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

(incorporated in Bermuda with limited liability)

(Stock code: 1094)

Annual Report 2010

CONTENTS

CORPORATE INFORMATION

DIRECTORS

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

Non-executive Director
Ms. Cheng Zhuo

Independent Non-executive Directors
Mr. Chan Tze See, Kevin
Mr. Chen Bojie
Mr. Wu Fred Fong

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

COMPANY SECRETARY

Ms. Ma Wai Sze, Aceya

SHARE REGISTRARS

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

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

AUDITORS

Morison Heng
Certified Public Accountants

LEGAL ADVISORS

As to Hong Kong law
Jones Day
Chiu & Partners

As to Bermuda law
Conyers Dill & Pearman

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong & Shanghai Banking Corporation Limited

STOCK CODE

1094

CHAIRMAN'S STATEMENT

To our shareholders,

On behalf of the board of directors (the "Directors") (the "Board") of China Public Procurement Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (Collectively the "Group") for the year ended 31 December 2010 to you.

Through the public procurement business successfully acquired in the People's Republic of China (the "PRC") in 2009, the Group has strived to promote its business of electronic government procurement service in the PRC.

Electronic government procurement refers to the government procurement through an internet-based electronic procurement platform. Its feature is its getting rid of the time and physical constraints in the traditional procurement through the media of the computer network with the use of information technology. In addition to the technological changes, this kind of procurement, more importantly, represents a breakthrough as compared with the traditional procurement, enhances the transparency, reduces costs, breaks the regional restrictions, shortens the procurement cycle and strengthens the efficiency. The global economic downturn urges various governments and public authorities to reduce cost with the introduction of various policies. The electronic government procurement transaction system becomes the focus of the establishment of the public procurement system of various countries. As various countries legislate to implement an electronic procurement system, the related market has significant development potential.

The Group and our PRC partners have entered into the related government procurement contracts with the related PRC government departments, and will provide the related PRC government departments with the service of establishing, operating and maintaining an electronic transaction management platform and provides its suppliers with electronic authentication, training and other value-added services. The Group's subsidiaries have cooperated with the School of Software of Tsinghua University to develop electronic government procurement transaction management software. Hardware operation platforms have been established in three provincial or municipal government procurement centres in the PRC. The Group believes that it will be promoted to other government departments which have entered into contracts with the Group upon passing various tests. In the future, the Group will develop the market of electronic government procurement transaction service in the PRC as soon as possible and provide its outstanding service. Upon gaining more customers and experience, the business of the Group will make a success with great development in the future.

In addition, the "government procurement save energy and reduce emissions alliance" formed by our PRC partners and certain PRC government procurement organizations brought us the potential business opportunities to enter into contracts relating to the energy management contracting service with, and identify qualified energy-saving service providers for, the related government departments in various provinces and municipalities in the PRC which have entered into contracts with us, so as to further expand the scope of our government procurement service business.

CHAIRMAN'S STATEMENT

Energy management contracting ("EMC") is a government public service outsourcing model developed in the market-economy countries in recent years, under which the government outsources the investment, upgrade, management, operation and maintenance of urban public lighting to professional energy saving service providers in order to save energy and reduce emission. The energy saving costs and management operating efficiency of the contracted service providers are paid with the reduced shared energy expenses.

According to the statistics of the Energy Conservation Service Industry Committee of China Energy Conservation Association, the EMC project investment in the PRC surged to RMB19.532 billion in 2009 from RMB11.67 billion in 2008 with year-on-year growth of 67.37%. EMC has become a new market-oriented energy conservation mechanism, which draws significant attention from the PRC government. On 17 March 2010, the State Council of the PRC held an executive meeting to specially introduce the policy measures which accelerated the development of the EMC energy conservation service industry. A series of taxation and financial policies which support and reward EMC projects have been launched by the authorities such as the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission. The Standardization Administration of the PRC has also promulgated the General Technical Rules for Energy Performance Contracting. The policy support towards EMC, a market-oriented energy conservation mechanism and an energy conservation industry, by the PRC government indicates a robust development of the industry of the related businesses.

Looking forward, through the EMC service in the PRC, the Group will fulfil its social responsibility as a public service enterprise in the PRC and grasps the great opportunities arising from the economic mechanism change in the PRC when the PRC government strongly promotes "energy saving and emission reduction", thus striving for maximizing the return for the shareholders.

Last but not least, on behalf of the Board, I would like to take this opportunity to thank you for your continuous support to the Group. I would also like to express my gratitude to all the staff for their endeavors and enthusiasm towards the operation and progression of the Group.

For and on behalf of the Board

Ho Wai Kong
Chairman

Hong Kong, 28 April 2011

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND DIVIDEND

For the year ended 31 December 2010, the Group recorded a turnover of approximately HK$25 million, representing an increase of approximately 29% as compared to the previous year of approximately HK$19 million while the gross profit margin decreased from 5.01% to 3.47%. The Group recorded a profits attributable to shareholders amounted to approximately HK$195 million (2009: HK$-818 million) representing earnings per share of HK$5.97 cents. In order to ensure the adequate capital for expanding the Group's business in 2011, the Board recommends that no dividend will be paid for the year ended 31 December 2010.

The administrative and operating expenses of the Group arising from business needs greatly increased from last year's approximately HK$63 million to this year's approximately HK$127 million, of which approximately HK$44 million was non-cash equity settled share-based payment expenses. The Group's operating profit significantly increased due to the gain of HK$400 million on the transfer of the energy management contracting (EMC) projects in 2010. The amounts relating to the transfer were not received in full due to the great transaction amounts. However, the Board was aware of the good financial position of the counterparty and its growth to be made in terms of business and capital due to its operating measures implemented in the energy management contracting (EMC) projects. As the energy management contracting service is a development project having great support in the PRC, the Group is confidence in the prospects of this business and the collection of the transfer payment in full.

OPERATING ENVIRONMENT AND OPERATION REVIEW

The Group is principally engaged in electronic government procurement trading management service business. The Group has been active in executing co-operation agreements with governments of all levels to facilitate its investment in electronic government procurement management platform to allow them to perform procurement in a more efficient, more transparent and more cost-saving manner, while the Group makes profits by providing electronic authentication, training and other value-added services to their suppliers. During 2009, the Group cooperated with Tsinghua University to build up the e-platform and chose three government procurement centres, including two provincial and one municipal government procurement centres, as trial centres. As at 31 December 2009, the establishment was completed and the trial centres proceeded to a series of testing, restructuring and improvement in 2010 on both the overall system and the hardware and software of the e-platform.

While the e-platform is being built, the Group has been actively seeking business opportunities. Leveraging on the business opportunities brought by the "save energy and reduce emissions" program and the initiatives for building an energy-saving society launched by the PRC Government, and the "government procurement save energy and reduce emissions alliance" formed by its PRC partners and certain PRC government procurement organizations, the Group cooperated with its PRC partners to promote EMC service business. By assisting governments and public services departments in the PRC to identify energy-saving service providers which meet their requirements and receiving a service charge from energy-saving service providers, the Group made its revenue and profits significantly rise, with its public procurement service business expanded.

The Group's revenue came from the provision of trading services for suppliers which supply products and services to governments and public services departments in the PRC, while its major service costs include: (1) costs of equipment and facilities, which mainly include depreciation and amortization costs; (2) staff costs, office expenses and marketing costs.

PROSPECTS

The central government of the PRC promulgated establishing a clean and efficient government and energy conservation and consumption reduction with every effort as its major objectives during the "Twelfth Five Year Plan". It is expected that in 2011 and the years to come, there will be great development opportunities for the electronic government procurement transaction management service and the EMC service of the Group and the future revenue of the Group will record significant growth.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group maintained cash, fixed deposits and bank balances of approximately HK$48.771 million (31 December 2009: HK$26 million) without any borrowings (31 December 2009: nil).

The gearing ratio of the Group as at 31 December 2010 was nil (31 December 2009: nil).

As at 31 December 2010, the Group's working capital (net current assets) and current ratio were approximately HK$338 million (31 December 2009: HK$27 million) and 3.25x (31 December 2009: 1.04x) respectively.

On 11 February 2010, a fund raising event took place. The Company entered into a subscription agreement ("Subscription Agreement") with Standard Bank Plc as the subscriber (the "Subscriber"), pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the Hong Kong dollars equity-linked debt instruments due 2011 ("ELDIs") in the principal amount of HK$40,000,000. According to the Subscription Agreement, the Company will issue not more than 48,543,689 new shares ("Conversion Shares") of the Company to holders of the ELDIs upon their conversion request, subject to other conditions as disclosed in the announcement dated 12 February 2010. After the completion of fund raising on 23 February 2010, the Company's bank balance increased by approximately HK$38,120,000, which improved the Company's liquidity. As at the date of this report, all ELDIs have been fully converted and a total of 42,810,107 new shares have been issued and allotted to the Subscriber.

PLEDGE OF ASSETS

As at 31 December 2010, assets of approximately HK$7,062,000 were pledged (31 December 2009: HK$3,600,000).

CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in note 31 to the consolidated financial statements.

FOREIGN EXCHANGE EXPOSURE

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

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF AND REMUNERATION POLICY

The Group determines staff remuneration in accordance with market terms and individual qualifications and performance. Staff recruitment and promotion is based on individuals' merit and their development potential for the positions offered. As at 31 December 2010, the Group employed approximately 50 employees. The total remuneration of the employees was approximately 16,293,000 for the year ended 31 December 2010.

The Company maintains a share option scheme (the "Share Option Scheme"), pursuant to which share options are granted to selected Directors or employees of the Group, with a view to attracting and retaining quality personnel and providing them with incentive to contribute to the business and operation of the Group.

During the year, 96,700,000 share options were granted to the eligible participants; 53,940,000 share options were exercised; 25,000,000 share options were cancelled and 17,000,000 share options were lapsed.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code of conduct for securities transactions by Directors and employees of the Group. The Company, having made specific enquiry of all Directors, confirmed that all Directors have complied with the required standard of dealings set out therein throughout the year ended 31 December 2010.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ho Wai Kong, aged 55, is an executive Director and chairman of the Board. He is an entrepreneur who for the last 30 years has been actively involved in China/Hong Kong cross boarder business development and affairs. Mr. Ho was raised and educated in the PRC, has a good understanding of the intricacies of business and government cultures and practices. He has maintained good relationship in these circles. Since 1980's, he was engaged in business ventures involving several industries including construction, property investments and the hospitality business. His extensive experience, network and business acumen will be invaluable for the Company to develop business in the PRC. Mr. Ho is a director of several subsidiaries of the Company.

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

Mr. Jiang Haoye, aged 35, is an executive Director. He graduated from the Electronic Engineering at Nanjing University of Science and Technology, with over 10 years of experience in marketing and sales in various industries, from telecommunication, information technology to finance.

Mr. Lu Xing, aged 43, is an executive Director. He graduated from the certification program in Economics Information Management, The Central Communist Party School. Since graduation, Mr. Lu worked for the China Construction Bank in Beijing for 19 years progressing to branch Vice-President. During his tenure, Mr. Lu was involved in financial management, project financing, risk assessment and control, and has received a number of awards including The Outstanding Achiever of the branch. Mr. Lu is an experienced financial/banking executive having accumulated extensive experience in various industries. In particular, he was involved with financing numerous enterprises including those in the television station, information technology, military, real estate and construction sectors. Mr. Lu was an executive director of VODone Limited, a company listed on the main board of the Stock Exchange (Stock code: 00082) from 8 December 2006 to 31 January 2008. Mr. Lu is a director of several subsidiaries of the Company.

Mr. Wu Xiaodong, aged 42, is an executive Director and chief financial officer of the Company. Mr. Wu obtained his Master Degree in Accounting from Capital University of Economics and Business and has more than 15 years experiences in auditing, accounting and finance. He is a member of the Chinese Institute of Certified Public Accountants and had previously been the chief financial officer of Sound Environmental Resources Co., Ltd., a company listed on Shenzhen Stock Exchange. Mr. Wu is a director of several subsidiaries of the Company.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

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

Non-executive Director

Ms. Cheng Zhuo, aged 44, is a non-executive Director. She obtained her Master and Doctoral degree in Communication in Communication University of China. She is one of the few pioneers in the PRC venture capital market and has become an experienced venture capitalist that she is often invited to give speeches in domestic and international conferences and advice to senior executives of high-tech companies, government organizations, and management of securities companies on issues such as fund raising, IPO, etc. She has also published a series of books about venture capital in the PRC and took part in translation of "Deals of Century" to help develop the venture capital market in the PRC. From 2007 to 2010, she has been the chief operating officer of China Venture Capital Limited.

Ms. Cheng is also highly devoted to charitable and community welfare businesses. She is the founder and the director of the "China Aged Care Fund", targeting at the enhancement of caring for the elderly, and "Siyuan Torch of Love Fund", supporting the impoverished women to improve their living. She has also held positions as Honorary Vice-chairperson of China Aged Development Foundation, standing committee member of All-China Youth Federation and Deputy Chief of Venture Capital Committee of the Science, Technology and Finance Promotion Association of China.

Ms. Cheng has earned remarkable reputation in the PRC and worldwide. She has won the World Summit of Young Entrepreneurs Award in 2000, "Outstanding people of the Year" of PRC in 2004 and "Women of Merit" by All-China Women's Federation in 2006. She is also the 11th National Committee of the Chinese People's Political Consultative Conference Beijing Member and the independent supervisor of Guangdong Nan Yue Logistics Company Limited, a company listed on the main board of the Stock Exchange (Stock code: 3399).

Independent Non-executive Directors

Mr. Wu Fred Fong, aged 63, is an independent non-executive Director and is also the chairman of the audit committee and remuneration committee of the Company. He has considerable experience in auditing, corporate planning, corporate finance, investment, consulting and administration with listed companies in Canada and Hong Kong. Mr. Wu holds a master degree in business administration in the Schulich School of Business, York University, Canada. Mr. Wu is a Chartered Accountant qualified in Canada and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Wu was an executive director of VODone Limited, a company listed on the Main Board of the Stock Exchange (Stock code: 00082) from 29 November 2000 to 31 January 2008. Mr. Wu is currently an independent non-executive director of Minth Group Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00425) and the chief financial officer of Heng Xin China Holdings Limited, a company listed on the GEM Board of the Stock Exchange (Stock code: 8046).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

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

Mr. Chen Bojie, aged 43, is an independent non-executive Director and is also a member of the audit committee and remuneration committee of the Company. He obtained his Bachelor degree in Dongbei University of Finance & Economics with major in Investment and Economic Management, and has extensive experience in the field of finance and management. Mr. Chen had been the senior management of several state-owned and private enterprises where he had been the assistant general manager and group financial director of China Aviation Construction Corporation, the chief investment officer and deputy general manager of Beijing China Media Networks Company. Currently, Mr. Chen is a vice president and chief financial officer of an investment company in the PRC.

SENIOR MANAGEMENT

Company Secretary/Head of Legal

Ms. Ma Wai Sze, Aceya, aged 45, is the Head of Legal of the Company. She joined the Company in 2005 and has almost 20 years of legal experiences. Ms. Ma graduated from The University of Hong Kong and obtained the Bachelor Degree of Laws in 1989 and Master Degree of Laws in 1993. She obtained her Second Degree in China Law from Tsinghua University in 2007. She was admitted as a solicitor in Hong Kong in 1992 and the United Kingdom in 1997. She is a member of the Law Society of Hong Kong and a practicing solicitor in Hong Kong. Ms. Ma was a solicitor in private practice in Hong Kong for more than 10 years and with more than 6 years working experiences as in-house legal counsel in two companies listed on the Main Board of the Stock Exchange. She is responsible for legal affairs of the Group and some associated companies and the compliance with the Listing Rules. Before joining the Company, she was in-house legal counsel of another company listed on the Main Board of the Stock Exchange. Prior to that, she was solicitor of Messrs. Gallant Y. T. Ho & Co. and Messrs. Deacons and senior solicitor of Messrs. CMS Cameron McKenna.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

SEGMENT INFORMATION

An analysis of the Group's results, assets and liabilities by segment for the year under review is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year under review are set out in the consolidated income statement on pages 32-33.

DIVIDEND

The Directors do not recommend the payment of dividend for the year ended 31 December 2010.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 100.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year under review are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year under review are set out in note 23 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year under review are set out in note 26 to the consolidated financial statements.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

FUND RAISING ACTIVITIES

On 11 February 2010, the Company and Standard Bank Plc (the "Subscriber") entered into a subscription agreement pursuant to which the Subscriber has agreed to subscribe for the HK$ equity-linked debt instruments due 2011 ("ELDIs") in the principal amount of HK$40,000,000.

The conversion price of the ELDIs will be reset each day at an amount equal to the higher of: (a) 91% of the closing price of the shares, as quoted on the Stock Exchange, on the immediately preceding trading day (rounded down to the nearest whole cent); and (b) the minimum conversion price of ELDIs (i.e. HK$0.824).

The completion of the ELDIs took place on 23 February 2010. The net proceeds from the issue of the ELDIs were approximately HK$38,120,000, which were intended to be used as general working capital of the Group.

Up to the date of this report, an aggregate principal amount of HK$40,000,000 of the ELDIs has been converted into 42,810,107 shares.

Details of the ELDIs has been published on the Company's announcements dated 12 February 2010 and 23 February 2010.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme pursuant to the ordinary resolution passed by the shareholders of the Company on 12 June 2002.

The purpose of the Share Option Scheme is to attract and retain quality personnel and provide them with incentive to contribute to the business and operation of the Group.

Participants under the Share Option Scheme include Directors and employees of the Group.

DIRECTORS' REPORT

The principal terms of the Share Option Scheme are summarized as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 12 June 2002 and will remain in force until 11 June 2012. The Company may, by ordinary resolution in general meeting or, such date as the Board shall determine, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

Options may be granted without any initial payment for the options. The subscription price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:

(i) The nominal value of the shares;

(ii) The closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option; and

(iii) The average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option.

Under the Share Option Scheme, the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the Share Option Scheme (the "General Scheme Limit") provided that, inter alia, the Company may seek approval of the shareholders at a general meeting to refresh the General Scheme Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme may not, subject to shareholders' approval, exceed 30% of the share capital of the Company in issue from time to time. As at the date of this report, a total of 118,400,000 share options have been granted under the General Scheme Limit and the outstanding number of options available for issued under the aforesaid 10% limit of the Share Option Scheme is 202,872,248, representing approximately 6.12% of the issued share capital of the Company.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Share Option Scheme (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the share of the Company in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approval by its shareholders in accordance with the Share Option Scheme.

DIRECTORS' REPORT

Details of the share options movements during the year under the Share Option Scheme are as follows:

		Number of share options								
Name of category	Date of grant of share options	Outstanding as at 01.01.2010	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31.12.2010	Vesting period	Validity period of share options	Exercise price (HK$)
Directors										
Ho Wai Kong	26.03.2009	35,000,000	–	(12,000,000)	–	–	23,000,000	–	26.03.2009 to 25.03.2012	0.50
Song Lianzhong	09.02.2010 (Note 1)	–	30,000,000	–	–	–	30,000,000	–	09.02.2010 to 08.02.2013	1.07
Jiang Haoye	09.02.2010	–	15,000,000	–	–	–	15,000,000	–	09.02.2010 to 08.02.2013	1.07
Lu Xing	26.03.2009	35,000,000	–	–	–	–	35,000,000	–	26.03.2009 to 25.03.2012	0.50
Wu Xiaodong	26.03.2009	20,000,000	–	(15,000,000)	–	–	5,000,000	–	26.03.2009 to 25.03.2012	0.50
Zhang Guisheng	09.02.2010	–	15,000,000	–	–	–	15,000,000	–	09.02.2010 to 08.02.2013	1.07
Cheng Zhuo	14.08.2009	3,000,000	–	–	–	–	3,000,000	(Note 2)	14.08.2009 to 13.08.2012	1.00
Chan Tze See, Kevin	05.01.2010 (Note 3)	–	1,000,000	–	–	–	1,000,000	–	05.01.2010 to 04.01.2013	0.78
Chen Bojie	05.01.2010	–	1,000,000	–	–	–	1,000,000	–	05.01.2010 to 04.01.2013	0.78
Wu Fred Fong	14.08.2009	2,000,000	–	–	–	–	2,000,000	(Note 2)	14.08.2009 to 13.08.2012	1.00
Cheng Yuanzhong (resigned on 8 February 2010)	26.03.2009	20,000,000	–	–	–	(20,000,000)	–	–	26.03.2009 to 25.03.2012	0.50
Liu Bo (resigned on 30 April 2010)	26.03.2009	20,000,000	–	(20,000,000)	–	–	–	–	26.03.2009 to 25.03.2012	0.50
Subtotal		135,000,000	62,000,000	(47,000,000)	-	(20,000,000)	130,000,000			

DIRECTORS' REPORT

Name of category	Date of grant of share options	Number of share options: Outstanding as at 01.01.2010	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31.12.2010	Vesting period	Validity period of share options	Exercise price (HK$)
Other Employees	26.03.2009	20,340,000	–	(3,340,000)	(17,000,000)	–	–	–	26.03.2009 to 25.03.2012	0.50
	14.08.2009	5,400,000	–	–	–	(5,000,000)	400,000	(Note 2)	14.08.2009 to 13.08.2012	1.00
	09.11.2009	11,100,000	–	(500,000)	–	–	10,600,000	(Note 4)	09.11.2009 to 08.11.2012 (Note 5)	0.77
	05.01.2010	–	4,700,000	(3,100,000)	–	–	1,600,000	–	05.01.2010 to 04.01.2013	0.78
	04.05.2010 *(Note 6)*	–	30,000,000	–	–	–	30,000,000	–	04.05.2010 to 03.05.2013	1.11
Subtotal		36,840,000	34,700,000	(6,940,000)	(17,000,000)	(5,000,000)	42,600,000			
Total		171,840,000	96,700,000	(53,940,000)	(17,000,000)	(25,000,000)	172,600,000			

Notes:

1. The closing price immediately before the date of grant was HK$1.00.

2. Of an aggregate 10,600,000 share options granted on 14 August 2009, 5,600,000 share options granted vested on 14 August 2009, i.e. the date of share options granted; 3,000,000 share options granted vested on the first anniversary of 14 August 2009; and 2,000,000 share options granted will vest on the second anniversary of 14 August 2009. As at 31 December 2010, 3,000,000 shares options vested on the first anniversary of 14 August 2009 and 2,000,000 share options to be vested on the second anniversary of 14 August 2009 have been cancelled.

3. The closing price immediately before the date of grant was HK$0.72.

4. As to the share options granted on 9 November 2009, 5,600,000 share options granted vested on 9 November 2009; 3,000,000 share options granted vested on 1 October 2010; and 2,500,000 share options granted will vest on 1 October 2011.

5. As to the share options granted on 9 November 2009, the validity period for the 5,500,000 share options granted started from 9 November 2009 to 31 October 2011 and for the 5,600,000 share options granted stated from 9 November 2009 to 8 November 2012.

6. The closing price immediately before the date of grant was HK$1.05.

DIRECTORS' REPORT

Information on the accounting policy for share options granted and the weighted average value per share is provided in note 25 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Ho Wai Kong *(Chairman)*	(Appointed as executive Director on 11 January 2010 and as Chairman on 14 January 2010)
Mr. Song Lianzhong *(Deputy Chairman)*	(Appointed as executive Director and deputy chairman on 1 March 2010)
Mr. Jiang Haoye	(Appointed on 1 March 2010)
Mr. Lu Xing	(Appointed on 11 January 2010)
Mr. Wu Xiaodong *(Chief Financial Officer)*	
Mr. Zhang Guisheng *(Chief Executive Officer)*	(Appointed as executive Director and chief executive officer on 30 April 2010)
Mr. Cheng Yuanzhong	(Resigned on 8 February 2010)
Mr. Liu Bo	(Resigned as executive Director and chief executive officer on 30 April 2010)

Non-executive Director

Ms. Cheng Zhuo

Independent Non-executive Directors

Mr. Chan Tze See, Kevin
Mr. Chen Bojie
Mr. Wu Fred Fong

Pursuant to Bye-law 86(2) of the Bye-laws, any Director appointed to fill a causal vacancy on the Board shall hold office only until the next following general meeting of the Company, and any director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company. Such Directors shall then be eligible for re-election at the next following general meeting or annual general meeting.

DIRECTORS' REPORT

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

In accordance with Bye-law 87 of the Bye-laws, Mr. Ho Wai Kong, Mr. Wu Xiaodong, Mr. Zhang Guisheng and Ms. Cheng Zhuo will retire from their offices by rotation.

The term of office of the non-executive Director and each independent non-executive Director is 3 years and subject to retirement by rotation in accordance with the Bye-laws.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN THE SHARE CAPITAL

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

Long positions in ordinary shares of HK$0.01 each of the Company

Name of Directors	Capacity	Number of issued ordinary shares held	Number of underlying shares held	Percentage of the issued share capital as at 31 December 2010
Ho Wai Kong	Corporate interest	237,388,901 (Note 1)	3,908,564,725 (Note 1)	125.02%
	Beneficial interest	14,800,000	1,624,118,210 (Note 2)	49.42%
	Spousal interest	29,348,000 (Note 3)	–	0.88%
Song Lianzhong	Beneficial interest	150,000,000	30,000,000 (Note 4)	5.43%
Jiang Haoye	Beneficial interest	–	15,000,000 (Note 4)	0.45%
Lu Xing	Corporate interest	68,806,980 (Note 5)	1,184,730,828 (Note 5)	37.80%
	Beneficial interest	10,296,000	35,000,000 (Note 4)	1.37%
Wu Xiaodong	Beneficial interest	5,000,000	5,000,000 (Note 4)	0.30%
Zhang Guisheng	Beneficial interest	–	15,000,000 (Note 4)	0.45%
Cheng Zhuo	Beneficial interest	–	3,000,000 (Note 4)	0.09%
Chan Tze See, Kevin	Beneficial interest	–	1,000,000 (Note 4)	0.03%
	Spousal interest	352,000 (Note 6)	–	0.01%
Chen Bojie	Beneficial interest	–	1,000,000 (Note 4)	0.03%
Wu Fred Fong	Beneficial interest	–	2,000,000 (Note 4)	0.06%

DIRECTORS' REPORT

Notes:

1. Mr. Ho Wai Kong is interested in 237,388,901 shares under controlled corporation, of which 236,888,901 shares are held by Master Top Investments Limited, an associated corporate of the Company, and 500,000 shares are held by Similan Limited. Both companies are beneficially owned by Mr. Ho Wai Kong. Master Top Investments Limited is also entitled to a maximum of 3,908,564,725 preferred shares of the Company according to the sale and purchase agreement signed on 31 August 2008 if the public procurement business achieves net profit of not less than HK$200,000,000 for the year ended 31 December 2009 or 2010. However, the vendors agreed with the Company that the new preferred shares would only be issued if at least HK$200 million of profit after tax and extraordinary expenses would be ascertained to be settled in cash. Up to the date of this report, only HK$10 million of profit after tax and extraordinary expenses was settled.

2. These 1,624,118,210 shares consist of 23,000,000 share options granted by the Company under the Share Option Scheme and an entitlement to a maximum of 1,601,118,210 preferred shares which can be converted into the Company's ordinary shares provided that any conversion of which will not trigger a mandatory offer obligation under Rule 26 of the Codes on Takeovers and Mergers and Share Repurchases (the "Takeovers Code").

3. Mr. Ho Wai Kong is the spouse of Ms. Guo Binni and is therefore deemed to be interested in 29,348,000 shares held by Ms. Guo Binni under the SFO.

4. These options were granted by the Company under the Share Option Scheme.

5. Mr. Lu Xing is interested in 68,806,980 shares under controlled corporation, of which 36,806,980 shares are held by Mega Step Investments Limited and 32,000,000 shares are held by Ascher Group Limited. Mega Step Investments Limited is also entitled to maximum of 1,184,730,828 preferred shares of the Company according to the sale and purchase agreement signed on 31 August 2008 if the public procurement business achieves net profit of not less than HK$200,000,000 for the year ended 31 December 2009 or 2010. However, the vendors agreed with the Company that the new preferred shares would only be issued if at least HK$200 million of profit after tax and extraordinary expenses would be ascertained to be settled in cash. Up to the date of this report, only HK$10 million of profit after tax and extraordinary expenses was settled.

6. Mr. Chan Tze See, Kevin is the spouse of Ms. Lam Lai Chong and is therefore deemed to be interested in the 352,000 shares held by Ms. Lam Lai Chong under the SFO.

Save as disclosed above, as at 31 December 2010, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, according to the register of interests required to be kept by the Company under Section 336 of the SFO, the following persons, other than the Directors or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Capacity	Number of share interested	Percentage of the issued share capital as at 31 December 2010
Master Top Investments Limited ("Master Top") (Note 1)	Beneficial interest	4,145,453,626 (Note 2)	125.00%
Mega Step Investments Limited ("Mega Step") (Note 3)	Beneficial interest	1,221,537,808 (Note 2)	36.83%
Siu Fung (Note 4)	Corporate interest	1,173,781,274	35.39%
	Beneficial interest	9,756,000	0.29%
Top Access Overseas Limited ("Top Access") (Note 4)	Corporate interest	1,173,781,274	35.39%
Magical Power Investments Limited ("Magical Power") (Note 4)	Beneficial interest	1,173,781,274 (Note 2)	35.39%
Legg Mason, Inc. (Note 5)	Corporate interest	220,028,000	6.63%
Guo Binni (Mr. Ho Wai Kong's spouse) (Note 6)	Beneficial interest	29,348,000	0.88%
	Spousal interest	5,814,219,836	175.32%

Notes:

1. Master Top is wholly and beneficially owned by Mr. Ho Wai Kong.

2. According to the sale and purchase agreement signed on 31 August 2008, the Company will allot and issue preferred shares to the vendor of the public procurement business including Master Top, Mega Step, Favor Mind Holdings Limited ("Favor Mind") and Magical Power if the acquired public procurement business achieves net profit of not less than HK$200,000,000 for the year ended 31 December 2009 or 2010. Assuming that the preferred shares are to be issued in full, Master Top will be entitled to 3,908,564,725 preferred shares, Mega Step will be entitled to 1,184,730,828 preferred shares, Favor Mind will be entitled to 1,601,118,210 preferred shares and Magical Power will be entitled to 1,122,715,687 preferred shares. The preferred shares are convertible to the Company's ordinary shares provided that any conversion of which will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code. For details, please refer to the relevant circular dated 16 January 2009. The entitlement to preferred shares of Favor Mind was transferred to Mr. Ho Wai Kong under a sale and purchase agreement signed on 1 May 2010.

   The vendors agreed with the Company that the new preferred shares would only be issued if at least HK$200 million of profit after tax and extraordinary expenses would be ascertained to be settled in cash. Up to the date of this report, only HK$10 million of profit after tax and extraordinary expenses was settled.

DIRECTORS' REPORT

3. Mega Step is wholly and beneficially owned by Mr. Lu Xing.

4. Magical Power is directly wholly owned by Top Access and Top Access is directly wholly and beneficially owned by Ms. Siu Fung. Therefore Magical Power is indirectly wholly and beneficially owned by Ms. Siu Fung.

5. These 220,028,000 shares are wholly and beneficially owned by Legg Mason Asset Management Singapore Pte. Limited, a company indirectly wholly owned by Legg Mason, Inc.. Therefore Legg Mason, Inc. is deemed to be interested in these 220,028,000 shares.

6. Ms. Guo Binni is the spouse of Mr. Ho Wai Kong and is therefore deemed to be interested in 5,784,871,836 shares held by Mr. Ho Wai Kong under the SFO.

Save as disclosed above, the Company had not been notified of any other person (other than a Director or chief executive of the Company) who had an interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO as at 31 December 2010.

COMPETING INTERESTS

As at 31 December 2010, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases from the Group's five largest suppliers amounted to approximately 100% of the total purchases for the year while total purchases from the largest supplier represented approximately 50% of the total purchases for the year.

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

PUBLIC FLOAT

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

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS

國採（北京）技術有限公司 (Guocai (Beijing) Technology Company Limited*) (the "EJV") entered into two framework agreements, namely the Promotion Agreement and the Service Agreement, with 國採科技股份有限公司 (Guocai Science & Technology Company Limited*), a substantial shareholders of the EJV (the "PRC Partner"). The PRC Partner is principally engaged in the development of computer technology, networking technology, electronic information technology, sale of computer networking equipments and corporate image consultancy. The EJV is principally engaged in technological development, advisory services, business planning and public-relations activities planning of network technologies.

On 1 April 2011, the PRC Partner issued the Supplemental Confirmation, which states, among other matters, the PRC Partner, the EJV and Public Procurement Limited (the "Subsidiary"), a wholly-owned subsidiary of the Company, had entered into the Tri-Party Cooperation Agreement, pursuant to which the ownership of rights and obligations under certain energy performance contracting projects (合同能源管理項目) the PRC Partner had entered into with government entities in certain provinces in the PRC (the "EMC Projects") had been transferred to the Subsidiary from the PRC Partner.

Accordingly, due to the change in cooperation structure between the PRC Partner, the EJV and the Subsidiary, the Continuing Connected Transactions mentioned in the announcement dated 25 November 2010 no longer exist and the relevant circular will not be despatched by the Company.

CONNECTED TRANSACTION

The PRC Partner, the EJV and the Subsidiary, on 23 December 2010, entered into the Tri-Party Cooperation Agreement pursuant to which the PRC Partner agreed to transfer the ownership of the EMC Projects to the EJV which shall simultaneously transfer such ownership to the Subsidiary. Pursuant to the Tri-Party Cooperation Agreement, the Subsidiary agreed that it would pay a service fee to the PRC Partner, being 10% of the disposal consideration when it transferred ownership of the EMC Projects to another party. As the ownership of the EMC Projects was transferred to a third party pursuant to the Disposal Agreement, the Subsidiary would pay HK$40 million (being 10% of the disposal consideration of HK$400 million as set out in the Disposal Agreement) to the PRC Partner as service fee (the "Transaction").

The PRC Partner is a connected person of the Company under Rule 14A.11(1) of the Listing Rules by virtue of the fact that it is a substantial shareholder of the EJV, an indirect non-wholly-owned subsidiary of the Company. Accordingly, the Transaction constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

However, due to the delay of obtaining the Supplemental Confirmation from the PRC Partner, the Company fails to report, announce and obtain independent shareholders' approval in relation to the Transaction in time, and thus in breach of the Listing Rules. The Company will seek the independent shareholders' approval to confirm and ratify the Tri-Party Cooperation Agreement and the Transaction at the SGM.

Details of the transactions are published in the Company's announcements dated 25 November 2010, 9 March 2011 and 28 April 2011.

* *for identification purpose only*

DIRECTORS' REPORT

DELAY IN PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT

Reference was made to the Company's announcement dated 24 March and 15 April 2011 regarding the delay in publication of the annual results announcement. Pursuant to Rule 13.49(1) of the Listing Rules, the Company is required to publish the annual results no later than three months after the date upon which its financial year ended, that is, on or before 31 March 2011. The delay in the publication of the Annual Results constitutes a breach of Rule 13.49(1) of the Listing Rules.

AUDITORS

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

On behalf of the Board

Ho Wai Kong
Chairman

Hong Kong, 28 April 2011

CORPORATE GOVERNANCE REPORT

The Company recognizes that good corporate governance standards maintained throughout the Group serve as an effective risk management for the Company. The Board is committed to leading the Group growing in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standard. The Directors acknowledge their responsibility for preparing the Company's accounts.

(1) CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices as promulgated by the Stock Exchange became effective on 1 January 2005, which provides the Code Provisions (the "CP") and recommended best practices for corporate governance practices by listed companies. The Company considered that its prevailing structures and systems satisfied the requirements of the CP. The Company will continuously enhance the corporate governance standards throughout the Group and ensure further standards to be put in place by reference to the recommended best practices whenever suitable and appropriate. The Company has complied throughout the year under review with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules.

(2) CORPORATE MANAGEMENT

i. Board of Directors

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

During the year and as at the date of this report, the Board consists of 6 executive Directors, 1 non-executive Director and 3 independent non-executive Directors:

Executive Directors

Mr. Ho Wai Kong *(Chairman)*	(Appointed as executive Director on 11 January 2010 and as Chairman on 14 January 2010)
Mr. Song Lianzhong *(Deputy Chairman)*	(Appointed as executive Director and deputy chairman on 1 March 2010)
Mr. Jiang Haoye	(Appointed on 1 March 2010)
Mr. Lu Xing	(Appointed on 11 January 2010)
Mr. Wu Xiaodong *(Chief Financial Officer)*	
Mr. Zhang Guisheng *(Chief Executive Officer)*	(Appointed as executive Director and chief executive officer on 30 April 2010)
Mr. Cheng Yuanzhong	(Resigned on 8 February 2010)
Mr. Liu Bo	(Resigned as executive Director and chief executive officer on 30 April 2010)

CORPORATE GOVERNANCE REPORT

Non-executive Director

Ms. Cheng Zhuo

Independent Non-executive Directors

Mr. Chan Tze See, Kevin
Mr. Chen Bojie
Mr. Wu Fred Fong

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

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director, the audit committee and the remuneration committee of the Company may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

Chairman and Chief Executive Officer

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

During the year ended 31 December 2010, Mr. Ho Wai Kong was appointed as the Chairman of the Company on 14 January 2010 and Mr. Zhang Guisheng was appointed as the chief executive office of the Company (the "CEO") on 30 April 2010. The roles of the Chairman and CEO are segregated and separately performed by Mr. Ho Wai Kong and Mr. Zhang Guisheng respectively thereon. This segregation ensures a clear distinction between the Chairman's and the CEO's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

Save as disclosed in the section of "Biography of Directors and Senior Management", there is no financial, business, family or other material/relevant relationship between the Chairman and the CEO and among the members of the Board.

CORPORATE GOVERNANCE REPORT

Appointment, Re-election and Removal of Directors

According to the recommended best practice A.4.4 of the CG code, the listed issuers are recommended to set up a nomination committee with a majority of members thereof being independent non-executive directors. The Company does not have a nomination committee as the role and function of such a committee are performed by the Board. The Board is responsible for the formulation of nomination policies, making recommendations to the shareholders of the Company on Directors standing for re-election, providing sufficient biographical details of Directors to enable the shareholders to make an informed decision on the re-election, and where necessary, nominating Directors to fill casual vacancies.

The Chairman may in conjunction with the other Directors from time to time review the composition of the Board in particular to ensure there are appropriate numbers of Directors on the Board. The Board also may identify and nominate qualified individuals for appointment as new Directors. During the year under review, 5 meetings were held by the Board for nomination of new Director.

According to the Bye-laws, every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.

According to the code provision A.4.1 of the CG Code, non-executive Directors should be appointed for a specific term of service. Each of the non-executive Director and independent non-executive Directors has entered into a service contract with the Company and for a fixed term of 3 years and is subject to retirement by rotation and offers himself/herself for re-election in accordance with Bye-laws.

During the year ended 31 December 2010, 28 Board meetings have been held. Details of the attendance of the Directors are as follows:

	Number of Board meetings attended/ Number of Board meetings held		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Ho Wai Kong (Appointed on 11 January 2010)	24/26	–	–
Mr. Song Lianzhong (Appointed on 1 March 2010)	14/16	–	–
Mr. Jiang Haoye (Appointed on 1 March 2010)	13/16	–	–
Mr. Lu Xing (Appointed on 11 January 2010)	24/26	–	–
Mr. Wu Xiaodong	28/28	–	–
Mr. Zhang Guisheng (Appointed on 30 April 2010)	12/14	–	–
Mr. Cheng Yuanzhong (Resigned on 8 February 2010)	0/5	–	–
Mr. Liu Bo (Resigned on 30 April 2010)	13/14	–	–

CORPORATE GOVERNANCE REPORT

	Number of Board meetings attended/ Number of Board meetings held		
	Board	Audit Committee	Remuneration Committee
Non-executive Director			
Ms. Cheng Zhuo	20/28	–	–
Independent Non-executive Directors			
Mr. Chan Tze See, Kevin	20/28	2/2	1/1
Mr. Chen Bojie	21/28	2/2	1/1
Mr. Wu Fred Fong	26/28	2/2	1/1

ii. Other Committees

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

(a) *Audit Committee*

The Audit Committee comprises three members, namely Mr. Wu Fred Fong (Chairman), Mr. Chan Tze See, Kevin and Mr. Chen Bojie, all are independent non-executive Directors, one of whom possesses recognized professional qualification in accounting and has proven experience in audit and accounting. The Audit Committee is chaired by the chairman of the Audit Committee, who is an independent non-executive Director.

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

- Considering and reviewing the appointment, resignation and removal of external auditors and their fees
- Reviewing the interim and annual results of the Group
- Discussing with the external auditors problems and issues of significance during the annual audit of the Group

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

The Audit Committee met two times during the year under review, the works of the Audit Committee during the year under review included:

- Reviewed the 2010 interim results and 2009 annual results of the Group
- Discussed with the management of the Company over the completeness, fairness, adequacy and compliance of accounting standards and policies of the Group in the preparation of the 2010 interim and 2009 annual financial statements

CORPORATE GOVERNANCE REPORT

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

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

Each committee meeting was supplied with the necessary financial information of the Group for the members to consider, review and assess matters of significance arising from the work conducted.

The audited consolidated financial statements for the year ended 31 December 2010 have been reviewed by the Audit Committee.

(b) Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Wu Fred Fong (Chairman), Mr. Chan Tze See, Kevin and Mr. Chen Bojie, all are independent non-executive Directors. The Remuneration Committee is chaired by the chairman of the Remuneration Committee, who is an independent non-executive Director.

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

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

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

Remuneration Policy for Directors and Senior Management

The remuneration policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each executive Director is entitled to a basic salary subject to review by the Remuneration Committee annually.

The Company has adopted the Share Option Scheme for the purpose of attracting and retaining quality personnel and providing them with incentive to contribute to the business and operation of the Group.

CORPORATE GOVERNANCE REPORT

(3) CORPORATE COMMUNICATION

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

(4) CORPORATE CONTROL

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

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

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by Directors and employees of the Group. All the Directors have confirmed that they have complied with the required standards set out in the Model Code. The Company has engaged external professional parties to review and update its code of conduct with a view to upholding the high standard of corporate governance of the Company.

(5) INTERNAL CONTROL

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

The Board assessed the effectiveness of the Group's internal control system of major subsidiaries of the Group during the year ended 31 December 2010. No material issues on the Group's internal control systems have been identified.

(6) AUDITOR'S REMUNERATION

Remuneration paid to the Group's external auditor for services provided for the year ended 31 December 2010 was HK$800,000.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
CHINA PUBLIC PROCUREMENT LIMITED
中國公共採購有限公司
(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of China Public Procurement Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 99, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION

Included in the consolidated statement of financial position as at 31 December 2010 was trade and other receivables with carrying amount of HK$428,413,000, in which HK$400,000,000 being fee receivable for transfer of Energy Management Contracting ("EMC") framework agreements. However, up to the date of this report, only HK$10,000,000 of the fee receivable at 31 December 2010 was settled. We were unable to obtain sufficient reliable evidence to ascertain whether the remaining outstanding balance of HK$390,000,000 could be recovered in full. Accordingly, we were unable to satisfy ourselves as to whether the carrying amount of trade and other receivables was fairly stated in the consolidated statement of financial position and free from material misstatement as at 31 December 2010. Any adjustment to the above found to be necessary would affect the Group's capital deficiency as at 31 December 2010 and have a consequential effect on its profit for the year then ended and the related disclosure thereof in the consolidated financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

Morison Heng
Certified Public Accountants

Hong Kong: 28 April 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
Revenue	7	24,901	19,336
Cost of sales		(24,038)	(18,368)
Gross profit		863	968
Other income	8	400,781	425
Gain on disposal of property, plant and equipment		926	491
Impairment of goodwill		–	(744,475)
Impairment of trade and other receivables		(14,628)	–
Administrative expenses		(75,053)	(54,710)
Other operating expenses		(51,754)	(8,125)
Finance costs	9	(90)	(18)
Profit/(Loss) before taxation		261,045	(805,444)
Income tax expense	10	(66,433)	–
Profit/(Loss) for the year from continuing operations	11	194,612	(805,444)
Discontinued operations			
Loss for the year from discontinued operations	12	–	(13,303)
Profit/(Loss) for the year		194,612	(818,747)
Attributable to:			
Owners of the Company		196,450	(818,170)
Non-controlling interests		(1,838)	(577)
		194,612	(818,747)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Notes	2010 HK cents	2009 HK cents
Earnings/(Loss) per share	15		
From continuing and discontinued operations			
– Basic		5.97	(27.95)
– Diluted		5.91	(27.50)
From continuing operations			
– Basic		5.97	(27.50)
– Diluted		5.91	(27.05)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010	2009
	HK$'000	HK$'000
Profit/(Loss) for the year	194,612	(818,747)
Other comprehensive income		
Exchange differences on translating foreign operations	1,524	123
Other comprehensive income for the year	1,524	123
Total comprehensive income for the year	196,136	(818,624)
Total comprehensive income/(expenses) attributable to:		
Owners of the Company	197,848	(818,059)
Non-controlling interests	(1,712)	(565)
	196,136	(818,624)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	16	8,875	10,414
Goodwill	17	353	–
Intangible assets	18	17,729	17,143
		26,957	27,557
Current assets			
Trade and other receivables	19	428,413	24,278
Amount due from a non-controlling interest of a subsidiary	32	3,610	–
Pledged bank deposits	20	7,062	3,600
Bank balances and cash	20	48,771	25,970
		487,856	53,848
Current liabilities			
Trade and other payables	21	24,187	23,875
Bills payable		7,062	–
Receipt in advance		534	2,500
Amount due to a non-controlling interest of a subsidiary	32	40,000	–
Amount due to a related company	32	11,429	–
Tax payable		66,609	–
		149,821	26,375
Net current assets		338,035	27,473
Net assets		364,992	55,030
CAPITAL AND RESERVES			
Share capital	23	33,163	32,196
Reserves	26	327,550	20,278
Equity attributable to owners of the Company		360,713	52,474
Non-controlling interests		4,279	2,556
Total equity		364,992	55,030

Approved and authorised for issued by the Board of Directors on 28 April 2011.

Ho Wai Kong	**Wu Xiaodong**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Owners of the Company		Non-controlling	
	Share capital	Reserves	interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2009	22,170	124,694	–	146,864
New shares issued	9,456	620,999	–	630,455
Disposal of available-for-sale investments	–	34,272	–	34,272
Exercise of warrants	10	390	–	400
Exercise of share options	560	28,592	–	29,152
Equity-settled share-based payment transactions	–	29,315	–	29,315
Reserves released on disposal of subsidiaries	–	75	(117)	(42)
Pre-acquisition reserves of a subsidiary	–	–	3,238	3,238
Loss for the year	–	(818,170)	(577)	(818,747)
Other comprehensive income for the year	–	111	12	123
Balance at 31 December 2009	32,196	20,278	2,556	55,030
Issue of equity-linked debt instruments	–	2,005	–	2,005
Issue of shares upon conversion of equity-linked debt instruments	428	35,872	–	36,300
Transaction cost attributable to equity-linked debt instruments	–	(94)	–	(94)
Exercise of share options	539	27,434	–	27,973
Equity-settled share-based payment transactions	-	44,207	–	44,207
Contribution from a non-controlling interest of a subsidiary	–	–	3,435	3,435
Profit for the year	–	196,450	(1,838)	194,612
Other comprehensive income for the year	–	1,398	126	1,524
Balance at 31 December 2010	33,163	327,550	4,279	364,992

Details of reserves are set out in note 26 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Profit/(Loss) before taxation		261,045	(818,747)
Adjustments for:			
Depreciation		2,936	2,351
Amortisation		8	3
Impairment of goodwill		–	744,475
Loss on disposal of financial assets at fair value through profit or loss		–	505
Impairment of trade and other receivables		14,628	2,611
Reversal of impairment of other receivables for previous year		–	(36,000)
Interest expenses		90	18
Interest income		(46)	(17)
Loss on disposal of available-for-sale investments		–	28,904
Net (gain)/loss on disposal of property, plant and equipment		(926)	642
Net gain on disposal of subsidiaries		–	(8,184)
Equity settled share-based payment expenses		44,207	29,315
Operating profit/(loss) before working capital changes		321,942	(54,124)
Increase in trade and other receivables		(418,763)	(17,633)
Increase in amount due from a non-controlling interest of a subsidiary		(3,610)	–
Increase in trade and other payables		303	24,650
Increase in bills payable		7,062	–
(Decrease)/Increase in receipt in advance		(1,966)	2,422
Increase in amount due to a non-controlling interest of a subsidiary		40,000	–
Cash used in operations		(55,032)	(44,685)
Interest paid		–	(18)
Income tax paid		(19)	–
Net cash used in operating activities		(55,051)	(44,703)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from investing activities			
Purchases of property, plant and equipment		(2,791)	(9,605)
Purchases of other intangible assets		–	(72)
Proceeds from disposal of property, plant and equipment		2,500	1,710
Proceeds from disposal of subsidiaries, net of cash disposed of		–	38,448
Acquisition of subsidiaries, net of cash acquired	27	(344)	(127,760)
Deposit for acquisition of subsidiaries		–	60,000
Proceeds from disposal of convertible bond investments		–	15,301
Proceeds from disposal of available-for-sale investments			
– listed investments		–	11,918
(Increase)/Decrease in pledged bank deposits		(3,462)	11,400
Interest received		46	17
Net cash (used in)/from investing activities		(4,051)	1,357
Cash flows from financing activities			
Proceeds from short term loan		–	10,000
Repayment of short term loan		–	(10,000)
Proceeds from loan from a related company		29,755	–
Repayment of loan from a related company		(18,326)	–
Net proceeds from issue of equity-linked debt instruments		38,121	–
Contribution from a non-controlling interest of a subsidiary		3,435	–
Net proceeds from issue of share capital		27,973	29,552
Net cash from financing activities		80,958	29,552
Net increase/(decrease) in cash and cash equivalents		21,856	(13,794)
Cash and cash equivalents at beginning of the year		25,970	39,660
Effect of foreign exchange rate changes		945	104
Cash and cash equivalents at end of the year		48,771	25,970
Analysis of cash and cash equivalents at end of the year			
Bank balances and cash		48,771	25,970

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company acts as an investment holding company as well as provision of procurement services and the principal activities of its subsidiaries are set out in note 33.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The application of the new and revised standards, amendments and interpretations in the current year has had no material effect on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

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

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013. The application of HKFRS 9 might affect the consolidated financial statements of the Group.

The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations issued but not yet effective will have no material effect on consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

The non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place on or after 1 January 2010 (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquire was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting period or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits or losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible asset other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis of debt instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liability

Financial liability including trade and other payables, bills payable and receipts in advance is subsequently measured at amortised cost, using the effective interest method.

Equity instrument

Equity instrument issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

Key sources of estimation uncertainty

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

Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor, Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of the existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010	2009
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	487,856	53,848
Financial liabilities		
Amortised cost	83,212	26,375

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payable, bills payable, receipts in advance, amount due from/(to) a non-controlling interest of a subsidiary and amount due to a related company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Group's exposure relating to financial instruments or the manner in which it manages and measures the risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

The Group's activities expose it primarily to the market risks of interest rate risk and foreign currency risk. Market risk exposures are further measured by sensitivity analysis. Details of each type of market risks are described as follows:

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies which are different from Hong Kong dollars and Renminbi, the functional currency of the respective subsidiaries. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
HK$	–	–	727	–
RMB	–	58	–	22,642
USD	–	–	617	8,847

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 5%) change in respective functional currencies against the relevant foreign currencies. 5% (2009: 5%) represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2009: 5%) change in foreign currency rates. A positive number below indicates an increase in profit after tax for the year where the respective functional currencies strengthen 5% (2009: 5%) against the relevant currencies. For a 5% (2009: 5%) weakening of the respective functional currencies against the relevant currencies, there would be an equal and opposite impact on the profit after tax for the year and the balances below would be negative.

Since Hong Kong dollars are pegged to US dollars under the Linked Exchange Rate System, the management does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between Hong Kong dollars and US dollars. The Group mainly exposes to foreign currency risks other than US dollars.

	2010	2009
	HK$'000	HK$'000
HK$	27	–
RMB	–	846

Interest rate risk management

The Company has no significant interest-bearing assets and its income and operating cash flows are substantially independent of changes in market interest rates. The Group has not formulated a policy to manage the interest rate risk. The Group has not used any derivative contracts or formulated any policy to hedge its exposure to interest rate risk as the exposure is considered to be insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

At 31 December 2010, the Group has significant concentration risk on its fee receivable for the transfer of EMC framework agreements set out in note 19. The fee receivable is exposed to credit risk due to the default of repayment by the counterparty. However, the Directors considered that the credit risk on the fee receivable is limited as credit evaluation is performed on the counterparty. The evaluation focuses on the counterparty's financial background and current ability to pay, and take into account information specific to the economic environment in which the counterparty operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's liquidity position is monitored closely by the management of the Company.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest rate	Less than 6 month	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2010
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010						
Trade and other payables	–	972	23,215	–	24,187	24,187
Bills payable	–	7,062	–	–	7,062	7,062
Receipt in advance	–	534	–	–	534	534
Amount due to a non-controlling interest of a subsidiary	–	–	40,000	–	40,000	40,000
Amount due to a related company	–	11,429	–	–	11,429	11,429
		19,997	63,215	–	83,212	83,212
2009						
Trade and other payables	–	642	23,233	–	23,875	23,875
Receipt in advance	–	2,500	–	–	2,500	2,500
		3,142	23,233	–	26,375	26,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENT (Continued)

(c) Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their corresponding fair values.

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable by the Group from the sale of goods and services rendered to outside customers, net of discounts, returns and sales related taxes, during the year.

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focused on the two main operations of the Group which are identified in accordance with the business nature and the size of the operations. This basis is also consistent with the basis of organisation in the Group, where management has organised the Group around these two operations.

Specifically, the Group's reportable segments from continuing operations under HKFRS 8 are (i) public procurement operation and (ii) energy trading operation.

During the year ended 31 December 2009, the operations of coal trading, information technology, general trading and corporate management were discontinued subsequent to the disposal of subsidiaries or the date of classification of discontinued operation. Details of the discontinued operations are set out in Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Segment revenue		Segment loss	
	2010	**2009**	**2010**	**2009**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Public procurement	7,980	19,336	(12,492)	(7,300)
Energy trading	16,921	–	(17,568)	–
Total for continuing operations	24,901	19,336	(30,060)	(7,300)
Gain on disposal of property, plant and equipment			926	491
Unallocated corporate income			400,781	425
Impairment of goodwill			–	(744,475)
Impairment of trade and other receivables			(14,628)	–
Unallocated corporate expenses			(95,884)	(54,567)
Finance costs			(90)	(18)
Profit/(Loss) before tax (continuing operations)			261,045	(805,444)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2009: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

7. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

For the year ended 31 December 2010

	Public procurement	Energy trading	Total
	HK$'000	HK$'000	HK$'000
Assets:			
Segment assets	41,267	14,791	56,058
Other unallocated corporate assets			
– Property, plant and equipment			3,261
– Goodwill			353
– Trade and other receivables			405,004
– Pledged bank deposit			7,062
– Bank balances and cash			43,075
Consolidated assets			514,813
Liabilities:			
Segment liabilities	81	12,032	12,113
Other unallocated corporate liabilities			
– Trade and other payables			24,037
– Bills payables			7,062
– Amount due to a non-controlling interest of a subsidiary			40,000
– Tax payables			66,609
Consolidated liabilities			149,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities (Continued)

For the year ended 31 December 2009

	Public procurement	Energy trading	Total
	HK$'000	HK$'000	HK$'000
Assets:			
Segment assets	56,259	–	56,259
Assets relating to discontinued operations			–
Unallocated corporate assets			
– Property, plant and equipment			6,180
– Trade and other receivables			9,604
– Pledged bank deposit			3,600
– Bank balances and cash			5,762
Consolidated assets			81,405
Liabilities:			
Segment liabilities	58	–	58
Assets relating to discontinued operations			–
Unallocated corporate liabilities			
– Financial liabilities			23,817
– Other			2,500
Consolidated liabilities			26,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. REVENUE AND SEGMENT INFORMATION (Continued)

(c) Other segment information

For the year ended 31 December 2010

	Continuing operations		
	Public procurement	Energy trading	Total
	HK$'000	HK$'000	HK$'000
Capital additions	3,435	2,295	5,730
Depreciation and amortisation	1,573	–	1,573
Share based payment expenses	-	16,745	16,745

For the year ended 31 December 2009

	Continuing operations		
	Public procurement	Energy trading	Total
	HK$'000	HK$'000	HK$'000
Capital additions	30,644	–	30,644
Impairment of goodwill	744,475	–	744,475
Depreciation and amortisation	261	–	261
Share based payment expenses	3,391	–	3,391

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. REVENUE AND SEGMENT INFORMATION (Continued)

(d) Geographical information

The Group operates in two principal geographical areas – the People's Republic of China (the "PRC") and Hong Kong.

The Group's revenue from continuing operations from external customers based on the location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from External customer		Non-current assets	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
PRC	16,921	921	23,702	21,377
Hong Kong	7,980	18,415	3,255	6,180
	24,901	19,336	26,957	27,557

(e) Information about major customers

For the year ended 31 December 2010, revenue from three of the Group's customers amounting to HK$24,901,000 had individually accounted for over 10% of the Group's total revenue from continuing operations.

For the year ended 31 December 2009, revenue from two of the Group's customers amounting to HK$17,689,000 had individually accounted for over 10% of the Group's total revenue from continuing operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. OTHER INCOME

	2010	2009
	HK$'000	HK$'000
Continuing operations		
Fee receivable for transfer of EMC framework agreements (note 19)	400,000	–
Rental income	91	–
Interest income	46	16
Sundry income	644	409
	400,781	425

9. FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
Continuing operations		
Interest on equity-linked debt instrument (note 22)	90	–
Interest on short-term loan	–	18
	90	18

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

10. INCOME TAX EXPENSE (RELATING TO CONTINUING OPERATIONS)

Income tax recognised in profit or loss

	2010	2009
	HK$'000	HK$'000
Current tax:		
Hong Kong	59,400	–
PRC Enterprise Income Tax	7,033	–
	66,433	–

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

The tax charge for the year can be reconciled to the profit/(loss) per the consolidated income statement as follows:

	2010	2009
	HK$'000	HK$'000
Profit/(Loss) before tax (from continuing operations)	261,045	(805,444)
Tax at the applicable income tax rate	48,344	(133,489)
Tax effect of expenses not deductible for tax purpose	9,299	127,871
Tax effect of income not taxable for tax purpose	(154)	(1)
Tax effect of losses not recognised	5,861	3,532
Tax losses carried forward	3,083	2,087
Income tax expense for the year (relating to continuing operations)	66,433	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS

Profit/(Loss) for the year from continuing operations is attributable to:

	2010	2009
	HK$'000	HK$'000
Owner of the Company	196,450	(804,867)
Non-controlling interest	(1,838)	(577)
	194,612	(805,444)

Profit/(Loss) for the year from continuing operations has been arrived at after charging (crediting):

	2010	2009
	HK$'000	HK$'000
Total depreciation and amortisation		
– Depreciation of properties, plant and equipment	2,936	1,841
– Amortisation of intangible assets	8	3
	2,944	1,844
Staff costs including directors' remuneration (Note 13)		
– Salaries and allowances	16,293	14,019
– Retirement scheme contributions	606	312
– Equity-settled share-based payment expenses	44,212	29,315
	61,111	43,646
Auditors' remuneration		
– Provision for the year	800	550
– Underprovision in prior year	–	100
– Other services	250	250
	1,050	900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS (Continued)

Profit/(Loss) for the year from continuing operations has been arrived at after charging (crediting): (Continued)

	2010	2009
	HK$'000	HK$'000
Cost of inventories recognised as expense	24,038	17,957
Exchange loss	102	97
Impairment of goodwill	–	744,475
Impairment of trade and other receivables	14,628	–
Operating lease rentals – office premises	5,563	4,429
Research and development costs	2,331	–
Gross rental income	(91)	–
Less: outgoings (included in other operating expenses)	34	–
	(57)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. DISCONTINUED OPERATIONS

Loss for the year from discontinued operations

	2010	2009
	HK$'000	HK$'000
Revenue	–	715
Other income	–	80
Expenses	–	(27,630)
Reversal of impairment of trade and other receivables for previous year	–	36,000
Impairment of trade and other receivables	–	(110)
Net loss on disposal of property, plant and equipment	–	(1,133)
Loss on disposal of available-for-sale investments	–	(28,904)
Loss on disposal of derivative financial instrument	–	(505)
Loss before tax	–	(21,487)
Taxation	–	–
	–	(21,487)
Gain on disposal of operations	–	8,184
Loss for the year from discontinued operations	–	(13,303)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. DISCONTINUED OPERATIONS (Continued)

Loss before taxation from discontinued operations included the following:

	2010	2009
	HK$'000	HK$'000
Auditors' remuneration	–	127
Depreciation	–	339
Impairment of trade and other receivables	–	110
Loss on disposal of property, plant and equipment	–	1,134
Operating lease rentals – office premises	–	2,077
Staff costs (including directors' remuneration – note 13)	–	
– Salaries and allowances	–	8,481
– Retirement scheme contributions	–	144
Cash flows from discontinued operations		
Net cash outflows from operating activities	–	(29,982)
Net cash inflows from investing activities	–	28,365
Net cash outflows from financing activities	–	–
Net cash outflows	–	(1,617)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. DIRECTORS' EMOLUMENTS

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

For the year ended 31 December 2010

	Fee	Salaries and allowances	Retirement scheme contributions	Share-based payments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Mr. Cheng Yuan Zhong[1]	–	167	–	–	167
Mr. Ho Wai Kong[2]	–	2,760	12	–	2,772
Mr. Lu Xing[2]	–	1,560	9	–	1,569
Mr. Liu Bo[3]	–	280	4	–	284
Mr. Wu Xiaodong	–	720	8	–	728
Mr. Jiang Haoye[4]	–	500	–	–	500
Mr. Song Lianzhong[4]	–	1,500	–	–	1,500
Mr. Zhang Guisheng[5]	–	562	–	–	562
	–	8,049	33	–	8,082
Non-executive director					
Ms. Cheng Zhuo	360	–	–	–	360
	360	–	–	–	360
Independent non-executive directors					
Mr. Chan Tze See, Kevin	123	–	–	263	386
Mr. Chen Bojie	–	–	–	263	263
Mr. Wu Fred Fong	240	–	–	–	240
	363	–	–	526	889
	363	8,409	33	526	9,331

1 Resigned on 8 February 2010
2 Appointed on 11 January 2010
3 Resigned on 30 April 2010
4 Appointed on 1 March 2010
5 Appointed on 30 April 2010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. DIRECTORS' EMOLUMENTS (Continued)

For the year ended 31 December 2009

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

Note:

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

The details of the share options are disclosed under the paragraph "Share option scheme" in the report of the directors and note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2009: two) were directors of the Company whose emoluments are included in the disclosures in note 13 above. The aggregate of the emoluments in respect of the other two (2009: three) individuals are as follows:

	2010	2009
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	–	3,750
Discretionary bonus	–	100
Retirement scheme contributions	–	21
Share-based payments	9,216	11,844
	9,216	15,715

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

	2010	2009
HK$3,000,001 – HK$4,000,000	–	1
HK$4,000,001 – HK$5,000,000	2	–
HK$6,000,001 – HK$7,000,000	–	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

15. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings/(loss) per share for the year attributable to the owners of the Company is based on the following data:

Earnings

	2010	2009
	HK$'000	**HK$'000**
Earnings/(Loss) for the purpose of basic and diluted earnings per share	196,450	(818,170)

	2010	2009
	'000	**'000**
Number of shares		
Weighted average number of ordinary shares for purpose of basic loss per share	3,289,428	2,927,245
Effect of dilutive potential ordinary shares:		
– Share options issued by the Company	33,592	48,271
Weighted average number of ordinary shares for purpose of diluted loss per share at 31 December	3,323,020	2,975,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

15. EARNINGS/(LOSS) PER SHARE (Continued)

For continued operation

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

Earnings/(Loss) figures are calculated as follows:

	2010	2009
	HK$'000	HK$'000
Earnings/(Loss) for the year attributable to owners of the Company	196,450	(818,170)
Add:		
Loss for the year from discontinued operations	–	13,303
Profit/(Loss) for the purpose of basic and diluted loss per share from continuing operations	196,450	(804,867)

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

From discontinued operations

For the year ended 31 December 2009, the basic loss per share for the discontinued operations is HK$0.45 cents per share and diluted loss per share for the discontinued operations HK$0.45 cents per share, based on the loss for the year from the discontinued operations of HK$13,303,000 and the denominators used are the same as those detailed above for the both basis and diluted loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

16. PROPERTY, PLANT AND EQUIPMENT

	Equipment and furniture	Motor vehicles	Leasehold improvements	Total
	HK$'000	HK$'000	HK$'000	HK$'000
COST				
At 1 January 2009	2,044	5,905	1,168	9,117
Additions	3,044	2,475	4,086	9,605
Acquisition of a subsidiary	27	–	–	27
Disposals	(487)	(1,897)	(1,168)	(3,552)
Disposal of subsidiaries	(1,614)	(803)	–	(2,417)
At 31 December 2009	3,014	5,680	4,086	12,780
Additions	2,029	762	–	2,791
Disposals	–	(1,889)	–	(1,889)
Exchange adjustments	133	21	72	226
At 31 December 2010	5,176	4,574	4,158	13,908
ACCUMULATED DEPRECIATION				
At 1 January 2009	1,032	1,181	330	2,543
Charge for the year	348	1,525	478	2,351
Eliminated on disposals	(191)	(679)	(330)	(1,200)
Disposal of subsidiaries	(1,007)	(321)	–	(1,328)
At 31 December 2009	182	1,706	478	2,366
Charge for the year	888	806	1,242	2,936
Eliminated on disposals	–	(315)	–	(315)
Exchange adjustments	23	1	22	46
At 31 December 2010	1,093	2,198	1,742	5,033
CARRYING AMOUNTS				
At 31 December 2010	4,083	2,376	2,416	8,875
At 31 December 2009	2,832	3,974	3,608	10,414

The above items of plant and equipment are depreciated on a straight-line method at the following rates per annum:

Equipment and furniture	20%
Motor vehicles	20%
Leasehold improvement	Over the term of the lease or 25%, whichever is the shorter

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

17. GOODWILL

	HK$'000
COST	
At 1 January 2009	555,354
Arising on acquisition of subsidiaries	744,475
Derecognised on disposal of subsidiaries	(555,354)
At 31 December 2009	744,475
Acquisition of a subsidiary (Note 27)	353
At 31 December 2010	744,828
IMPAIRMENT LOSSES	
At 1 January 2009	555,354
Impairment loss recognised	744,475
Derecognised on disposal of subsidiaries	(555,354)
At 31 December 2009 and 31 December 2010	744,475
CARRYING AMOUNTS	
At 31 December 2010	353
At 31 December 2009	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. INTANGIBLE ASSETS

	Computer Software	Online Platform Promotion Right	Online Platform Development and Technical Support Right	Total
	HK$'000	HK$'000	HK$'000	HK$'000
COST				
At 1 January 2009	–	–	–	–
Additions	72	–	–	72
Acquisition of a subsidiary	11	9,090	7,954	17,055
Exchange adjustment	–	10	9	19
At 31 December 2009	83	9,100	7,963	17,146
Exchange adjustment	3	315	276	594
At 31 December 2010	86	9,415	8,239	17,740
ACCUMULATED AMORTISATION				
At 1 January 2009	–	–	–	–
Amortise for the year	3	–	–	3
At 31 December 2009	3	–	–	3
Amortise for the year	8	–	–	8
At 31 December 2010	11	–	–	11
CARRYING AMOUNTS				
At 31 December 2010	75	9,415	8,239	17,729
At 31 December 2009	80	9,100	7,963	17,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$'000	HK$'000
Trade receivables	1,007	1,388
Allowance for doubtful debts	–	–
	1,007	1,388
Other receivables	4,265	4,634
Fee receivable for transfer of EMC framework agreements (note i)	400,000	–
Prepayments	14,920	18,256
Deposit for development of online procurement system	5,254	–
Other deposits	2,967	–
	428,413	24,278

Note:

(i) During the year, Public Procurement Limited, a wholly owned subsidiary of the Company, has transferred EMC framework agreements to Win News Technology Limited, an independent third party, at a consideration of HK$400 millions. Up to the date of this report, only HK$10 millions of total fee was received. The repayment period is extended from 20 June 2011 to 31 December 2011.

The following is an aged analysis of the Group's trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2010	2009
	HK$'000	HK$'000
0-30 days	–	1,388
Over 1 year	1,007	–
	1,007	1,388

At the end of the reporting period, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$1,007,000 (2009: HK$1,388,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. TRADE AND OTHER RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired

	2010	2009
	HK$'000	HK$'000
Overdue by:		
0 – 30 days	–	1,388
Over 1 year	1,007	–
	1,007	1,388

20. BANK BALANCE AND CASH/PLEDGED BANK DEPOSITS

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

Included in cash at banks is an amount of approximately HK$9,692,000 (2009: HK$20,208,000), representing deposits placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

Pledged bank deposits represents deposits pledged to banks to secure a banking facilities granted to the Group. Deposits amounting to HK$7,062,000 (2009: HK$3,600,000) have been pledged to secure a banking facility granted by a bank and will be released upon the expiry of the banking facility within twelve months from the end of the reporting period and are therefore classified as current assets.

21. TRADE AND OTHER PAYABLES

	2010	2009
	HK$'000	HK$'000
Trade payables	64	–
Accruals and other payables	24,123	23,875
	24,187	23,875

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period.

	2010	2009
	HK$'000	HK$'000
Over 90 days	64	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

22. EQUITY-LINKED DEBT INSTRUMENTS

On 23 February 2010, the Company issued 40 million zero% Hong Kong dollar denominated equity-linked debt instruments ("ELDIs") with the aggregate principal amount of HK$40 million. The ELDIs entitle the holder to convert to ordinary shares at a conversion price. The conversion price will be reset each day and, in respect of each day, be an amount equal to the higher of: (a) 91% of the closing price of the Shares, as quoted on the Stock Exchange, on the immediately preceding traded day; and (b) the minimum conversion price of HK$0.824.

Conversion may occur at any time between 23 February 2010 and 22 February 2011. If the ELDIs have not been converted, they will be redeemed on 22 February 2011 at 109% of their principal amount.

The ELDIs contain two components: liability and equity elements. The equity element is presented in equity heading "equity-linked debt instruments equity reserve". The effective interest rate of the liability component is 5.277% per annum.

The movement of the liability component of the ELDIs for the year is set out below:

	HK$'000
Proceeds of issue	40,000
Equity component	(2,005)
Transaction cost attributable to liability component	(1,785)
Liability component at date of issue	36,210
Interest charged calculated at an effective interest rate of 5.277%	90
Arising from exercise of convertible bonds	(36,300)
Liability component at 31 December 2010	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. SHARE CAPITAL

	Number of shares		Share Capital	
	2010	2009	2010	2009
	'000	'000	HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	10,000,000	10,000,000	100,000	100,000
Convertible non-redeemable preference shares of HK$0.01 each (Note i)	10,000,000	10,000,000	100,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At beginning of year	3,219,582	2,217,025	32,196	22,170
Issue of shares for acquisition of a subsidiary (Note ii)	–	945,635	–	9,456
Issue of shares upon exercise of share options (Note iii)	53,940	55,922	539	560
Issue of shares upon exercise of equity linked debt instrument (Note iv)	42,810	–	428	–
Issue of shares upon exercise of warrants	–	1,000	–	10
At end of year	3,316,332	3,219,582	33,163	32,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. SHARE CAPITAL (Continued)

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

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

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

(b) Contingent consideration arrangement, as set out in note 27 and 31.

(iii) During the year ended 31 December 2010, share options were exercised to subscribe for 53,940,000 (2009: 55,922,000) ordinary shares in the Company at a consideration of HK$27,973,000 (2009: $29,152,000) of which HK$539,000 (2009: HK$560,000) was credited to share capital and the balance of HK$27,434,000 (2009: HK$28,592,000) was credited to the share premium account. HK$8,125,000 (2009: HK$12,864,000) has been transferred from the share-based compensation reserve to the share premium account.

(iv) During the year ended 31 December 2010, equity-linked debt instrument with the aggregate principal amount of HK$40 million were exercised to subscribe for 42,810,000 ordinary shares in the Company.

24. WARRANTS

	2010 Number '000	2009 Number '000
Outstanding at beginning of year	–	309,000
Issued during the year	–	–
Exercised during the year	–	(1,000)
Warrants expired on 25 December 2009	–	(308,000)
Outstanding at end of year	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

Option Type	Number of instruments	Vesting conditions	Contractual life of options
	'000		
Options granted to directors:			
– on 26 March 2009	40,000	Immediately from the date of grant	3 years
– on 14 August 2009 A	3,000	One year from the date of grant	3 years
– on 14 August 2009 B	2,000	Two year from the date of grant	3 years
– on 5 January 2010	2,000	Immediately from the date of grant	3 years
Options granted to employees:			
– on 26 March 2009	132,200	Immediately from the date of grant	3 years
– on 14 August 2009	5,600	Immediately from the date of grant	3 years
– on 9 November 2009 A	5,600	Immediately from the date of grant	3 years
– on 9 November 2009 B	3,000	Vested on 1 October 2010	1.98 years
– on 9 November 2009 C	2,500	To be vested on 1 October 2011	1.98 years
– on 5 January 2010	4,700	Immediately from the date of grant	3 years
– on 9 February 2010	60,000	Immediately from the date of grant	3 years
– on 4 May 2010	30,000	Immediately from the date of grant	3 years
Total share options	290,600		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

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

	2010 Weighted average exercise price	2010 Number of option	2009 Weighted average exercise price	2009 Number of option
		'000		'000
Outstanding at the beginning of the year	HK$0.548	171,840	HK$0.743	209,562
Granted during the year	HK$1.059	96,700	HK$0.543	193,900
Forfeited during the year	HK$0.519	(42,000)	HK$0.784	(175,700)
Exercised during the year	HK$0.560	(53,940)	HK$0.517	(55,922)
Outstanding at the end of the year	HK$0.840	172,600	HK$0.548	171,840

The weighted average share price at the date of exercise for shares options exercised during the year was HK$1.034 (2009: HK$1.069)

The options outstanding at 31 December 2010 had a weighted average exercise price of HK$0.840 (2009: HK$0.548) and a weighted average remaining contractual life of 1.762 years (2009: 2.970 years).

(c) Fair value of share options and assumptions

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

Grant date	**5.1.2010**		**9.2.2010**	**4.5.2010**
Option Type	**Director**	**Employee**	**Employee**	**Employee**
Fair value at measurement date	HK$0.292	HK$0.231	HK$0.558	HK$0.341
Share price	HK$0.780	HK$0.780	HK$1.070	HK$1.100
Exercise price	HK$0.780	HK$0.780	HK$1.070	HK$1.100
Expected volatility	62.60%	62.60%	117.96%	72.97%
Option life	3 years	3 years	3 years	3 years
Expected dividends	0%	0%	0%	0%
Risk free interest rate	1.130%	1.130%	0.410%	1.211%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(c) Fair value of share options and assumptions (Continued)

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

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

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

Exercise period	Exercise price	2010 Number	2009 Number
26 March 2009 to 25 March 2012	HK$0.50	63,000,000	150,340,000
14 August 2009 to 13 August 2012	HK$1.00	400,000	5,400,000
14 August 2010 to 13 August 2012	HK$1.00	3,000,000	3,000,000
14 August 2011 to 13 August 2012	HK$1.00	2,000,000	2,000,000
9 November 2009 to 8 November 2012	HK$0.77	5,100,000	5,600,000
1 October 2010 to 31 October 2011	HK$0.77	3,000,000	3,000,000
1 October 2011 to 31 October 2011	HK$0.77	2,500,000	2,500,000
5 January 2010 to 4 January 2013	HK$0.78	3,600,000	–
9 February 2010 to 8 February 2013	HK$1.07	60,000,000	–
4 May 2010 to 3 May 2013	HK$1.10	30,000,000	–
		172,600,000	171,840,000

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

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For the year ended 31 December 2010

26. RESERVES

	Share premium	Merger reserve (Note a)	Share-based compensation reserve	Translation reserve	Equity-linked debt instruments equity reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2010	1,181,334	8,390	26,391	111	–	(1,195,948)	20,278
Exercise of share options (note 23(iii))	35,559	–	(8,125)	–	–	–	27,434
Forfeiture of share option (note 25 (b))	–	–	(6,782)	–	–	6,782	–
Equity settled share-based payment transactions (note 25)	–	–	44,207	–	–	–	44,207
Issue of equity-linked debt instruments (note 22)	–	–	–	–	2,005	–	2,005
Issue of shares upon conversion of equity-linked debt instruments	37,783	–	–	–	(1,911)	–	35,872
Transaction cost attributable to issue of equity-linked debt instrument	–	–	–	–	(94)	–	(94)
Exchange differences arising on translation of foreign operations	–	–	–	1,398	–	–	1,398
Net profit for the year	–	–	–	–	–	196,450	196,450
As at 31 December 2010	1,254,676	8,390	55,691	1,509	–	(992,716)	327,550

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For the year ended 31 December 2010

26. RESERVES (Continued)

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

Note:

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

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For the year ended 31 December 2010

27. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2010

On 19 April 2010, the Group acquired entire issued share capital of Wuxuan Tiejian Trading Co., Limited ("Wuxuan Tiejian") for a total consideration of HK$344,000. The acquired company was engaged in trading of energy.

Consideration transferred

	HK$'000
Cash	344
Total	344

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Current liabilities	
Other payable	(9)
Net identifiable net liabilities acquired	(9)

Goodwill arising on acquisition

	HK$'000
Consideration transferred	344
Add: fair value of identifiable net liabilities acquired	9
Goodwill arising on acquisition	353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

27. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2010 (Continued)

The goodwill on acquisition of the above subsidiary represents an opportunity for the Group to access to energy trading business in PRC that were provided by the above newly acquired subsidiary. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid in cash	344
Less: cash and cash equivalent balances acquired	–
	344

Impact of acquisition on the results of the Group

Included in the profit for the year is HK$221,000 attributable to the additional business generated by Wuxuan Tiejian. Revenue for the year includes HK$16,921,000 in respect of Wuxuan Tiejian.

Had these business combinations been effected at 1 January 2010, the revenue and profit of the Group from continuing operations would have been unchanged.

For the year ended 31 December 2009

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

Pursuant to the agreement dated 31 August 2008, the contingent consideration requires the Group to pay an additional consideration shares if the profit after tax and extraordinary expenses of Hero Joy Group was in excess of HK$200 million for the year ended 31 December 2009 or 2010. The contingent consideration will be satisfied by issue and allotment of new convertible non-redeemable preference shares of the Company at an issue price of HK$0.6667 per share. The aggregate consideration for the acquisition should not be more than HK$6,000 million.

Contingent consideration = {2009 or 2010 NPAT times 30} Less Basic Consideration***

* NPAT represents net profit after tax and extraordinary expenses

** Basic consideration was settled by 945,635,485 ordinary shares of HK$0.01 each of the Company at an issue price of HK$0.6667 in 2009.

The details of the acquisition were disclosed in the Company's announcement on 6 October 2008 and the circular dated 16 January 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

27. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2009 (Continued)

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

	HK$'000
Non-current assets	
Property	27
Other intangible assets	17,055
Current assets	
Other receivables	923
Cash and cash equivalents	14,740
Current liabilities	
Other payable	(1,027)
Net identifiable assets acquired	31,718
Non-controlling interests	(3,238)
Goodwill on acquisition (note 15)	744,475
Total cost of acquisition	772,955
Satisfied by	
Basic consideration	630,455
Contingent consideration arrangement (note 31)	–
Acquisition-related costs	142,500
	772,955
Net cash outflow in respect of the acquisitions:	
Acquisition-related costs	(142,500)
Cash at bank acquired	14,740
	(127,760)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

28. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2009

The consolidated net assets of discontinued operations at the respective dates of disposal are as follows:

	2009
	HK$'000
Net assets disposed of:	
Property, plant and equipment	1,127
Investment in an associate	4,000
Trade and other receivables	49,859
Bank balances and cash	4,546
Trade and other payables	(20,631)
Receipt in advance	(49)
Net assets disposal of	38,852
Non-controlling interests	(117)
Release of translation reserve	75
Gain on disposal	8,184
Total consideration	46,994
Satisfied by cash and cash equivalents	46,994
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	46,994
Less: cash and cash equivalent balances disposed of	(8,546)
	38,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

29. OPERATING LEASE

The Group as lessee

	2010	2009
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the period:	5,333	6,332
Office premise	230	84
Other assets	5,563	6,416

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010	2009
	HK$'000	HK$'000
Within one year	3,744	4,829
In the second to fifth years	5,012	4,170
	8,756	8,999

Operating lease payments represent rentals payable by the Group for certain of its office premises. The lease typically runs for an initial year of 3 years (31 December 2009: 1 to 3 years), with an option to renew the lease when all terms are renegotiated and rentals are fixed over the relevant lease term.

30. COMMITMENTS

	2010	2009
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of – technical knowhow	8,239	–
	8,239	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

31. CONTINGENT LIABILITIES

Pursuant to the acquisition of Hero Joy Group as set out in details in note 27, the Group is required to pay the contingent consideration to the Vendors in view of that the profit after tax and extraordinary expenses of Hero Joy Group was in excess of HK$200 million for the year ended 31 December 2010. The Group, however, has subsequently obtained a written consent from the Vendors that the payment of contingent consideration will be further subject to cash receipt of an amount not less than HK$200 million in respect of above-mentioned profit. Fulfillment of this condition is uncertain up to the date of this report.

32. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	2010	2009
	HK$'000	HK$'000
Disposal of subsidiaries to Ultra Million Limited	–	34,000
Service expenses charged by Guocai Science & Technology Company Limited (i)	40,000	–

(b) At the end of reporting period, the Group has the following significant balances with related parties:

	2010	2009
	HK$'000	HK$'000
Amount due from:		
Guocai Science & Technology Company Limited (i)	3,610	–
Amount due to:		
Guocai Science & Technology Company Limited (i)	40,000	–
Beijing Rongxin Dentsu Science & Technology Development Limited	11,429	–

Note:

(i) The above company is non-controlling interest of a subsidiary in PRC.

(ii) Mr. Lu Xing, the director of the Company, has controlling interest over Beijing Rongxin Dentsu Science & Technology Development Limited.

The amounts due are unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

32. RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

The remuneration of directors and other members of key management during the year was as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other short-term employee benefits	9,292	8,447
Other long-term benefit	45	59
Share-based payments	34,121	8,309
	43,458	16,815

33. INTERESTS IN SUBSIDIARIES

Name	Place of incorporation/ Registration and operation	Class of share held	Issued/ Registered capital	Attributable equity interests held by the Company Direct 2010	2009	Attributable equity interests held by the Company Indirect 2010	2009	Principal activities
Hong Kong Public Procurement Limited	Hong Kong	Ordinary	HK$1 Ordinary share	100%	100%	–	–	Inactive
Positive Rise Holdings Limited	BVI	Ordinary	US$100 Ordinary shares	100%	100%	–	–	Investment holding
Skyking Holdings Limited	BVI	Ordinary	US$1 Ordinary share	100%	100%	–	–	Investment holding
Famous Ever International Limited	Hong Kong	Ordinary	HK$1 Ordinary share	–	–	100%	100%	Provision of management services
Famous Key Holdings Limited	Hong Kong	Ordinary	HK$1 Ordinary share	–	–	100%	100%	Provision of management services
Public Procurement Limited	Hong Kong	Ordinary	HK$34,000,000 Ordinary share	–	–	100%	100%	Investment holding
Hero Joy International Limited	BVI	Ordinary	US$4,350,100 Ordinary shares	–	–	100%	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

33. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ Registration and operation	Class of share held	Issued/ Registered capital	Attributable equity interests held by the Company		Attributable equity interests held by the Company		Principal activities
				Direct		Indirect		
				2010	2009	2010	2009	
Guocai (Beijing) Technology Company Limited *	PRC	Ordinary	Registered and contributed capital RMB60,000,000	–	–	90%	90%	Provision of technological development, advisory services, business planning and public-relations activities for online procurement business
Beijing Zhongcai Century Technique Co., Ltd. #	PRC	Ordinary	Registered and contributed capital RMB5,000,000	–	–	100%	100%	Inactive
Wuxuan Tiejian Trading Co., Limited ∆	PRC	Ordinary	Registered and contributed capital RMB2,000,000	–	–	90%	90%	Trading of energy

* Sino-Foreign Joint Venture.

\# Wholly Foreign-owned Enterprise.

∆ Domestic Invested Enterprise.

None of the subsidiaries had issued any debt securities at the end of the year or any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

34. FINANCIAL INFORMATION OF THE COMPANY

	2010	2009
	HK$'000	HK$'000
Non-current assets		
Property, plant and equipment	3	3
Investments in subsidiaries	1	1
	4	4
Current assets		
Trade and other receivables	3,248	1,821
Amounts due from subsidiaries	7,911	9
Pledged deposits	–	3,600
Bank balances	38,661	5,384
	49,820	10,814
Current liabilities		
Amounts due to subsidiaries	–	106
Accruals and other payables	24,000	23,766
	24,000	23,872
Net current assets/(liabilities)	25,820	(13,058)
NET ASSETS/(LIABILITIES)	25,824	(13,054)
CAPITAL AND RESERVES		
Share capital	32,196	32,196
Reserves	(6,372)	(45,250)
	25,824	(13,054)

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December		Period ended 31 December	Year ended 30 September	
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	24,901	20,051	208,936	57,831	26,808
Profit/(Loss) before taxation	261,045	(818,747)	(507,195)	(146,909)	(36,283)
Taxation	(66,433)	–	–	(1,654)	–
Profit/(Loss) for the year	194,612	(818,747)	(507,195)	(148,563)	(36,283)
Attributable to:					
Owners of the Company	196,450	(818,170)	(507,027)	(151,480)	(35,926)
Non-controlling interests	(1,838)	(577)	(168)	2,917	(357)
	194,612	(818,747)	(507,195)	(148,563)	(36,283)

ASSETS AND LIABILITIES

	Year ended 31 December		Period ended 31 December	Year ended 30 September	
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	514,813	81,405	165,820	232,892	81,999
Total liabilities	(149,821)	(26,375)	(18,956)	(10,682)	(9,601)
Total equity	364,992	55,030	146,864	222,210	72,398
Equity attributable to the owners of Company	360,713	52,474	146,864	215,201	69,050
Non-controlling interests	4,279	2,556	–	7,009	3,348
Total equity	364,992	55,030	146,864	222,210	72,398