zhang Shu Dan and Beijing Deep Thought Software Co., Ltd. ("Beijing Deep Thought") in Beijing. Centrin-Futong will further enhance the Group's ability in providing IT technical support services and expand its range of services, capturing the opportunities in the PRC as well as boost our business growth.

During the past year, the increasing take-up of cloud computing is leading to changes in the IT-solutions market. In fact, the continuous advance of cloud computing is based on the wider development and deployment of the data centre. With a forward looking view to realising the potential of this trend, we have set up Centrin-Futong, establishing us as a leader in the provision of IT services base on data centre in the PRC.

The Group has been dedicated its effort in providing cost effective IT services to our customers. We recognised that high caliber personnel are an important element in provision of services. During the year, we have strengthened our IT technical support team. The team is led by experienced and qualified technicians. The Group has also increased its number of branch offices in Hong Kong and PRC to twenty in order to provide efficient IT technical support services to our national wide customers.

CHAIRMAN'S STATEMENT

Thanks to the joint effort and hard work of all the staff, we managed to complete the upgrade of the ERP system which was launched in January 2011. This marked a further step in our commitment in continuously reviewing and improving our operational efficiency and strengthening our management to cope with the needs of the accelerating development of the Group.

Looking forward, it is the PRC government policy to encourage the development of the IT industry to achieve efficiency and productivity gains. This provide a vibrant market and business opportunities to those IT vendors with efficient IT services capability and experience in providing well-known enterprise IT infrastructure products solutions. The Group is well positioned within an industry sector that is steadily growing.

I would like to take this opportunity to express my sincere gratitude to all shareholders, business partners and clients and to thank all the staff for their dedication and hard work and all the Directors for their valuable guidance and contributions to the Company.

Last but not least, I hope all of you can continue to grow with Futong in the year ahead and I wish you all good health and happiness.

Chen Jian
Chairman
Hong Kong, 30 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the distribution of enterprise IT products in the PRC where it is one of the industry leaders, as well as in the provision of IT solutions and IT technical support services. The Group is the business partner of IBM, Oracle and EMC for selling enterprise IT products in the PRC and is also a reseller of IT products from other vendors.

Sales of IBM's products

For the year ended 31 December 2010, revenue from the sales of IBM's hardware and software products including enterprise servers, system storage products and middleware, and which are often bundled with value-added services amounted to approximately HK$2,408.5 million (2009: approximately HK$2,378.2 million). This marked an increase in revenue by approximately HK$30.3 million. Sales of IBM's products and provision of related services remained as the primary revenue generator of the Group and accounted for approximately 84.6% of total revenue of the Group for the year ended 31 December 2010 (2009: approximately 92.0%).

The growth in revenue from the sales of IBM's products for the year ended 31 December 2010 was mainly driven by a higher demand for IT solutions from financial institutions resuming capital expenditure following the economic crisis. Revenue from sales of IBM's enterprise servers increased by approximately HK$74.3 million or 4.2% to approximately HK$1,833.8 million compared with last year. Revenue from sales of IBM's system storage products and related services decreased by approximately HK$7.6 million or 2.0% to approximately HK$380.3 million for the year ended 31 December 2010. Sales of IBM's software and related services amounted to approximately HK$194.4 million, a decrease of approximately HK$36.4 million or 15.8%.

Sales of Oracle's products

Database management software and middleware for application servers from Oracle represent the other major category of products sold by the Group. For the year ended 31 December 2010, sales of Oracle's products and related services amounted to approximately HK$198.3 million, up by approximately HK$96.5 million or 94.8% over last year. It accounted for approximately 7.0% of the Group's total revenue. The Group has observed a stronger demand for Oracle's products from the government bodies and general business sectors.

Sales of EMC's products

Following the completion of share subscription in a subsidiary of the Group with EMC Computer Systems (FE) Limited ("EMC (FE)"), the details of which are set out under the heading "Material investment for the year", the Group has broadened its range of products and services offered to its customers by introducing EMC's storage products, software and related services to the Group's product line and further strengthened its market position as a leading enterprise IT infrastructure solution provider. For the year ended 31 December 2010, revenue from sales of EMC's products amounted to approximately HK$24.4 million (2009: Nil).

Sales of other products

Other sources of revenue for the Group included sales of IT products of Huawei Symantec as its business partner, including servers, storage and IT security solutions, as well as sales of other accessories. Revenue from these products and services increased to approximately HK$183.0 million during the year ended 31 December 2010 (2009: approximately HK$84.8 million) which was mainly contributed from sales of Huawei Symantec's products and related services. The Group has been putting more effort in promoting Huawei Symantec's products since it became the business partner of Huawei Symantec in 2008 and the Group recorded a substantial contribution from selling of Huawei Symantec's products during the year ended 31 December 2010.

Provision of services

During the year ended 31 December 2010, the Group has further strengthened its IT technical support service team which aims to expand the Group's IT services capability in the PRC by meeting the needs of the end-users. The team is led by experienced and qualified technicians. For the year ended 31 December 2010, revenue from provision of services amounted to approximately HK$33.0 million (2009: approximately HK$21.4 million), representing an increase of approximately 53.7%.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2010, revenue of the Group increased by approximately HK$260.9 million to approximately HK$2,847.2 million from approximately HK$2,586.3 million for the year ended 31 December 2009. The rise was mainly attributable to an increase in demand for IT solutions from financial institutions after resumption of capital expenditures following the economic crisis.

Gross profit

Gross profit of the Group increased by approximately HK$40.0 million or 18.2%, from approximately HK$219.8 million for the year ended 31 December 2009 to approximately HK$259.8 million for the year ended 31 December 2010. Gross profit margin of the Group increased to approximately 9.1% for the year ended 31 December 2010 from approximately 8.5% for the year ended 31 December 2009. The increase in gross profit margin was attributable to increase in revenue from provision of services to customers.

Distribution costs

During the year ended 31 December 2010, the distribution costs of the Group amounted to approximately HK$113.6 million, an increase of approximately HK$28.4 million or 33.3% compared to the year ended 31 December 2009. This increase was mainly the combined effect of a rise in staff costs due to increase in headcount and travelling cost to support wider sales and service coverage. As at the balance sheet date, there are twenty branch offices located in Hong Kong and the PRC.

Administrative expenses

Administrative expenses of the Group dropped by approximately HK$8.3 million or 21.6%, from approximately HK$38.3 million for the year ended 31 December 2009 to approximately HK$30.0 million for the year ended 31 December 2010. For the year ended 31 December 2009, the Group incurred impairment loss on trade and bills receivables of approximately HK$5.2 million. The Group recorded a reversal of impairment loss on trade and bills receivables of approximately HK$2.2 million for the year ended 31 December 2010.

Finance costs

Finance costs of the Group decreased by approximately HK$4.4 million or 15.8% from approximately HK$27.5 million for the year ended 31 December 2009 to approximately HK$23.2 million for the year ended 31 December 2010. The reduction was mainly attributable to finance cost saved from prompt settlement of the outstanding balances for purchases from IBM.

Profit for the year attributable to equity shareholders of the Company

For the year ended 31 December 2010, profit attributable to equity shareholders of the Company increased by approximately HK$12.5 million or 18.6%, from approximately HK$67.6 million for the year ended 31 December 2009 to approximately HK$80.1 million. This increase in profit was mainly attributable to the increase in revenue during the year as a result of a higher demand for enterprise IT products from financial institutions and increase in gross profit margin.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 31 December 2010, the Group had total assets of approximately HK$1,538.7 million and had net assets of approximately HK$519.0 million (2009: approximately HK$1,565.8 million and approximately HK$418.3 million, respectively). The Group's cash and cash equivalents as at 31 December 2010 amounted to approximately HK$275.5 million and bank borrowings amounted to approximately HK$299.4 million (2009: approximately HK$210.9 million and approximately HK$302.3 million, respectively). Taking into account the cash on hand and recurring cash flows from its business, the Group's financial position was healthy, positioning the Group advantageously to expand its core business and to achieve its business objectives.

As at 31 December 2010, bank loans of the Group were made in Hong Kong dollars, United States dollars and Renminbi while cash and cash equivalents were held at Hong Kong dollars, United States dollars and Renminbi.

As at 31 December 2010, the bank loans were repayable within one year or on demand.

As at 31 December 2010, approximately 18% (2009: approximately 35%) of total borrowings were at fixed interests rates.

PLEDGE OF ASSETS

As at 31 December 2010, certain assets of the Group with carrying value of approximately HK$602.0 million (2009: approximately HK$361.3 million) were pledged to banks for banking facilities and bank guarantees granted to the Group.

NET DEBT-TO-CAPITAL RATIO

The Group's net debt-to-capital ratio as at 31 December 2010 was approximately 5% (2009: approximately 22%). This ratio represents total bank loans less cash and cash equivalents divided by total equity.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars, Renminbi and Hong Kong dollars.

As at 31 December 2010, the Group did not enter into any hedging arrangements. However, the management will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK7.8 cents for the year ended 31 December 2010 to shareholders whose names appear on the register of members of the Company on 18 May 2011. The proposed final dividend will be paid on or about 10 June 2011, following approval at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2011 (Monday) to 18 May 2011 (Wednesday) (both dates inclusive) during which no transfer of shares of the Company can be registered. In order to qualify for the dividend and determine the entitlement to attend and vote at the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 13 May 2011 (Friday).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group had 440 (2009: 363) employees in the PRC and Hong Kong. Total staff costs amounted to approximately HK$82.4 million (2009: approximately HK$66.7 million).

The Group's employees are remunerated by reference to industry practices and performance and experience of individual employee. Our main focus is to ensure that the Group remains competitive within the market it operates in, to ensure we attract and retain the right talent necessary to grow the business and maximise shareholders' value. We place great emphasis on the development of our people as we firmly believe they are the core to the Group. Through our ongoing training programme, we encourage them to develop their talents and to move up the organisation. We believe these will be mutually beneficial to the Group and its employees.

MATERIAL INVESTMENT FOR THE YEAR

For the year ended 31 December 2010, the Group established an associated company in Beijing with Centrin Data Systems Co., Ltd.. The registered capital of the associated company is RMB50 million. The Group has 40% interest in the associated company and as at the balance sheet date, the Group has contributed its portion of capital of RMB20 million to the registered capital of the associated company. The formation of the associated company will enhance the Group's ability in providing IT technical support services and expanding its range of services.

In December 2010, the Group entered into a subscription agreement with EMC (FE) for the subscription of new shares in a subsidiary of the Group for a total consideration of RMB50,000,000 to which RMB40,500,000 is payable by the Group and RMB9,500,000 is payable by EMC (FE). EMC Corporation and its subsidiaries (collectively "EMC Group") is a well-known international IT vendor and is a provider of information infrastructure systems, software and services with over 30 years history. EMC Group has developed a worldwide customer base and provides technology, products and services to customers in more than 80 countries. EMC (FE) is a member of EMC Group. The subscription is completed in December 2010 and the subsidiary is owned as to 81% by the Group and 19% by EMC (FE). The subsidiary is engaged in the market development of EMC's products in the PRC including its system storage products and software together with the provision of IT technical support services and IT solutions.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

After deducting share issuance expenses, the net proceeds from the initial public offering of the Company's shares in December 2009 amounted to approximately HK$115.9 million. As at 31 December 2010, the Group had used approximately HK$4.4 million for set up of new branch offices, approximately HK$28.2 million for sourcing new enterprise IT products, approximately HK$1.6 million for establishment and expansion of IT solution support centers and approximately HK$3.2 million for set up of training centers. The remaining balance of the net proceeds was placed in short-term deposit bank accounts. The Group will apply the remaining net proceeds in the manner set out in the prospectus of the Company dated 24 November 2009 (the "Prospectus").

PURCHASE, SALE AND REDEMPTION OF THE SHARES

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

OUTLOOK

It is the PRC government's policy to encourage the development of the IT industry in the PRC including the promotion of IT applications to enhance productivity in various enterprises, rolling out e-government services as well as other public services, developing an advanced cultural network, nurturing a digital economy, improving information-based facilities in order to enhance the competitiveness of the IT industry in the PRC. The PRC should continue as a relatively vibrant market for IT vendors who can help IT users to achieve efficiency and productivity gains. The Group is well positioned within an industry sector that is steadily growing.

Leveraging on extensive experience of the management team of the Group as a leading provider of quality enterprise IT products, cost effective IT solutions and integrated IT technical support services, the Group intends to enhance its market leading position through (i) extension of its sales network and coverage and diversification of its product distribution portfolio; (ii) broadening of its product sourcing network; and (iii) expansion of its IT services in the PRC.

As at the date of this annual report, the Group has twenty branch offices in the PRC and Hong Kong to provide sales and technical support services to its national wide customers.

Furthermore, the Group has strengthened its range of products and services by introducing EMC Group as a business partner. Aligning with other well-known international IT vendors, the Group has strengthened its market position in providing enterprise IT infrastructure products and services.

The formation of an associated company with Centrin Data Systems Co., Ltd. is also expected to enhance the Group's ability in providing IT technical support services and expand its range of services, particularly in the development of its own system monitoring software, with an aim to generating better return for our shareholders.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian (陳健先生), aged 50, is an executive Director and chairman of the Company, one of the co-founders of the Group. He is also the director of Futong Technology Co. Ltd. ("Futong BVI"), Etong Technology Holdings Limited ("Etong BVI"), Futong Technology (HK) Company Limited ("Futong HK"), Futong Technology Development Holdings (HK) Limited ("Etong HK"), Beijing Futong Dongfang Technology Co., Ltd. ("Futong Dongfang"), Futong Times Technology Co., Ltd. ("Futong Times") and Beijing Etong Dongfang Computer System Services Co., Ltd. ("Etong Dongfang") which are subsidiaries of the Company. Mr. Chen is responsible for the overall strategic development of the Group's business. He has over 21 years of experience in IT industry. Mr. Chen graduated from 中國人民解放軍通信工程學院(Chinese People's Liberation Army Communication Engineering University) with a bachelor's degree in wireless communications engineering. He is the brother-in-law of Ms. Zhang Yun.

Ms. Zhang Yun (張昀女士), aged 40, is an executive Director and vice chairlady of the Company, one of the co-founders of the Group. She is also the director of Futong BVI, Etong BVI, Futong HK, Etong HK, Futong Dongfang, Futong Times and Etong Dongfang. Ms. Zhang is responsible for the Group's operations development and overall management, including key finance matters. She is also responsible for the daily operations of Futong HK and Etong HK. She has over 17 years of experience in IT industry. Ms. Zhang graduated from 華東交通大學 (East China Jiaotong University) with a bachelor's degree, majoring in economics. She is the sister-in-law of Mr. Chen Jian.

Mr. Guan Tao (關濤先生), aged 52, is an executive Director, one of the co-founders of the Group. He is also the director of Futong BVI, Etong BVI, Futong HK, Futong Dongfang, Futong Times and Etong Dongfang. Mr. Guan assists the chairman of the Company in executing the Group's corporate strategies and managing the Group's management operations. He has over 16 years of experience in IT industry. Mr. Guan graduated from 中國人民解放軍通信工程學院 (Chinese People's Liberation Army Communication Engineering University) with a bachelor's degree in wireless communications engineering.

Independent non-executive Directors

Mr. Lee Kwan Hung (李均雄先生), aged 45, was appointed as an independent non-executive director on 5 November 2009. Mr. Lee received his LL.B. (Honours) degree and Postgraduate Certificate in Laws from The University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997. Mr. Lee was a senior manager of the Listing Division of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") between 1993-94. Mr. Lee is a practising lawyer and an independent non-executive director of GZI REIT Asset Management Limited (which manages the GZI Real Estate Investment Trust), Embry Holdings Limited, NetDragon Websoft Inc., Asia Cassava Resources Holdings Limited, New Universe International Group Limited and Walker Group Holdings Limited, the shares of which are listed on the Stock Exchange. Besides, Mr. Lee was also a non-executive director of Mirabell International Limited and GST Holdings Limited, the shares of which were formerly listed on the Stock Exchange.

Mr. Yuan Bo (袁波先生), aged 48, was appointed as an independent non-executive Director on 5 November 2009. He is currently the senior vice president of Camelot Information Systems Company Limited. Mr. Yuan graduated from 清華大學 (Tsinghua University) with a master degree, majoring in economics. He was the general manager of China Business Partner Operation Division of 國際商業機器(中國)投資有限公司 (IBM (China) Investment Co., Ltd.) in 1998. He also served as the chief executive officer of Hi Sun Technology Holding Limited (a subsidiary of Hi Sun Technology (China) Limited, shares of which are listed on the Stock Exchange) in 2002. Besides, he was the founder and managing director of 百碩同興科技(北京)有限公司(Bayshore Consulting and Services Co., Ltd.) from 2003 to 2006. He has been a non-executive director of Geong International Limited, a company whose shares are listed on the London Stock Exchange.

Mr. Ho Pak Tai Patrick (何柏泰先生), aged 64, was appointed as an independent non-executive Director on 5 November 2009. He is a fellow of the Hong Kong Institute of Bankers, an independent non-executive director of CCB International (Holdings) Ltd., a subsidiary of China Construction Bank Corporation, the shares of which are listed on the Stock Exchange, and he is the chairman of its audit and compliance committee. He has been appointed to the Board of Review under the Inland Revenue Ordinance of Hong Kong from January 2001 to December 2009. Mr. Ho holds a banking diploma from the Chartered Institute of Bankers, London in December 1980 and has been a fellow of the Chartered Institute since 1988. Mr. Ho had served as the chief executive and general manager of Jian Sing Bank Limited (subsequently known as China Construction Bank (Asia) Limited, a subsidiary of China Construction Bank Corporation) from 1996 until 2007 and was also a director of its board. Mr. Ho has extensive banking experience in credit administration and audit.

SENIOR MANAGEMENT

Mr. Choy Ming Yan (蔡鳴人先生), aged 57, joined the Group in 2011. He is the chief executive officer of the Group's PRC operation. He is responsible for overseeing the PRC business operations of the Group. He has over 30 years of experience in IT industry. He graduated from Hong Kong Baptist University with a bachelor's degree in business administration.

Ms. Liu Ying (劉瑛女士), aged 48, joined the Group in 2006. She is the executive vice president of Futong Dongfang, a subsidiary of the Company. She is responsible for overseeing the day-to-day business operations of the branch offices of the Group. She graduated from 大連海運學院(Dalian Maritime College, now known as 大連海事大學 (Dalian Maritime University)) with a bachelor's degree, majoring in computer science.

Mr. Xie Hui (謝輝先生), aged 41, joined the Group in 2005, He is the vice president of Futong Dongfang and one of the co-founders of the Group. He is responsible for overseeing the day-to-day operations of the Group's business department for software of IBM. He graduated from 北京航空航天大學 (Beihang University), majoring in mechanical and electrical engineering.

Mr. Liu Li Min (劉利民先生), aged 40, joined the Group in 2007, He is the vice president of Futong Dongfang. He is responsible for overseeing the day-to-day operations of the Group's business department for hardware of IBM. He is also responsible for the business cooperation affairs of Centrin-Futong. He graduated from 浙江大學 (Zhejiang University) with a bachelor's degree in electrical engineering.

Mr. Zhao Wei (趙偉先生), aged 39, joined the Group in 2003. He is the vice president of Futong Dongfang. He is responsible for overseeing the day-to-day operations of the Oracle division of the Group and the telecommunication sector in the PRC. He graduated from 北京理工大學 (Beijing Institute of Technology), majoring in electronic appliances.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Chu Chi Shing (朱至誠先生), aged 43, joined the Group in 2009. He is the vice president of Futong HK and is responsible for strategic development planning and investor relations of the Group. He graduated from Shanghai Jiao Tong University with a bachelor's degree in computer science. He has extensive experience in the computer industry.

Mr. Dai Sihong (戴思弘先生), aged 41, joined the Group in 2010. He is the president of Etong Dongfang. He is responsible for overseeing the day-to-day business operations of Etong Dongfang. He holds a master degree in information systems focusing on E-commence from Stevens Institute of Technology, Hoboken, New Jersey, USA.

Mr. Chen Hua Guang (陳華光先生), aged 43, joined the Group in 2004. He is the vice president of Etong Dongfang. He is responsible for the channel development and management of the EMC division of the Group. He graduated from 北京印刷學院 (Beijing Institute of Graphic Communication) with a bachelor's degree, majoring in electrical engineering.

Mr. Li Jun (李鈞先生), aged 39, joined the Group in 2002. He is the assistant president and eastern China region general manager of Futong Dongfang. He is responsible for the overall business of the Group in eastern China.

Ms. Chen Jing (陳靜女士), aged 42, joined the Group in 2005. She is the assistant president of Futong Dongfang. She is responsible for the overall contracts management, process management, logistics management and internal audit management of the Group. She graduated from 北京聯合大學 (Beijing Union University) with a bachelor's degree majoring in mechanical engineering.

Mr. Wang Hui Gang (王卉剛先生), aged 42, joined the Group in 2004. He is the assistant president of Futong Dongfang. He is responsible for overseeing the day-to-day business operations and development of the key customer division of the Group. He graduated from Beijing Open University (formerly known as Beijing Radio and Television University).

Mr. Lou Shu Lin (婁樹林先生), aged 37, joined the Group in 2008. He is the financial controller of Futong Dongfang. He is responsible for the overall monitoring the accounting department of Futong Dongfang. He holds a bachelor's degree in accounting from 杭州電子工業學院 (Hangzhou Electronic and Engineering Institute, now known as 杭州電子科技大學 (Hangzhou Dianzi University)) and a master degree in business administration from 北京大學 (Peking University). He holds a qualification certificate of accountant conferred by the Ministry of Finance of the PRC and a certified public accountant certification of the PRC. He is also a member of Beijing Institute of Certified Public Accountants. He has extensive experience in finance and accounting.

Mr. Yuen Kwok Hon (袁國漢先生), aged 34, joined the Group in 2009 and is the financial controller of Futong HK. He is the authorised representative and company secretary of the Company. He received his bachelor's degree in business administration (majoring in accounting) from Hong Kong University of Science and Technology. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a CFA charterholder. He has over 12 years of experience in finance and accounting.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices with a view of being a transparent and responsible organisation, which is open and accountable to the shareholders and for protection of shareholders' and stakeholders' rights and enhance shareholders' value. The Board believes that good corporate governance establishes a framework which is essential for and advantageous to the Group's effective management and sustainable business growth.

COMPLIANCE WITH THE CODE

Throughout the year ended 31 December 2010, the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") and complied with the code provisions (the "Code Provisions") set out in the Code contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange except for the deviation from the Code Provision A.2.1, which, with considered reasons for this deviation, is disclosed under the heading "Chairman and Chief Executive Officer" below.

The key corporate governance principles and practices adopted by the Company are set out below.

THE BOARD OF DIRECTORS

Responsibilities of the Board

The Board is collectively and ultimately responsible for the effective oversight of the management, and the strategic direction and performance of the Group. All Directors have full and direct access to the advices and services of the company secretary of the Company. The Company provides the Directors with sufficient resources to perform their duties and the Directors may seek independent professional advice at the Company's cost, where they consider relevant and necessary to the discharge of their duties.

The Board has delegated to the management of the Group the authority and responsibilities for implementing the decisions and strategies approved by the Board and managing day-to-day operations of the Group under the leadership and guidance of the Board. The Board reserves for its decision on all major matters of the Group, including the approval and monitoring of the Group's major acquisitions and disposals, major capital investments, dividend policy, recommendation, appointment, retirement and remuneration policy of the Directors and senior management, and other significant operational and financial matters. The Board will review the delegation arrangements on a periodic basis to ensure they remain appropriate to the needs of the Group.

The Board has also established three Board committees, namely, the audit committee, the remuneration committee and the nomination committee, and delegated to these Board committees certain specific responsibilities as set out in their respective written terms of reference approved by the Board. Further details of these Board committees are set out under the heading "Board Committees".

The Company arranged induction programme for all newly appointed Directors and provided them with comprehensive corporate information and business briefings on their appointments to familiarise them with the Group's operations and business, as well as their responsibilities as a Director.

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Composition of the Board

As at the date of this annual report, the Board comprises six Directors, including three executive Directors and three independent non-executive Directors. Members of the Board are:

Executive Directors

Mr. Chen Jian *(Chairman and Chief Executive Officer)*
Ms. Zhang Yun
Mr. Guan Tao

Independent non-executive Directors

Mr. Ho Pak Tai Patrick
Mr. Lee Kwan Hung
Mr. Yuan Bo

The Board's composition satisfies the requirements of Rule 3.10(1) and 3.10(2) of the Listing Rules, which stipulate that there should be at least three independent non-executive Directors, and of whom at least one must possess appropriate professional qualifications or accounting or related financial management expertise.

The Company has received confirmation from each of the independent non-executive Directors regarding his independence pursuant to the requirements set out in Rule 3.13 of the Listing Rules. Based on these confirmations, the Board considers that all of the independent non-executive Directors to be independent.

The biographies of the Directors and their relationship with each other are set out under the section headed "Directors and Senior Management Profile" on pages 10 to 12 of this annual report.

Chairman and Chief Executive Officer

Mr. Chen Jian currently serves both the roles of the chairman and chief executive officer of the Company. Under Code Provision A.2.1 of the Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Company deviates from this Code Provision.

The major duties of the chairman are to provide leadership to the Board and formulate, together with the Board, the business strategies and long-term objectives of the Group whilst the chief executive officer is responsible for implementing the decisions and strategies approved by the Board and managing day-to-day operations of the Group with the support of the executive Directors. The Board believes that appointing the same person as the chairman and chief executive officer is conductive to strong and consistent leadership, which enables the Group to implement decisions and business strategies promptly and efficiently. The Board considers that the present arrangement will not impair the balance of power and authority between the Board and the management of the Company given that there is a professional and independent non-executive element on the Board and a clear division and proper balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals. Furthermore, the Board meets regularly to discuss major issues affecting the operations of the Group and make collective decisions by majority voting to ensure power is not concentrated in any one individual. The Board will nevertheless review the present arrangement from time to time in light of prevailing circumstances.

Appointment and Re-election of Directors

The Board has established the nomination committee, which is responsible for identifying appropriate candidates with suitable skills and experience for consideration by the Board. Further details of the nomination committee are set out under the heading "Nomination Committee". All independent non-executive Directors are appointed for an initial term of one year and subject to terms of renewal and termination after their first year of appointments. According to the articles of association of the Company, all Directors are subject to retirement by rotation at least once every three years and any new Directors appointed to fill a casual vacancy or as an addition to the Board shall retire at the first general meeting after appointment. The retiring Directors are eligible for re-election at the general meeting at which he/she retires.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code for the year ended 31 December 2010.

Board Meetings and Attendances

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. Notices of regular meetings are given to all Directors at least 14 days before the meeting is held, while notices of special Board meetings are given as soon as reasonable and practicable in the circumstances.

The company secretary is responsible for preparing the agenda and minutes for Board meetings. Agenda and discussion paper are provided to the Directors in advance of the meetings to allow them sufficient time to understand and consider the matters to be discussed in the meetings. The Directors may request to include matters in the agenda through the company secretary.

Draft Board meeting minutes containing detailed information of matters discussed, decisions reached, and any concerns raised or dissenting views expressed by the Directors at the meetings are dispatched to all Directors for their comments within a reasonable period of time after the meetings. Final version of Board meeting minutes are submitted to the Board for formal adoption after their comments. The adopted minutes are kept by the company secretary and are open for inspection by Directors upon their requests.

Details of individual attendance of each Director at the Board meeting are as follows:

Name of Director	Meetings Attended/Held	Attendance rate
Executive Directors		
Mr. Chen Jian *(Chairman and Chief Executive Officer)*	6/6	100%
Ms. Zhang Yun	6/6	100%
Mr. Guan Tao	6/6	100%
Independent non-executive Directors		
Mr. Ho Pak Tai Patrick	6/6	100%
Mr. Lee Kwan Hung	6/6	100%
Mr. Yuan Bo	6/6	100%

BOARD COMMITTEES

The Board has established the audit committee, the remuneration committee, the nomination committee, with approved written terms of reference to explain their respective role and the authority delegated to them by the Board. The terms of reference and membership of the Board committees are disclosed in full on the Company's website and are also available upon request to the company secretary. The Board committees are provided with sufficient resources to discharge their duties, and as they considered necessary, they may obtain independent professional advice at the Company's cost on any matters within their terms of reference.

Audit Committee

The audit committee was established on 11 November 2009 and is regulated by written terms of reference approved by the Board. The audit committee comprises all three independent non-executive Directors, namely Mr. Ho Pak Tai Patrick (chairman of the audit committee), Mr. Lee Kwan Hung and Mr. Yuan Bo.

The principal roles and functions of the audit committee are:

- to oversee the relation with the external auditors, which includes making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;

- to review the Group's financial information, which includes monitoring the integrity of financial statements, the annual report and accounts, and half year report and reviewing significant financial reporting judgements contained therein; and

- to oversee the Group's financial reporting system and internal control procedures.

The audit committee held two meetings during the year ended 31 December 2010, at which the financial results and reports, financial reporting and compliance procedures, internal control matters and the independence and the reappointment of the external auditors were reviewed and discussed. Details of individual attendance of each member of the audit committee are as follows:

Name of the members of the audit committee	Meetings Attended/Held	Attendance rate
Mr. Ho Pak Tai Patrick *(Chairman)*	2/2	100%
Mr. Lee Kwan Hung	2/2	100%
Mr. Yuan Bo	2/2	100%

Remuneration Committee

The remuneration committee was established on 11 November 2009 and is regulated by written terms of reference approved by the Board. The remuneration committee comprises all three independent non-executive Directors, namely Mr. Yuan Bo (chairman of the remuneration committee), Mr. Ho Pak Tai Patrick and Mr. Lee Kwan Hung, and one executive Director, Mr. Chen Jian, who is the chairman and chief executive officer of the Company.

The principal roles and functions of the remuneration committee are:

- to make recommendation to the Board on the Group's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- to have the delegated responsibility to determine the specific remuneration package of all executive Directors and senior management; and
- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The remuneration committee held two meetings during the year ended 31 December 2010 to review the remuneration packages of the Directors and senior management. Members of the remuneration committee were abstained from voting on resolutions related to his own remuneration package in the meeting.

Details of individual attendance of each member of the remuneration committee are as follows:

Name of the members of the remuneration committee	Meetings Attended/Held	Attendance rate
Mr. Yuan Bo (a) *(Chairman)*	2/2	100%
Mr. Chen Jian (b)	2/2	100%
Mr. Ho Pak Tai Patrick (a)	2/2	100%
Mr. Lee Kwan Hung (a)	2/2	100%

(a) Independent non-executive Director
(b) Executive Director

The compensation structure for the Directors consists of the fixed and variable components. The fixed component mainly comprises salary, retirement benefit scheme contributions and other allowances which are determined with reference to factors including their skills, knowledge and experience, the time commitment, duties and responsibilities required of them and the prevailing market conditions. The variable component comprises bonuses and share options granted under the Company's share option scheme, which are performance-based incentives to the Directors and senior management for aligning the individual and corporate goals and objectives.

Nomination Committee

The nomination committee was established on 11 November 2009 with written terms of reference approved by the Board. The nomination committee comprises all three independent non-executive Directors, namely Mr. Lee Kwan Hung (chairman of the nomination committee), Mr. Ho Pak Tai Patrick and Mr. Yuan Bo, and one executive Director, Ms. Zhang Yun.

The principal roles and functions of the nomination committee are:

- to identify and nominate Board candidates for directorship;
- to assess the independence of the independent non-executive Directors; and
- to make recommendations to the Board on matters relating to the appointment, re-appointment, and succession planning for Directors in particular the chairman and chief executive officer.

The nomination committee held one meeting during the year ended 31 December 2010, to assess the independence of the independent non-executive Directors and make recommendation to the Board on reappointment of Directors.

Details of individual attendance of each member of the nomination committee are as follows:

Name of the members of the nomination committee	**Meeting Attended/Held**	**Attendance rate**
Mr. Lee Kwan Hung (a) *(Chairman)*	1/1	100%
Ms. Zhang Yun (b)	1/1	100%
Mr. Ho Pak Tai Patrick (a)	1/1	100%
Mr. Yuan Bo (a)	1/1	100%

(a) Independent non-executive Director
(b) Executive Director

EXTERNAL AUDITORS

KPMG has been appointed as the Company's external auditors for the year ended 31 December 2010. The audit committee has the same view with the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

For the year ended 31 December 2010, the total remuneration in respect of services provided by the Group's external auditors amounted to HK$1.6 million, which can be analysed as follows:

	HK$'000
Audit services	1,528
Tax advisory services	77
Total	1,605

INTERNAL CONTROLS

The Board is responsible for maintaining a sound internal control system and reviewing its effectiveness at least annually to safeguard the shareholders' investments and the Group's assets. During the year ended 31 December 2010, the Board was assisted by the audit committee in reviewing the effectiveness of the Group's internal control system with no material deficiencies identified. The Board and the audit committee have considered all material aspects, including financial, operational and compliance controls, risk management functions, as well as the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget in the review. The Board and the audit committee are satisfied that the Group's internal control system was effective and there was no significant area of concern which might affect the interests of the shareholders of the Company.

The Group will use its best endeavour to implement changes to further improve the Group's internal control system whenever necessary.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is collectively responsible for preparing the consolidated financial statements which give a true and fair view of the state of affairs of the Company and of the Group and of the Group's results and cash flows. The audited consolidated financial statements of the Group for the year ended 31 December 2010 are set out on pages 31 to 91 of this annual report. In preparing these financial statements, the Directors have (i) selected appropriate accounting policies and applied them consistently; (ii) made prudent and reasonable judgements and estimates; and (iii) ensured that these financial statements were prepared on a going concern basis. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The reporting responsibility of the external auditors on the Group's consolidated financial statements are set out in the section headed "Independent Auditor's Report" on pages 29 to 30 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of effective communication with the shareholders of the Company. The Company has established a number of communication channels to maintain an ongoing dialogue with its shareholders and enhancing the transparency of the Group. These include (i) holding annual and extraordinary general meetings to provide a forum for shareholders to communicate directly with the Board and the Board committees; (ii) distributing corporate documents and releasing announcements to disseminate the Group's latest information to the shareholders; and (iii) maintaining the Company's website to provide an electronic means of communication with the shareholders and the public.

Shareholders and other interested parties are welcome to access the Group's information from the Company's website at www.futong.com.hk. The Group's corporate information including terms of reference of the Board committees, the Group's financial reports, announcements and circulars are available on the website. In order to enhance shareholders' understanding of the Group's business performance and development, the Company will continue to improve its corporate disclosure on the Company's website and the communication with its shareholders.

DIRECTORS' REPORT

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 15 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 31 to 91 of this annual report.

The Board recommends the payment of a final dividend for the year ended 31 December 2010 of HK7.8 cents (2009: Nil) per share.

Subject to approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on or about 10 June 2011 to shareholders whose names appear on the register of members of the Company on 18 May 2011.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years is set out on pages 92 and 93 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25(a) to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE AND REDEMPTION OF THE SHARES

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

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 25(d) to the consolidated financial statements.

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 36 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to approximately HK$404.4 million.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2010 are set out in note 24 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers, on individual entity basis, accounted for approximately 17.7% of the total revenue for the year and sales to the largest customer, on individual entity basis, included therein amounted to approximately 6.0%. Purchases from the Group's five largest suppliers, on individual entity basis, accounted for approximately 86.3% of the total purchases for the year and purchases from the largest supplier, on individual entity basis, included therein amounted to approximately 36.6%.

None of the Directors 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) has any material beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

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

Executive Directors
Mr. Chen Jian
Ms. Zhang Yun
Mr. Guan Tao

Independent non-executive Directors
Mr. Lee Kwan Hung
Mr. Yuan Bo
Mr. Ho Pak Tai Patrick

In accordance with the Company's articles of association, one-third of the Directors are subject to retirement by rotation and re-election at each annual general meeting of the Company and any new Directors appointed to fill a casual vacancy or as an addition to the Board shall retire at the first general meeting after appointment. Mr. Guan Tao and Mr. Ho Pak Tai Patrick will retire by rotation. All of them, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received confirmations from each of the independent non-executive Directors regarding his independence pursuant to the requirements set out in Rule 3.13 of the Listing Rules. Based on these confirmations, the Board considers that all of the independent non-executive Directors to be independent.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group as at the date of this annual report are set out on pages 10 to 12 of this annual report.

DIRECTORS' SERVICE AGREEMENT

Each of the executive Directors, namely Mr. Chen Jian, Ms. Zhang Yun and Mr. Guan Tao, has respectively entered into a service agreement with the Company for an initial term of three years commencing from 11 November 2009 and thereafter renewable automatically for successive terms of one year each, unless terminated by either the Company or the Directors by serving not less than three months' notice in writing expiring at the end of the initial term or at any time thereafter.

Save as disclosed above, none of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

Details of Directors' remuneration are set out in note 10 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACT

Details of the connected transactions and the related party transactions are set out on pages 27 to 28 and pages 82 to 83 of this annual report respectively. Save for the above, no other Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and the Group were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long positions in the shares of the Company:

Name of Director	Capacity/nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital (%)
Chen Jian	Interest in controlled corporation	218,014,000 (Notes 1 ,2, 3)	70.04
Zhang Yun	Beneficial owner/interest in controlled corporation	42,869,650 (Note 2)	13.77
Guan Tao	Beneficial owner	238,000	0.08

(ii) Long positions in the shares of China Group Associates Limited:

Name of Director	Capacity/ nature of interest	Number of shares held	Approximate percentage of the issued share capital (%)
Chen Jian	Beneficial owner	100	100.00

Notes:

1. 153,947,250 of these shares are held by China Group Associates Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by China Group Associates Limited.

2. 42,631,650 of these shares are held by Rich China Investments And Trading Ltd., the entire issued share capital of which is owned as to approximately 66.67% by Mr. Chen Jian and approximately 33.33% by Ms. Zhang Yun. By virtue of the SFO, both Mr. Chen Jian and Ms. Zhang Yun are deemed to be interested in the shares held by Rich China Investments And Trading Ltd..

3. 21,435,100 of these shares are held by Rich World Development Ltd., the entire issued share capital of which is owned as to approximately 82.32% by Mr. Chen Jian and approximately 17.68% by Mr. Guan Tao. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the entire 21,435,100 shares held by Rich World Development Ltd..

Save as disclosed above and those as disclosed under the heading "Discloseable Interests and Short Positions of Substantial Shareholders under the SFO" below, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2010.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total shares of the Company (or its subsidiary) then in issue.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board, which must not be more than 10 years from the date of the grant.

No share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the year.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER THE SFO

As at 31 December 2010, the following persons or corporations (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or chief executive of the Company:

(i) Long positions in the shares of the Company:

Name	Capacity/ nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital (%)
China Group Associates Limited (Note 1)	Beneficial owner	153,947,250	49.46
Rich China Investments And Trading Ltd. (Note 2)	Beneficial owner	42,631,650	13.70
Rich World Development Ltd. (Note 3)	Beneficial owner	21,435,100	6.89
Ms. Zhang Xin (Note 4)	Interest of spouse	218,014,000	70.04
Mr. Meng Huiqiang (Note 5)	Interest of spouse	42,869,650	13.77

(ii) Long positions in the registered capital of Beijing Futong Dongfang Unica Technology Co. Ltd.:

Name	Capacity/ nature of interest	Amount of registered capital held	Approximate percentage of registered capital (%)
Ms. Qu Weiwei	Beneficial owner	RMB450,000 (RMB225,000 of which has been paid up) (Note 6)	45.00

Notes:

1. China Group Associates Limited is a company incorporated in the British Virgin Islands ("BVI") with limited liability which is wholly and beneficially owned by Mr. Chen Jian. Mr. Chen Jian is the sole director of China Group Associates Limited.

2. Rich China Investments And Trading Ltd. is a company incorporated in the BVI with limited liability which is owned as to approximately 66.67% by Mr. Chen Jian and approximately 33.33% by Ms. Zhang Yun. Ms. Zhang Yun is the sole director of Rich China Investments And Trading Ltd..

3. Rich World Development Ltd. is a company incorporated in the BVI with limited liability which is owned as to approximately 82.32% by Mr. Chen Jian and approximately 17.68% by Mr. Guan Tao. Mr. Guan Tao is the sole director of Rich World Development Ltd..

4. Ms. Zhang Xin is the spouse of Mr. Chen Jian. Under the SFO, Ms. Zhang Xin is taken to be interested in the same number of shares in which Mr. Chen Jian is interested.

5. Mr. Meng Huiqiang is the spouse of Ms. Zhang Yun. Under the SFO, Mr. Meng Huiqiang is taken to be interested in the same number of shares in which Ms. Zhang Yun is interested.

6. As at the date of this annual report, the total registered capital of Beijing Futong Dongfang Unica Technology Co. Ltd. was RMB1 million of which RMB500,000 has been paid up. Futong Dongfang owned 55% equity interest in Beijing Futong Dongfang Unica Technology Co., Ltd..

Save as disclosed above, there was no person or corporation, other than a Director or chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept by the Company under Section 336 of the SFO as at 31 December 2010.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year, save as disclosed in the Prospectus, the Directors were not aware of any business or interest of the Directors or any substantial shareholder of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following continuing connected transactions during the year ended 31 December 2010 require disclosure in this annual report of the Company:

Types of transactions		Amount HK$'000
1.	Sales of enterprise IT products to Beijing Deep Thought	7,912
2.	Purchase of enterprise IT products from Beijing Deep Thought	7,622

On 11 November 2009, Futong Dongfang has entered into a master supply agreement and a master purchase agreement with Beijing Deep Thought for the respective sales and purchase of enterprise IT products between Futong Dongfang and Beijing Deep Thought.

On 22 January 2010, Futong Dongfang has entered into a shareholders agreement with Centrin Data Systems Co., Ltd., Mr. Zhang Shu Dan and Beijing Deep Thought for the establishment of an associated company and the provision of financial support by Futong Dongfang to the associated company. During the year, no advance was made to the associated company by Futong Dongfang.

Beijing Deep Thought is owned as to approximately 69.98% by a brother of Mr. Chen Jian, a controlling shareholder of the Company and an executive Director and is deemed to be a connected person of the Company.

The Directors confirm that save as disclosed above, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

The Directors have engaged the auditors of the Company to report the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, there are no other transactions of the Company which require disclosure in the annual report in accordance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Report for the corporate governance practice adopted by the Company is set out on pages 13 to 20 of this annual report.

Auditors

KPMG is appointed as auditors of the Company for the year ended 31 December 2010.

KPMG will retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board
Futong Technology Development Holdings Limited
Chen Jian
Chairman
Hong Kong, 30 March 2011

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
Futong Technology Development Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Futong Technology Development Holdings Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 31 to 91, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Revenue	5	**2,847,205**	2,586,286
Cost of sales		**(2,587,374)**	(2,366,497)
Gross profit		**259,831**	219,789
Other revenue	7	**897**	776
Other net loss	7	**(183)**	–
Distribution costs		**(113,629)**	(85,252)
Administrative expenses		**(30,026)**	(38,288)
Profit from operations		**116,890**	97,025
Finance costs	8(a)	**(23,174)**	(27,532)
Share of profits less losses of an associate	16	**617**	–
Profit before taxation	8	**94,333**	69,493
Income tax	9(a)	**(14,769)**	(2,003)
Profit for the year		**79,564**	67,490
Attributable to:			
Equity shareholders of the Company		**80,130**	67,566
Non-controlling interests		**(566)**	(76)
Profit for the year		**79,564**	67,490
Earnings per share			
– Basic and diluted (HK$)	13	**0.26**	0.29

The notes on pages 38 to 91 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	2010 $'000	2009 $'000
Profit for the year	**79,564**	67,490
Other comprehensive income for the year		
– Exchange differences on translation of financial statements of operations outside Hong Kong	**10,178**	333
Total comprehensive income for the year	**89,742**	67,823
Attributable to:		
Equity shareholders of the Company	**90,284**	67,899
Non-controlling interests	**(542)**	(76)
Total comprehensive income for the year	**89,742**	67,823

The notes on pages 38 to 91 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	31 December 2010 $'000	31 December 2009 $'000 (restated)
Non-current assets			
Property, plant and equipment	14	**43,213**	38,458
Interest in an associate	16	**24,132**	—
Deposits for the purchase of property, plant and equipment		**4,818**	—
Deferred tax assets	17(b)	**29,935**	8,694
Total non-current assets		**102,098**	47,152
Current assets			
Inventories	18	**194,979**	356,352
Trade and other receivables	19	**769,355**	807,393
Other financial assets	20	**23,504**	—
Pledged deposits	21	**173,282**	144,053
Cash and cash equivalents	22	**275,500**	210,883
Total current assets		**1,436,620**	1,518,681
Current liabilities			
Trade and other payables	23	**696,354**	841,566
Bank loans	24	**299,384**	302,340
Tax payable	17(a)	**23,996**	3,663
Total current liabilities		**1,019,734**	1,147,569
Net current assets		**416,886**	371,112
NET ASSETS		**518,984**	418,264

CONSOLIDATED BALANCE SHEET

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	**31 December 2010 $'000**	31 December 2009 $'000 (restated)
CAPITAL AND RESERVES			
Share capital	25(a)	**31,125**	31,125
Reserves		**477,243**	386,959
Total equity attributable to equity shareholders of the Company		**508,368**	418,084
Non-controlling interests		**10,616**	180
TOTAL EQUITY		**518,984**	418,264

Approved and authorised for issue by the board of directors on 30 March 2011

Chen Jian
Executive Director

Zhang Yun
Executive Director

The notes on pages 38 to 91 form part of these financial statements.

BALANCE SHEET

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current assets			
Investments in subsidiaries	15	**286,072**	286,072
Current assets			
Other receivables and prepayments	19	**145**	4,069
Amounts due from subsidiaries		**152,500**	96,060
Cash and cash equivalents	22	**7**	17,703
		152,652	117,832
Current liabilities			
Other payables and accruals	23	**600**	500
Amount due to a subsidiary		**2,643**	2,032
		3,243	2,532
Net current assets		**149,409**	115,300
NET ASSETS		**435,481**	401,372
CAPITAL AND RESERVES			
Share capital	25(a)	**31,125**	31,125
Reserves	25(d)	**404,356**	370,247
TOTAL EQUITY		**435,481**	401,372

Approved and authorised for issue by the board of directors on 30 March 2011

Chen Jian
Executive Director

Zhang Yun
Executive Director

The notes on pages 38 to 91 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company								
	Note	Share capital $'000	Share premium $'000	Merger reserve $'000	Translation reserve $'000	Statutory reserves $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2009		390	50,041	–	13,329	9,760	165,585	239,105	–	239,105
Changes in equity for 2009:										
Profit for the year		–	–	–	–	–	67,566	67,566	(76)	67,490
Other comprehensive income		–	–	–	333	–	–	333	–	333
Total comprehensive income		–	–	–	333	–	67,566	67,899	(76)	67,823
Arising from Reorganisation	25(a)(iii)	(390)	(50,041)	370	–	–	37,561	(12,500)	–	(12,500)
Capital contributions from non-controlling interests		–	–	–	–	–	–	–	256	256
Issuance of shares	25(a)(iv)	100	–	(100)	–	–	–	–	–	–
Capitalisation issue	25(a)(v)	22,400	(22,400)	–	–	–	–	–	–	–
Issuance of shares for placing and public offering	25(a)(vi)	8,625	131,962	–	–	–	–	140,587	–	140,587
Share issuing costs		–	(17,007)	–	–	–	–	(17,007)	–	(17,007)
Appropriations		–	–	–	–	15,114	(15,114)	–	–	–
At 31 December 2009		31,125	92,555	270	13,662	24,874	255,598	418,084	180	418,264
At 1 January 2010		**31,125**	**92,555**	**270**	**13,662**	**24,874**	**255,598**	**418,084**	**180**	**418,264**
Changes in equity for 2010:										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**80,130**	**80,130**	**(566)**	**79,564**
Other comprehensive income		**–**	**–**	**–**	**10,154**	**–**	**–**	**10,154**	**24**	**10,178**
Total comprehensive income		**–**	**–**	**–**	**10,154**	**–**	**80,130**	**90,284**	**(542)**	**89,742**
Capital contributions from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,978**	**10,978**
Appropriations		**–**	**–**	**–**	**–**	**19,410**	**(19,410)**	**–**	**–**	**–**
At 31 December 2010		**31,125**	**92,555**	**270**	**23,816**	**44,284**	**316,318**	**508,368**	**10,616**	**518,984**

The notes on pages 38 to 91 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Operating activities			
Cash generated from/(used in) operations	22(b)	**180,994**	(35,741)
Income tax paid		**(15,020)**	(7,047)
Net cash generated from/(used in) operating activities		**165,974**	(42,788)
Investing activities			
Payment for the purchase of property, plant and equipment		**(10,661)**	(3,325)
Payment for deposits of the purchase of property, plant and equipment		**(4,818)**	–
Payment for the purchase of available-for-sale investment		**(23,504)**	–
Interest received		**897**	776
Capital contributions from non-controlling interests		**10,978**	256
Capital injection in an associate		**(22,714)**	–
Distributions to an equity owner		**–**	(12,500)
Net cash used in investing activities		**(49,822)**	(14,793)
Financing activities			
Proceeds from new bank loans		**451,762**	638,800
Repayment of bank loans		**(454,718)**	(545,186)
Placement of pledged deposits		**(29,229)**	(53,982)
Interest paid		**(23,174)**	(27,532)
Net proceeds from capital contributions		**–**	123,580
Net cash (used in)/generated from financing activities		**(55,359)**	135,680
Net increase in cash and cash equivalents		**60,793**	78,099
Cash and cash equivalents at beginning of the year		**210,883**	132,684
Effect of foreign exchange rate changes		**3,824**	100
Cash and cash equivalents at end of the year	22(a)	**275,500**	210,883

The notes on pages 38 to 91 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION AND GROUP REORGANISATION

Futong Technology Development Holdings Limited (the "Company") was incorporated in the Cayman Islands on 29 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The companies comprising the Company and its subsidiaries (collectively referred to as the "Group") underwent a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 11 November 2009, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 24 November 2009.

The Company's shares were listed on the Stock Exchange on 4 December 2009.

2 BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from the date of the Reorganisation. Accordingly, the consolidated results of the Group for the years ended 31 December 2009 and 2010 include the results of the Company and its subsidiaries, as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheets at 31 December 2009 and 2010 have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at 31 December 2008. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries and the Group's interest in an associate.

The financial statements are presented in Hong Kong dollars ("HK$"), rounded to the nearest thousand. The functional currency of the entities within the Group is Hong Kong dollars except for the subsidiaries established in the People's Republic of China (the "PRC"), where the functional currency is Renminbi ("RMB").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale (see note 3(e)) and derivative financial instruments (see note 3(f)) are stated at their fair value.

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

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

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 29.

(c) Subsidiaries and non-controlling interests

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests *(Continued)*

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of these interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(e)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 3(d)).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 3(i)), unless the investment is classified as held for sale.

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or jointly control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 3(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates *(Continued)*

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(e)).

(e) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 3(r)(iii).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 3(i)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 3(i)).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Other investments in debt and equity securities *(Continued)*

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 3(r)(iii). When these investments are derecognised or impaired (see note 3(i)), the cumulative gain or loss is reclassified from equity to profit or loss.

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

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 3(i)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over the estimated useful lives:

Buildings	–	The shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion
Leasehold improvements	–	The shorter of the unexpired term of the lease or 5 years
Furniture, fittings and equipment	–	3 to 5 years
Motor vehicles	–	4 years

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment *(Continued)*

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

(h) Operating lease charges

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

(i) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investment in debt and equity securities and other current and non-current other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables *(Continued)*

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

– For investments in subsidiaries and associates (including those recognised using the equity method (see note 3(d))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(i)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables *(Continued)*

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

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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

(ii) Impairment of other assets

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

– property, plant and equipment; and

– deposits for the purchase of property, plant and equipment.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3(i)(i) and (ii)).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 3(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using an effective interest method.

(n) Trade and other payables

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits

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

(p) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

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

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

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

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

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

  - the same taxable entity; or

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

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(i) Financial guarantees issued *(Continued)*

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(q)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

(r) Revenue recognition

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

(i) Sale of goods

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

(ii) Services fee income

Services fee income is recognised when services are rendered to customers.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition *(Continued)*

(iii) Interest income

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

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties

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

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

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

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

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

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

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

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

(v) Segment reporting

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

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

4 CHANGES IN ACCOUNTING POLICIES

(a) The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IAS 39, *Financial Instruments: Recognition and measurement – eligible hedged items*
- Improvements to IFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 31).

The amendment to IAS 39 and the improvements to IFRSs (2009) have had no material impact on the Group's financial statements as the amendment and improvements were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3 and IAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as "minority interests") in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

4 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) (Continued)

- Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

- If the acquiree has accumulated tax losses or other deductible temporary differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

- In addition to the Group's existing policy of measuring the non-controlling interests (previously known as "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other deductible temporary differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

4 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) (Continued)

  - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at each balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

  In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to IFRS 3 and IAS 27, and as a result of amendments to IAS 28, *Investments in associates*, the following policies will be applied as from 1 January 2010:

  - If the Group holds interests in the acquiree immediately prior to obtaining significant influence, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  - If the Group loses significant influence, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

  Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

4 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) In November 2010, the IFRS Interpretations Committee of the IASB published its final agenda decision in response to a request on the appropriate classification of a callable term loan. As a result of the position taken in this decision, the Group has changed its accounting policy for the classification of bank loans that contain a repayment on demand clause. Under the new policy, bank loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the consolidated balance sheet. Previously such bank loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as at the balance sheet date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future (see note 24).

The reclassification has been applied retrospectively by re-presenting the opening balance at 1 January 2010, with consequential reclassification adjustments to comparatives for the year ended 31 December 2010. The reclassification has no impact on the consolidated balance sheet as at 1 January 2009 as the Group did not have non-current bank loans as at 1 January 2009. The reclassification has no effect on reported profit or loss, total income and expense or net assets for any period presented.

	As previously reported $'000	Effect of reclassification $'000	As restated $'000
Effect on the consolidated balance sheet as at 31 December 2009:			
Bank loans (current)	297,075	5,265	302,340
Bank loans (non-current)	5,265	(5,265)	—

5 REVENUE

The principal activities of the Group are distribution of enterprise IT products and provision of services.

Revenue represents the sales value of goods sold to customers excluding value added tax or other sales taxes and is after allowances for goods returned and deduction of any trade discounts. The amount of each significant category of revenue recognised during the year is as follows:

	2010 $'000	2009 $'000
Sales of goods	**2,814,251**	2,564,851
Provision of services	**32,954**	21,435
	2,847,205	2,586,286

The Group's customer base is diversified and none of the customers (2009: one) with whom transactions have exceeded 10% of the Group's revenue in 2010. In 2009, revenue from sales of goods to that customer, including sales to entities which were known to the Group to be under common control with that customer, amounted to approximately $352,394,000.

6 SEGMENT REPORTING

The directors consider that the Group operates in a single business and geographical segment as the revenue and profit are derived entirely from the distribution of enterprise IT products and provision of services to the customers in the PRC. Accordingly, no segmental analysis is presented.

7 OTHER REVENUE AND OTHER NET LOSS

	2010 $'000	2009 $'000
Other revenue		
Interest income on bank deposits	**897**	776
Other net loss		
Loss on disposal of property, plant and equipment	**(183)**	–

8 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		2010 $'000	2009 $'000
(a)	**Finance costs:**		
	Interest on bank borrowings wholly repayable within five years	**20,030**	17,640
	Other borrowing costs	**3,144**	9,892
		23,174	27,532
(b)	**Staff costs:**		
	Salaries and allowances	**75,717**	61,969
	Contributions to retirement schemes	**6,710**	4,685
		82,427	66,654

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in a defined contribution retirement benefit schemes (the "Schemes") organised by the local authorities whereby the subsidiaries are required to make contributions to the Schemes at rates ranging from 18% to 22% of the eligible employees' salaries for the years ended 31 December 2009 and 2010. Contributions to the Schemes vest immediately.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

Save for the above, the Group has no other material obligation for payment of retirement benefits beyond the contributions described above.

		2010 $'000	2009 $'000
(c)	**Other items:**		
	Depreciation	**6,011**	4,765
	Net foreign exchange loss/(gain)	**1,517**	(164)
	(Reversal of)/impairment loss on trade and bills receivables	**(2,210)**	5,171
	Operating lease charges in respect of properties	**11,959**	8,631
	Research and development expenditure	**6,845**	3,505
	Auditors' remuneration	**1,528**	1,350
	Cost of inventories (note 18(b))	**2,587,374**	2,366,497

9 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

	2010 $'000	2009 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**20**	699
Under-provision in respect of prior years	**161**	–
	181	699
Current tax – PRC income tax		
Provision for the year	**35,172**	6,682
Deferred tax		
Origination and reversal of temporary differences (note 17(b))	**(20,584)**	(5,378)
	14,769	2,003

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

(ii) The provision for Hong Kong Profits Tax for the year ended 31 December 2010 was calculated at 16.5% (2009: 16.5%) of the estimated assessable profits.

(iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC enterprise income tax at a rate of 25% (2009: 25%) on their assessable profits, except for Beijing Futong Dongfang Technology Co., Ltd. ("Futong Dongfang").

Being a recognised Advanced and New Technology Enterprise located in the Beijing New Technology Industry Development Experimental Zone, Futong Dongfang was granted a preferential tax rate of 15% and was entitled to a tax holiday of a 3-year full exemption followed by a 3-year 50% exemption commencing from the first profit-making year in 2004. Consequently, Futong Dongfang is subject to a tax rate of 7.5% for year ended 31 December 2009. Thereafter, tax rate of 15% applies.

(iv) Under the new tax law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income*, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by Futong Technology (HK) Company Limited ("Futong HK") from Futong Dongfang in respect of its profits earned since 1 January 2008 will be subject to 5% withholding tax.

9 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(b) Reconciliation between income tax expense and profit before taxation at applicable tax rates:

	2010 $'000	2009 $'000
Profit before taxation	**94,333**	69,493
Applicable income tax rate	**16.5%**	16.5%
Notional tax on profit before taxation	**15,565**	11,466
Effect of tax rate differential	**(974)**	(1,131)
Effect of tax concessions	**–**	(8,644)
Tax effect of unused tax loss not recognised	**824**	42
Recognition of temporary differences previously not recognised	**(2,241)**	–
Tax effect of non-deductible expenses	**1,659**	270
Tax effect of non-taxable income	**(225)**	–
Under-provision in prior years	**161**	–
Actual income tax expense	**14,769**	2,003

10 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2010				
	Directors' fees $'000	Salaries, allowances and benefits-in-kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Chen Jian	–	1,990	–	78	2,068
Zhang Yun	–	2,141	–	116	2,257
Guan Tao	–	1,785	–	71	1,856
Independent non-executive directors					
Lee Kwan Hung	180	–	–	–	180
Yuan Bo	180	–	–	–	180
Ho Pak Tai Patrick	180	–	–	–	180
	540	5,916	–	265	6,721

10 DIRECTORS' REMUNERATION *(Continued)*

	2009				
	Directors' fees $'000	Salaries, allowances and benefits-in-kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Chen Jian	–	1,444	750	75	2,269
Zhang Yun	–	1,593	1,261	85	2,939
Guan Tao	–	609	1,204	30	1,843
Independent non-executive directors					
Lee Kwan Hung	14	–	–	–	14
Yuan Bo	14	–	–	–	14
Ho Pak Tai Patrick	14	–	–	–	14
	42	3,646	3,215	190	7,093

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three are directors for the year ended 31 December 2010 (2009: three), whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the remaining two (2009: two) individuals are as follows:

	2010 $'000	2009 $'000
Salaries and other benefits	**1,372**	1,031
Retirement scheme contributions	**65**	59
Discretionary bonuses	**277**	999
	1,714	2,089

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the two (2009: two) individuals with the highest emoluments are within the following bands:

	2010 Number of individuals	2009 Number of individuals
$Nil to $1,000,000	**2**	1
$1,000,001 to $1,500,000	**–**	1

12 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $34,109,000 (2009: loss of $8,280,000) which has been dealt with in the financial statements of the Company.

13 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2010 is based on the profit attributable to equity shareholders of the Company of $80,130,000 (2009: $67,566,000) and weighted average number of 311,250,000 (2009: 231,062,000) shares in issue during the year.

The weighted average number of ordinary shares is calculated as follows:

	2010 '000	2009 '000
Issued ordinary shares at 1 January	**311,250**	–
Effect of issuance of shares upon incorporation (note 25(a)(i))	**–**	–
Effect of issuance of shares on Reorganisation (note 25(a)(iv))	**–**	1,000
Effect of capitalisation issue (note 25(a)(v))	**–**	224,000
Effect of issuance of shares for placing and public offering (note 25(a)(vi))	**–**	6,062
	311,250	231,062

There were no potential dilutive ordinary shares as at 31 December 2009 and 2010.

14 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings $'000	Leasehold improvements $'000	Furniture, fittings and equipment $'000	Motor vehicles $'000	Total $'000
Cost:					
At 1 January 2009	30,040	2,833	16,431	540	49,844
Exchange adjustments	–	4	27	1	32
Additions	–	301	2,230	794	3,325
Disposals	–	(63)	(131)	–	(194)
At 31 December 2009	30,040	3,075	18,557	1,335	53,007
At 1 January 2010	30,040	3,075	18,557	1,335	53,007
Exchange adjustments	–	97	639	46	782
Additions	–	1,815	5,916	2,930	10,661
Disposals	–	–	(2,243)	–	(2,243)
At 31 December 2010	30,040	4,987	22,869	4,311	62,207
Accumulated depreciation:					
At 1 January 2009	2,353	2,076	5,473	61	9,963
Exchange adjustments	–	4	11	–	15
Depreciation charge for the year	601	521	3,374	269	4,765
Written back on disposals	–	(63)	(131)	–	(194)
At 31 December 2009	2,954	2,538	8,727	330	14,549
At 1 January 2010	2,954	2,538	8,727	330	14,549
Exchange adjustments	–	95	382	17	494
Depreciation charge for the year	601	585	4,483	342	6,011
Written back on disposals	–	–	(2,060)	–	(2,060)
At 31 December 2010	3,555	3,218	11,532	689	18,994
Net book values:					
At 31 December 2010	26,485	1,769	11,337	3,622	43,213
At 31 December 2009	27,086	537	9,830	1,005	38,458

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group *(Continued)*

(a) Buildings which are held for own use are situated in the PRC.

(b) At 31 December 2010, buildings with net book value of $26,485,000 (2009: $27,086,000) have been pledged as security for the Group's bank loans (see note 24(c)).

15 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	$'000	$'000
Unlisted equities, at cost	**286,072**	286,072

Details of the subsidiaries are set out below. The class of equities held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest %	Held by the Company %	Held by a subsidiary %	
Futong Technology Co. Ltd. ("Futong BVI")	BVI	US$50,000	100	100	–	Investment holding
Etong Technology Holdings Limited	BVI	US$1	100	–	100	Investment holding
Futong HK	Hong Kong	$1,000,000	100	–	100	Sales of enterprise IT products
北京富通東方科技有限公司 Futong Dongfang (notes (i) and (iii))	The PRC	RMB100,000,000	100	–	100	Distribution of enterprise IT products and provision of IT services

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activities
北京富通東方優尼卡科技有限公司 Beijing Futong Dongfang Unica Technology Co., Ltd. ("Futong Unica") (notes (ii) and (iii))	The PRC	RMB500,000	55	–	55	In liquidation
富通時代科技有限公司 Futong Times Technology Co., Ltd. ("Futong Times") (notes (i), (iii) and (iv))	The PRC	RMB50,000,000	100	–	100	Distribution of enterprise IT products and provision of IT services
Futong Technology Development Holdings (HK) Limited ("Etong HK")	Hong Kong	$100	81	–	81	Sales of enterprise IT products
北京易通東方計算機系統服務有限公司 Beijing Etong Dongfang Computer System Services Co., Ltd. ("Etong Dongfang") (notes (i) and (iii))	The PRC	RMB20,000,000	81	–	81	Distribution of enterprise IT products

Notes:

(i) These entities are wholly foreign-owned enterprises established in the PRC.

(ii) This entity is a limited liability company established in the PRC.

(iii) The English translation of the company names is for reference only. The official names of these entities are in Chinese.

(iv) Futong Times was established by Futong HK in September 2010 with intended principal activities of distribution of enterprise IT products and provision of IT services in the PRC. The capital injection and capital verification were completed on 9 March 2011 and 28 March 2011 respectively.

16 INTEREST IN AN ASSOCIATE

	The Group	
	2010	2009
	$'000	$'000
Share of net assets	**24,132**	–

On 22 January 2010, Futong Dongfang had entered into an agreement with a related party and certain third parties in establishing a company in the PRC, in which Futong Dongfang owns a 40% equity interest.

Details of the Group's interest in the associate is as follows:

Name of company	Place of establishment	Registered capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activity
中金富通信息技術服務有限公司 Centrin-Futong IT Services Co., Ltd. ("Centrin-Futong") (notes (i) and (ii))	The PRC	RMB50,000,000	40	–	40	Distribution of enterprise IT products and provision of IT services

Notes:

(i) This entity is a limited liability company established in the PRC.

(ii) The English translation of the company name is for reference only. The official name of this entity is in Chinese.

Summary financial information on the associate:

	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Profit $'000
2010					
100 per cent	**62,155**	**(1,824)**	**60,331**	**25,903**	**1,543**
Group's effective interest	**24,862**	**(730)**	**24,132**	**10,361**	**617**

17 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

The Group

(a) Current taxation in the consolidated balance sheet represents:

	2010 $'000	2009 $'000
Provision for Hong Kong Profits Tax for the year	**20**	699
Provision for PRC Income Tax for the year	**35,172**	6,682
Provisional income tax paid	**(14,841)**	(6,364)
	20,351	1,017
Balance of income tax provision relating to prior years	**3,645**	2,646
	23,996	3,663

(b) Deferred tax assets and liabilities recognised

Net deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Provision for inventories $'000	Impairment loss on trade and bills receivables $'000	Others $'000	Total $'000
At 1 January 2009	1,428	1,896	(25)	3,299
Exchange adjustments	8	9	–	17
Credited/(charged) to profit or loss (note 9(a))	3,633	1,834	(89)	5,378
At 31 December 2009	5,069	3,739	(114)	8,694
At 1 January 2010	**5,069**	**3,739**	**(114)**	**8,694**
Exchange adjustments	**153**	**120**	**384**	**657**
(Charged)/credited to profit or loss (note 9(a))	**(1,196)**	**(598)**	**22,378**	**20,584**
At 31 December 2010	**4,026**	**3,261**	**22,648**	**29,935**

17 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

The Group *(Continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 3(p), the Group has not recognised deferred tax assets in respect of unutilised tax losses of approximately $3,463,000 (2009: $168,000) as it was determined by management that it is not probable that future taxable profits against which the losses can be utilised will be available before it expires. The tax losses of $168,000 (2009: $168,000) and $3,295,000 (2009: $Nil) expire in 2014 and 2015, respectively under the relevant tax law.

(d) Deferred tax liabilities not recognised

At 31 December 2010, temporary difference relating to the undistributed profits accumulated since 1 January 2008 of Futong Dongfang amounted to $163,134,000 (2009: $96,087,000). The deferred tax liabilities of $8,157,000 (2009: $4,804,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of Futong Dongfang and it has been determined that it is not probable that profits will be distributed out of Futong Dongfang in the foreseeable future.

18 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2010	2009
	$'000	$'000
Trading stocks	**194,979**	356,352

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated income statement is as follows:

	The Group	
	2010	2009
	$'000	$'000
Carrying amount of inventories sold	**2,585,224**	2,356,121
Write-down of inventories	**2,150**	10,376
	2,587,374	2,366,497

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade and bills receivables	**757,668**	798,846	**–**	–
Less: Allowance for doubtful debts	**(22,111)**	(26,450)	**–**	–
	735,557	772,396	**–**	–
Prepayments (note (i))	**18,392**	15,124	**145**	165
Deposits (note (ii))	**11,306**	10,404	**–**	–
Other receivables	**4,100**	9,469	**–**	3,904
	769,355	807,393	**145**	4,069

Notes:

(i) Prepayments consist of advance payments made to suppliers for purchases of raw materials and other prepaid expenses.

(ii) Deposits consist of bidding deposits, utilities and rental deposits. Bidding deposits are deposits placed upon bidding of sales contracts and are refundable to the Group regardless of the outcome of the bids.

Included in the deposits as at 31 December 2010 was an amount of rental and utilities deposits of $1,785,000 (2009: $1,289,000) which was not expected to be recovered within one year.

(iii) At 31 December 2010, certain trade and bills receivables with carrying amount of $435,025,000 (2009: $208,228,000) have been pledged as security for the bank loans (see note 24(c)).

All of the trade and other receivables, apart from certain deposits described in (ii) above are expected to be recovered or recognised as expense within one year.

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2010	2009
	$'000	$'000
Current	**481,754**	574,596
Less than 1 month past due	**72,190**	98,544
1 to 3 months past due	**103,251**	72,863
More than 3 months past due	**78,362**	26,393
Amounts past due	**253,803**	197,800
	735,557	772,396

Trade and bills receivables are due within 30 - 90 days from the date of billing. Further details of the Group's credit policy are set out in note 28(c).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 3(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2010	2009
	$'000	$'000
At 1 January	**26,450**	28,380
Impairment loss (reversed)/recognised	**(2,210)**	5,171
Uncollectible amounts written off	**(2,129)**	(7,101)
At 31 December	**22,111**	26,450

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade and bills receivables *(Continued)*

The Group's trade receivables of $22,111,000 (2009: $26,450,000) were individually determined to be impaired as at 31 December 2010. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that these receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of $22,111,000 (2009: $26,450,000) were recognised as at 31 December 2010. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

Receivables that were neither past due nor impaired (disclosed as current in the table given in note 19(a)) relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired (as shown in the table in note 19(a)) relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 OTHER FINANCIAL ASSETS

	The Group	
	2010	2009
	$'000	$'000
Unlisted available-for-sale investment	**23,504**	–

On 20 December 2010, the Group entered into a contract of principal-protected structured deposit with a bank in the PRC. The contract had a maturity period of 120 days. The investment has been fully redeemed in January 2011.

21 PLEDGED DEPOSITS

Pledged deposits with banks have been placed as security for the banking facilities granted to the Group (see note 24(c)) and performance security guarantee issued by the banks.

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents in the balance sheet and cash flow statement comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**275,500**	210,883	**7**	17,703

At 31 December 2010, cash at bank and in hand in the PRC included in the cash and cash equivalents of the Group amounted to $245,726,000 (2009: $109,942,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

	Note	**2010** **$'000**	2009 $'000
Profit before taxation		**94,333**	69,493
Adjustments for:			
Interest income	7	**(897)**	(776)
Loss on disposal of property, plant and equipment	7	**183**	–
Interest expense and other borrowing costs	8(a)	**23,174**	27,532
Depreciation	8(c)	**6,011**	4,765
Share of profits of associate	16	**(617)**	–
Write-down of inventories	18(b)	**2,150**	10,376
(Reversal of)/impairment loss on trade and bills receivables	19(b)	**(2,210)**	5,171
Changes in working capital:			
Decrease in inventories		**159,223**	293
Decrease/(increase) in trade and other receivables		**44,856**	(165,447)
(Decrease)/increase in trade and other payables		**(145,212)**	12,852
Cash generated from/(used in) operations		**180,994**	(35,741)

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade payables	**360,135**	533,978	**–**	–
Bills payable	**259,606**	170,719	**–**	–
Amounts due to related parties (note 27(c))	**244**	121	**–**	–
Receipts in advance	**35,330**	77,975	**–**	–
Other payables and accruals	**41,039**	58,773	**600**	500
	696,354	841,566	**600**	500

All of the above balances are expected to be settled within one year.

(a) An ageing analysis of the trade payables is analysed as follows:

	The Group	
	2010	2009
	$'000	$'000
Due within 60 days	**359,618**	528,600
Due after 60 days but within 120 days	**517**	2,928
Due after 120 days	**–**	2,450
	360,135	533,978

(b) Bills payable are normally issued with a maturity of not more than 90 days.

24 BANK LOANS

(a) At 31 December 2010, the bank loans were repayable as follows:

	The Group	
	2010	2009
	$'000	$'000
		(restated)
Within 1 year or on demand	**299,384**	302,340

Notwithstanding the specified repayment schedules as stated in the banking facilities letters ("specified repayment terms") which allow the bank loans to be repaid over a period of more than one year, certain banking facilities granted to the Group include a clause that gives the bank the unconditional rights to call the bank loans at any time. Accordingly, these bank loans were classified as current liabilities in the consolidated balance sheet.

24 BANK LOANS *(Continued)*

(a) *(Continued)*

However, the bank loans are expected to be repayable as follows based on the specified repayment dates with reference to the specified repayment terms:

	The Group 2010 $'000	2009 $'000
Within 1 year	**298,297**	297,075
After 1 year but within 2 years	**1,087**	4,178
After 2 years but within 5 years	**–**	1,087
	1,087	5,265
	299,384	302,340

(b) At 31 December 2010, the bank loans were secured as follows:

	The Group 2010 $'000	2009 $'000
Unsecured bank loans	**75,779**	88,701
Secured bank loans	**223,605**	213,639
	299,384	302,340

(c) The amounts of banking facilities and the utilisation at 31 December 2010 are set out as follows:

	The Group 2010 $'000	2009 $'000
Banking facilities		
– Unsecured	**75,779**	88,701
– Secured	**648,030**	630,333
	723,809	719,034
Amounts utilised	**563,789**	478,944

24 BANK LOANS *(Continued)*

(c) *(Continued)*

As at 31 December 2010, none of banking facilities (2009: $5,679,000) were guaranteed by an independent credit guarantee company.

The secured banking facilities were secured by the following:

– the carrying value of the following assets:

	The Group	
	2010	2009
	$'000	$'000
Buildings	**26,485**	27,086
Pledged deposits	**140,467**	126,034
Trade and bills receivables	**435,025**	208,228
	601,977	361,348

At 31 December 2010, all of the Group's banking facilities are subject to the fulfilment of covenants, as are commonly found in lending arrangements with financial institutions except for an additional condition set forth by a bank whereby the banking facilities from the bank are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants.

In addition, as disclosed in note 24(a), certain of the Group's bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 28(d).

As at 31 December 2010, none of the covenants relating to drawn down facilities had been breached (2009: $Nil).

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

Authorised and issued share capital

	2010		2009	
	Number of shares '000	**Amount $'000**	Number of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.1 each	**2,000,000**	**200,000**	2,000,000	200,000
Ordinary shares, issued and fully paid:				
At 1 January	**311,250**	**31,125**	–	–
Issuance of new shares on Reorganisation (note (iv))	**–**	**–**	1,000	100
Capitalisation issue (note (v))	**–**	**–**	224,000	22,400
Issuance of shares for placing and public offering (note (vi))	**–**	**–**	86,250	8,625
At 31 December	**311,250**	**31,125**	311,250	31,125

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes:

(i) The Company was incorporated on 29 July 2009 with an authorised share capital of $100,000 divided into 1,000,000 ordinary shares of $0.10 each. On the same day, one nil-paid subscriber's share of $0.10 was transferred by its subscriber to Mr Chen Jian at nil consideration. This nil paid share was subsequently transferred to the holding company at a consideration of $0.10.

(ii) At the extraordinary shareholders' meeting held on 11 November 2009, the Company's authorised share capital was increased from $100,000 to $200,000,000 by the creation of an additional 1,999,000,000 ordinary shares of $0.10 each, ranking pari passu with the existing ordinary shares of the Company in all aspects.

(iii) Pursuant to the Reorganisation, Futong BVI, which owned and controlled the then operating subsidiaries, repurchased 2,500 shares of US$1.00 each in Futong BVI from a minority shareholder for an aggregate cash consideration of $12,500,000. These 2,500 shares in Futong BVI were subsequently cancelled.

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(a) Share capital *(Continued)*

Notes: *(Continued)*

(iv) On 11 November 2009, the Company acquired from China Group Associates Limited ("China Group Associates"), Rich China Investments And Trading Ltd. ("Rich China") and Rich World Development Ltd. ("Rich World") an aggregate of 47,500 shares of US$1.00 each in Futong BVI, being the entire issued share capital of Futong BVI, in consideration of and in exchange for which the Company allotted and issued, credited as fully paid, an aggregate of 999,999 ordinary shares, as to 684,209, 189,474 and 126,316 ordinary shares of $0.10 each to China Group Associates, Rich China and Rich World respectively, as consideration for the acquisition of the entire share capital of Futong BVI.

(v) On 11 November 2009, an amount of $22,400,000 standing to the credit of the share premium account was applied in paying up in full 224,000,000 shares of $0.10 each. The shares were allotted and distributed as fully paid to the then shareholders of the Company in the proportion of their respective shareholdings.

(vi) On 4 December 2009, 75,000,000 ordinary shares were issued and offered for subscription at an issue price of $1.63 per share upon the listing of the Company's shares on the Stock Exchange. On 22 December 2009, an additional 11,250,000 ordinary shares were issued and offered for subscription under the over-allotment option. The proceeds of $8,625,000 representing the par value were credited to the Company's share capital. The remaining proceeds before share issue expenses of $131,962,000 were credited to the share premium account.

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	The Company	
	2010	2009
	$'000	$'000
Final dividend proposed after the balance sheet date of HK7.8 cents per ordinary share (2009: $Nil)	**24,278**	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Merger reserve

Pursuant to the Reorganisation, the Company issued 999,999 ordinary shares of $0.1 each to the then shareholders of Futong BVI in consideration of acquiring their equity interests held in Futong BVI. The difference between the then shareholders' total capital contributions to Futong BVI over the nominal value of the shares issued by the Company in exchange thereof was transferred to the merger reserve in the consolidated financial statements as at the date of Reorganisation.

(iii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of operations outside Hong Kong.

(iv) PRC statutory reserves

Transfers from retained profits to PRC statutory reserves are made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

General reserve fund

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Enterprise development fund

The subsidiaries in the PRC are required to set up an enterprise development fund. Transfers to this fund are made at the discretion of the respective board of directors of the subsidiaries. This fund can only be utilised on capital items for the collective benefit of the subsidiaries' employees. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(v) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Futong BVI determined based on the basis of the consolidated net assets of Futong BVI at the date of the Reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

(d) The Company

	Share premium $'000	Contributed surplus $'000	(Accumulated losses)/ retained profits $'000	Total $'000
At 29 July 2009 (date of incorporation)	–	–	–	–
Arising from Reorganisation (note 25(c)(v))	–	285,972	–	285,972
Capitalisation issue (note 25(a)(v))	(22,400)	–	–	(22,400)
Issuance of shares for placing and public offering (note 25(a)(vi))	131,962	–	–	131,962
Share issuing costs	(17,007)	–	–	(17,007)
Loss and total comprehensive income for the period	–	–	(8,280)	(8,280)
At 31 December 2009	92,555	285,972	(8,280)	370,247
At 1 January 2010	**92,555**	**285,972**	**(8,280)**	**370,247**
Profit and total comprehensive income for the year	**–**	**–**	**34,109**	**34,109**
At 31 December 2010	**92,555**	**285,972**	**25,829**	**404,356**

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Distributable reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company, including the distributable amounts disclosed in note 25(c)(i) was $404,356,000 (2009: $370,247,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Group defines "capital" as including all components of equity.

Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt as total bank loans less cash and cash equivalents.

The net debt-to-capital ratio was as follows:

	Note	**2010** **$'000**	2009 $'000
Bank loans	24	**299,384**	302,340
Less: Cash and cash equivalents	22(a)	**(275,500)**	(210,883)
Net debt		**23,884**	91,457
Capital		**518,984**	418,264
Net debt-to-capital ratio		**5%**	22%

The Group is subject to capital requirements imposed by certain banks as disclosed in note 24(c).

26 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	The Group	
	2010	2009
	$'000	$'000
Authorised and contracted for the purchase of property, plant and equipment	**2,732**	–

(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2010	2009
	$'000	$'000
Within 1 year	**3,031**	2,918
After 1 year but within 5 years	**530**	1,098
	3,561	4,016

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, at the end of which period all terms are renegotiated. None of the leases includes contingent rentals.

(c) As at the balance sheet date, the Company has issued guarantees in respect of banking facilities granted to certain subsidiaries. The directors do not consider it is probable that a claim will be made against the Company under any of the guarantees as at the balance sheet date. The maximum liability of the Company at the balance sheet date under these guarantees issued is the amount of the facilities drawn down by certain subsidiaries that are covered by the guarantees, being $75,779,000 (2009: $15,600,000).

The Company has not recognised any deferred income in respect of the guarantees issued as its fair value cannot be reliably measured and its transaction price was $Nil (2009: $Nil).

27 RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in these financial statements, the Group entered into the following significant related party transactions during the year.

(a) Name and relationship with related parties

During the year, transactions with the following parties are considered as related party transactions:

Name of party	Relationships
北京深思軟件股份有限公司 Beijing Deep Thought Software Co., Ltd. ("Beijing Deep Thought")*	A company controlled by close family member of Mr Chen Jian, beneficial owner of the Company
北京時代興達電腦有限公司 Beijing Times Xingda Computer Co., Ltd. ("Beijing Times Xingda")*	A company controlled by Mr Chen Jian, beneficial owner of the Company

* The English translation of the company names is for reference only. The official names of these entities are in Chinese.

(b) Significant related party transactions

Particulars of significant related party transactions during the year are as follows:

	The Group	
	2010	2009
	$'000	$'000
Recurring transactions:		
Sales to Beijing Deep Thought	**7,912**	22,751
Purchases from Beijing Deep Thought	**7,622**	121

27 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amounts due from/(to) related parties

As at the balance sheet dates, the Group had the following balances with related parties:

	The Group	
	2010	2009
	$'000	$'000
Trade receivables from (note (i)):		
Beijing Deep Thought	**–**	4,602
Trade payables to (note (ii)):		
Beijing Deep Thought	**–**	(121)
Other payables to:		
Beijing Times Xingda	**(244)**	–

Notes:

(i) Trade receivables from a related party are unsecured, interest free and expected to be recovered within one year.

(ii) Trade payables to a related party are unsecured, interest free and expected to be paid within one year.

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	The Group	
	2010	2009
	$'000	$'000
Short term employee benefits	**15,279**	14,241
Post-employment benefits	**621**	440
	15,900	14,681

Total remuneration was included in "staff costs" (see note 8(b)).

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Dependent on suppliers

The Group has certain concentration of supply risk as approximately 85% (2009: 92%) of the revenue is generated from the distribution of products supplied by major suppliers, International Business Machines Corporation ("IBM") and its subsidiaries for the year ended 31 December 2010.

(b) Purchase attainments

Pursuant to the distribution agreements entered into between the Group and the suppliers, the Group is committed to achieve minimum annual purchase attainments in order to maintain the rights as the distributors. Pursuant to these distribution agreements, the suppliers have the rights to revoke the distribution right of the Group if the Group fails to achieve the minimum annual purchase attainments.

(c) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30-90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables are set out in note 19.

(d) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Liquidity risk *(Continued)*

For bank loans subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	2010 Contractual undiscounted cash outflow					
	On demand $'000	Within 1 year $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Balance sheet carrying amount $'000
Bank loans subject to repayment on demand clauses: scheduled repayments	–	4,381	1,098	–	5,479	5,265
Other bank loans	–	301,881	–	–	301,881	294,119
Trade and other payables	–	696,354	–	–	696,354	696,354
	–	1,002,616	1,098	–	1,003,714	995,738
Adjustments to disclose cash flows on term loans based on lender's right to demand repayment	5,479	(4,381)	(1,098)	–	–	–
	5,479	998,235	–	–	1,003,714	995,738

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Liquidity risk *(Continued)*

	2009 Contractual undiscounted cash outflow					
	On demand $'000	Within 1 year $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Balance sheet carrying amount $'000
Bank loans subject to repayment on demand clauses: scheduled repayments	–	4,381	4,381	1,098	9,860	9,201
Other bank loans	–	297,207	–	–	297,207	293,139
Trade and other payables	–	841,566	–	–	841,566	841,566
	–	1,143,154	4,381	1,098	1,148,633	1,143,906
Adjustments to disclose cash flows on term loans based on lender's right to demand repayment	9,860	(4,381)	(4,381)	(1,098)	–	–
	9,860	1,138,773	–	–	1,148,633	1,143,906

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings issued at variable rates that expose the Group to cash flow interest rate risk and fixed rates that expose the Group to fair value interest rate risk. The Group adopts a policy of ensuring that not more than 60% of its total borrowings are on a fixed rate basis. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the balance sheet dates:

	2010		2009	
	Effective interest rate %	**Amount $'000**	Effective interest rate %	Amount $'000
Fixed rate borrowings:				
RMB bank loans	**5.00**	**99,137**	3.71	164,696
Variable rate borrowings:				
US$ bank loans	**1.10**	**23,458**	–	–
HK$ bank loans	**6.00**	**5,265**	6.00	9,201
RMB bank loans	**5.57**	**171,524**	5.28	128,443
Bills payable	**2.69**	**259,606**	2.41	170,719
		459,853		308,363
Total borrowings		**558,990**		473,059
Fixed rate borrowings as a percentage of total borrowings		**18%**		35%

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general change of 100 basis points in interest rates, with all other variables held constant, would change the Group's profit after tax and retained profits by approximately $3,866,000 (2009: $2,690,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2009.

(f) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars, Renminbi and Hong Kong dollars. The Group manages the risk as follows:

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2010		2009	
	Renminbi $'000	**Hong Kong dollars $'000**	Renminbi $'000	Hong Kong dollars $'000
Cash and cash equivalents	**46,789**	**20,579**	–	–
Trade and other payables	**(468)**	**–**	–	–
Net exposure to currency risk	**46,321**	**20,579**	–	–

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies.

The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits $'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits $'000
Renminbi	**5%**	**1,934**	5%	–
	(5)%	**(1,934)**	(5)%	–
Hong Kong Dollars	**5%**	**772**	5%	–
	(5)%	**(772)**	(5)%	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to foreign currency risk at the balance sheet date, including intercompany payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2009.

(g) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2010.

29 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or changes in market conditions. Management reassess these estimations at the balance sheet dates to ensure inventory is shown at the lower of cost and net realisable value.

(ii) Impairment of trade receivables

The management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassess the impairment of trade receivables at the balance sheet dates.

(iii) Depreciation

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

(iv) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(Expressed in Hong Kong dollars unless otherwise indicated)

29 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(iv) Income tax *(Continued)*

Deferred tax liabilities have not been recognised in respect of the withholding income tax that would be payable on the distribution of retained profits accumulated since 1 January 2008 of the Group's subsidiary in the PRC as the Company controls the dividend policy of this subsidiary and it has been determined that it is not probable that profits will be distributed out of this subsidiary in the foreseeable future. Any changes in dividend policy may result in the recognition of the related deferred tax liabilities.

30 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate parent and ultimate holding company of the Company as at 31 December 2010 to be China Group Associates which is incorporated in the BVI. China Group Associates does not produce financial statements available for public use.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Revised IAS 24, *Related party disclosures*	1 January 2011
IFRS 9, *Financial instruments*	1 January 2013
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011

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

SUMMARY OF FINANCIAL INFORMATION

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**2,847,205**	2,586,286	2,554,539	2,018,822	1,846,684
Profit from operations	**116,890**	97,025	87,580	67,391	38,891
Finance costs	**(23,174)**	(27,532)	(34,209)	(30,810)	(29,876)
Share of profits less losses of an associate	**617**	—	—	—	—
Profit before taxation	**94,333**	69,493	53,371	36,581	9,015
Income tax	**(14,769)**	(2,003)	(4,377)	(4,643)	(1,454)
Profit for the year	**79,564**	67,490	48,994	31,938	7,561
Attributable to:					
Equity shareholder of the Company	**80,130**	67,566	48,994	31,938	7,561
Non-controlling interests	**(566)**	(76)	—	—	—
Profit for the year	**79,564**	67,490	48,994	31,938	7,561
		At 31 December			
		(restated)		(restated)	(restated)
Assets and liabilities					
Non-current assets	**102,098**	47,152	43,180	41,151	36,168
Net current assets	**416,886**	371,112	195,925	140,408	109,541
NET ASSETS	**518,984**	418,264	239,105	181,559	145,709
Capital and reserves					
Share capital	**31,125**	31,125	390	390	390
Reserves	**477,243**	386,959	238,715	181,169	145,319
Total equity attributable to equity shareholders of the Company	**508,368**	418,084	239,105	181,559	145,709
Non-controlling interests	**10,616**	180	—	—	—
TOTAL EQUITY	**518,984**	418,264	239,105	181,559	145,709
Earnings per share					
– Basic and diluted (HK$)	**0.26**	0.29	0.22	0.14	0.03

SUMMARY OF FINANCIAL INFORMATION

Note: The Company was incorporated in the Cayman Islands on 29 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company became the holding company of the Group on 11 November 2009 through the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 January 2006, rather than from 11 November 2009. Accordingly, the consolidated results of the Group for the five years ended 31 December 2010 have been prepared as if the group structure immediately after the Reorganisation had been in existence since 1 January 2006. This financial information includes the consolidated results of the Company and its subsidiaries with effect from 1 January 2006 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheets at 31 December 2006, 2007 and 2008 are the combination of the balance sheets of the Company and its subsidiaries at 31 December 2006, 2007 and 2008. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.

The calculation of basic earnings per share for the three years ended 31 December 2008 is based on the profit attributable to equity shareholders of the Company for each of the three years ended 31 December 2008 and 225,000,000 shares in issue and issuable, after completion of the acquisition of Futong BVI and capitalisation issue as if the shares were outstanding throughout the year.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian *(Chairman and Chief Executive Officer)*
Ms. Zhang Yun
Mr. Guan Tao

Independent Non-executive Directors

Mr. Lee Kwan Hung
Mr. Yuan Bo
Mr. Ho Pak Tai Patrick

COMPANY SECRETARY

Mr. Yuen Kwok Hon, CFA, CPA

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Units B1901 on level 19 and B2001 on level 20 of Tower B
Chaowaimen Office Center
No. 26 Chaowai Street
Chaoyang District
Beijing, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 929-935, 9th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
CITIC Bank International Limited
Nanyang Commercial Bank, Ltd.
China Construction Bank (Asia) Corporation Limited
HSBC Bank (China) Company Limited
China Merchants Bank Co., Ltd.
Bank of Beijing
Bank of Hangzhou

COMPLIANCE ADVISER

Haitong International Capital Limited

LEGAL ADVISORS

As to Hong Kong law:
King & Wood

As to Cayman Islands law:
Conyers Dill & Pearman

AUDITORS

KPMG

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F, Tesbury Centre, 28 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

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WEBSITE

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