Zhongtian International Limited
中天國際控股有限公司*

Incorporated in the Cayman Islands with limited liability
Stock Code: 02379

Annual Report 2012

* for identification purposes only

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
CHEN Jun *(Chairman)*
ZHAO Yun

INDEPENDENT NON-EXECUTIVE DIRECTORS
GUO Qiang
CHEN Wen Ping
LIU Jin Lu

COMPANY SECRETARY
TAI Man Hin, Tony *(CPA)*

AUDIT COMMITTEE
CHEN Wen Ping *(Chairman)*
GUO Qiang
LIU Jin Lu

REMUNERATION COMMITTEE
CHEN Wen Ping *(Chairman)*
CHEN Jun
GUO Qiang

NOMINATION COMMITTEE
CHEN Jun *(Chairman)*
CHEN Wen Ping
GUO Qiang

HONG KONG LEGAL ADVISORS
Loong & Yeung

AUTHORISED REPRESENTATIVES
CHEN Jun
ZHAO Yun

STOCK CODE
02379

COMPANY'S WEBSITE
www.irasia.com/listco/hk/zhongtian

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Suites 2001-05, 20th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

AUDITOR
CCIF CPA Limited

PRINCIPAL BANKERS
China Construction Bank,
No.3 branch, Shinan District Qingdao
Hua Xia Bank
Nanjing Road Sub-branch
Qingdao
The Hongkong and Shanghai Banking Corporation Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE (effective since 26 January 2013)
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
21st Floor
Huaren International Mansion
No. 2 Shandong Road
Shinan District
Qingdao City
Shandong Province
The People's Republic of China ("PRC")

CHAIRMAN'S STATEMENT

We expect our future full of hope under the first gleam of light!

On behalf of the board (the "Board") of directors (the "Directors") of Zhongtian International Limited (the "Company") and its subsidiaries (collectively, the "Group"), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December 2012 (the "Year").

In the year of 2012, notwithstanding the strong appreciation of Renminbi, China's economy continued in its long-term growing trend. However, with the strict control policy on economy continued to be in force in Mainland China, certain relevant industries like the real estate market remained adversely affected.

During the Year, the Group's major business was development and sale of intelligent control system in respect of building construction and electronic products, which realised annual revenue of approximately RMB23,388,000 and brought more prominent growth in turnover and profits compared with 2011. This business has become the major income source of the Group. It is expected that the Group would carry on developing this domain in future in order to generate larger revenue.

During the Year, the local commercial property rental business remained at a satisfactory level. Leasing of commercial properties of the Group after renovation has commenced and generated a rental revenue of approximately RMB607,000 for the Year, which became another stable income source of the Group, representing a growth of 128% compared to 2011. Such income source was a stable one with a promising future under the prosperous local business condition, to which the Group attached great importance.

In the year of 2012, due to the change in regulations by PRC government and authorities in respect of bank investors, the Group was no longer eligible to hold such equity interest upon the reorganization of the investment target pursuant to the regulations. Hence, the Group was required to dispose of the equity interests and cease to be an equity interest holder of the bank. The disposal of the equity investment was completed in October 2012.

During the Year, the Group has considered to develop and invest in other business domains and proactively undertook flexibility assessment and relevant negotiations.

Reviewing the performance achieved by the Group in the Year, the Board remained confident of and optimistic about the future prospect of the Group amid the ever-changing economic condition in the world and in China. For the Year, the Group had constructive advancements in corporate governance, business development and staff nurturing. We expect our future full of hope under the first gleam of light. It is believed under the operation of the Board, which shows great foresight, the Group will definitely be able to offer an enthusiastic prospect!

Zhongtian International Limited
Chen Jun
Chairman

27 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the Year, the Group was principally engaged in information technology and property business segments and the Group had discontinued its operation in the equity investment business segment.

Regarding the equity investment business segment, due to the change in regulations of competent authorities of the PRC government, the Group no longer met the requirement to hold such equity interests upon reorganization of the investment target pursuant to the regulations. Hence, the Group was forced to dispose the equity interests and cease to be the shareholder of the bank. The transaction was completed in October 2012 and the disposal of the equity investment recorded a loss of approximately RMB6,192,000.

Information Technology

Taking the advantage of the Group's self-owned technology, the development and sale of intelligent electronic products became a new business with fewer obstructions in the course of the transition to the Group's diversified operation. This development and sale provided a stable increase in turnover and profit, and with stable demands from customers, to which the Group attached great importance.

Meanwhile, as the competition in this domain had been keen and the overall cost for exploring new customers had been relatively high, the Group paid efforts in preventing this domain from becoming the only income source of the Group.

Property

After the renovation of the investment properties in the year 2010, the Group commenced to lease its commercial properties to generate rental revenue and there was a significant increase in revenue in the property segment during 2012 as compared to 2011. Taking into account the improvements in local investment environment and the favorable conditions in the local commercial property market, the Board will continue to pay attention to the development of this domain and to identify and seek suitable opportunities for further investments.

FINANCIAL REVIEW

Turnover and Gross Profit

The Group's total turnover from the continuing operations for the Year was approximately RMB23,995,000 (2011: approximately RMB18,157,000 (restated)), representing an increase of approximately 32.2% compared to the same period in 2011. This was mainly due to the growth in sales in intelligent electronic products. The gross profit from the continuing operations increased by approximately 22.4% to approximately RMB2,437,000 from approximately RMB1,991,000 (restated) in 2011, mainly contributed by profit on the sales of intelligent electronic products.

Selling and Distribution Costs

During the Year, the Group postponed all the marketing activities due to the lack of large-scale tender projects. There was no distribution cost in 2012 (2011: Nil).

General and Administrative Expenses

The Group's administrative expenses for the Year were approximately RMB5,082,000 (2011: approximately RMB5,924,000), representing a decrease of approximately 14.2% compared to 2011. This was mainly attributable to the decrease in legal and professional fees during 2012 as compared to 2011.

Net Loss

During the Year, the Group recorded a net loss of approximately RMB7,376,000, which was decreased by approximately RMB7,724,000 as compared to the net loss of approximately RMB15,100,000 (restated) for 2011. The decrease in net loss was mainly due to the decrease in loss from the equity investment business segment during 2012 as compared to 2011. Basic loss per share in 2011 was RMB3.4 cents as compared with basic loss per share in 2011 of RMB7.5 cents.

BUSINESS REVIEW

Analysis by Business Segment

During the Year, the Group's principal source of income was derived from the sale of intelligent electronic products from the information technology segment, which accounted for 97.5% of the total turnover of the Group. Property segment accounted for the remaining 2.5%.

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

FUTURE OUTLOOK

The sale of intelligent electronic components in the information technology business has been expanding for several years and showed a continuous growth in sales revenue and profit, which is expected to be an major income source with stable growth for the Group. Commercial properties commenced to generate rental revenue after renovation and became another stable income source for the Group.

Besides, the Group is now actively researching, identifying and exploring in other business domains with great potential for growth in order to achieve a diversification of income source of the Group in the future.

DEBTS

As at 31 December 2012, the Group had no debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease, mortgages or charges (31 December 2011: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirement represents mainly working capital in relation to the sale of intelligent electronic products and related costs of business. The Group financed its operation and investment from internal resources.

As at 31 December 2012, the Group had cash and bank balances of approximately RMB26,418,000 (31 December 2011: approximately RMB29,873,000), of which around 96% and 4% of which were held in RMB and HK$ respectively. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 0% (31 December 2011: 0%).

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

FOREIGN EXCHANGE

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

SUBSTANTIAL ACQUISITION AND DISPOSAL

During the Year, there was no material acquisition and disposal of subsidiaries and associated companies by the Company.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2012, leasehold land and buildings and investment properties with carrying amounts of approximately RMB20,341,000 (2011: approximately RMB20,927,000) and approximately RMB22,250,000 (2011: approximately RMB22,000,000), respectively, were pledged as security to a bank for banking facilities not exceeding RMB18,000,000 (2011: RMB18,000,000) granted to an independent third party supplier of the Group in the consideration of which the Group was not required to pay for purchase deposit for the same amount under the goods purchase contract dated 25 October 2011.

The supplier, together with its beneficial owner, have agreed to provide for a counter guarantee, by way of all its assets, in favour of the Group for the amount of approximately RMB44,000,000 (2011: approximately RMB44,000,000) to indemnify the Group for any loss arising from the pledge of properties of the Group.

In the opinion of the Directors, the above pledge of properties for trade credit finance was conducted in the normal course of business of the Group and the exposure is remote.

Apart from the above, the Group had no other material pledge of assets and contingent liabilities as at 31 December 2012 (31 December 2011: Nil).

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION AND ADOPTION OF NEW MEMORANDUM AND ARTICLES OF ASSOCIATION

On 28 March 2012, the Memorandum and Articles of Association of the Company have been amended and a new Memorandum and Articles of Associations have been adopted by way of special resolutions in the extraordinary general meeting of the Company held on 28 March 2012. Please refer to the announcements of the Company respectively dated 23 February 2012, 5 March 2012 and 28 March 2012 and the circular of the Company dated 5 March 2012 for details of the said amendments to the Memorandum and Articles of Association and adoption of a new Memorandum and Articles of Association of the Company. The new Memorandum and Articles of Association of the Company was posted on the respective websites of The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Company on 29 March 2012.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group had 7 employees (31 December 2011: 8 employees). Most of the Group's employees were based in the head office of the Group in Qingdao City of Shandong Province in the PRC.

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

The total remuneration cost incurred by the Group for the Year was approximately RMB1,274,000 (31 December 2011: approximately RMB1,153,000).

FINAL DIVIDEND

The Directors do not recommend the payment of any dividend for the Year (year ended 31 December 2011: HK$ Nil).

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 18 to the financial statements.

RESULTS AND APPROPRIATIONS

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

FIXED ASSETS

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

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 36.

As at 31 December 2012, the Company had reserves available for distribution of RMB82,900,000 (2011: RMB90,647,000).

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 97 of this annual report.

DIRECTORS

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

Executive Directors

Mr. Chen Jun
Mr. Zhao Yun

Independent non-executive Directors

Mr. Chen Wen Ping
Mr. Liu Jin Lu
Mr. Guo Qiang

Each of Mr. Chen Jun, Mr. Zhao Yun, Mr. Guo Qiang, Mr. Chen Wen Ping and Mr. Liu Jin Lu will retire from office as Directors at the forthcoming annual general meeting of the Company.

Mr. Chen Jun, Mr. Zhao Yun, Mr. Guo Qiang, Mr. Chen Wen Ping and Mr. Liu Jin Lu, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles of Association of the Company (the "Articles").

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract on 6 March 2013 with the Company for a term of one year unless terminated by not less than three months' notice in writing served by either party on the other.

All the independent non-executive Directors namely, Mr. GUO Qiang, Mr. Chen Wen Ping and Mr. Liu Jin Lu have respectively entered into a service contract with the Company for a term of one year commencing on 31 May 2012 and ending at the conclusion of the forthcoming annual general meeting of the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Directors

Executive Directors

CHEN Jun（陳軍）, chairman of the Board, aged 40, is a director of Success Advantage Limited（成益有限公司）, Great Miracle Holdings Limited（精英控股有限公司）, Shan Dong Travel Service Holdings Limited（山東旅遊控股有限公司）, Qingdao Hai Yi Commercial Management Co., Ltd.（青島海逸商業管理有限公司）, Boxing Group Limited（寶勝集團有限公司）, Hongkong Zhongtian Mining Limited（香港中天礦業有限公司）and 青島海逸投資諮詢有限公司 (Qingdao Hai Yi Investment and Consultancy Co., Ltd.), all are wholly owned subsidiaries of the Company.

Mr. Chen was graduated from 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Chen is also the visiting professor and instructor of Master students of Qingdao Technological University（青島理工大學）, School of Civil Engineering. Mr. Chen has over 14 years of experience in corporate planning and management. Mr. Chen was appointed as an executive Director on 6 March 2007. Mr. Chen is a director and the sole beneficial owner of the entire issued share capital of Fine Mean Investments Limited, being the controlling shareholder of the Company. For details, please refer to the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this report.

ZHAO Yun（趙贇）, Chief Executive Officer of the Group, aged 40, is currently a director of Success Advantage Limited（成益有限公司）and New East Glory Limited（東耀有限公司）, both are wholly owned subsidiaries of the Company. Prior to joining the Group, Mr. Zhao was graduated from 南開大學 (Nankai University) and 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Zhao has over 9 years of experience in corporate investment. Mr. Zhao was appointed as an executive Director on 6 March 2007.

Independent non-executive Directors

GUO Qiang（郭強）, aged 42, was graduated from Qingdao Polytechnic University（青島理工大學）with a bachelor's degree in of computer science and technology. From 1996 to 2007, Mr. Guo was the chief editor of Chinese Printing Weekly of the Light Literature Journal（《通俗文藝報》書畫周刊）and the art director of Chinese Printing Page of Qingdao Economic Daily （《青島財經日報》書畫專版）of Qingdao Publishor（青島出版社）. He has been an art editor of Qingdao Wen Xue Press（青島文學雜誌社）since 2007. In 1999, Mr. Guo was elected as a committee member of Shandong Calligraphers Association（青島市書法家協會）and joined China Calligraphers Association（中國書法家協會）in 2000. In 2004, Mr. Guo was elected as the vice chairman of Shandong Youth Calligraphers Association（山東省青年書法家協會）and Qingdao Youth Calligraphers Association（青島市書法家協會）respectively. In 2009, Mr. Guo was elected as the chairman of Qingdao Youth Calligraphers Association（青島市青年書法家協會）. Mr. Guo was appointed as an independent non-executive Director since 8 April 2011.

CHEN Wen Ping（陳文平）, aged 40, is an independent non-executive Director and was graduated from The Shandong Academy of Economy（山東經濟學院）, majoring in finance in 1998 and was qualified as a PRC lawyer in 2001. Mr. Chen has extensive experience in accounting and financial management. He had worked for 山東匯德會計師事務所有限公司 (Shandong Huide Accounting Firm Co., Ltd.) for 3 years as a practicing accountant and valuer. He is currently the department head of the finance department of 青島高校軟控有限公司 (Qingdao Mesnac Co., Ltd.), which is a PRC listed company. Mr. Chen was appointed as an independent non-executive Director since 29 May 2007.

LIU Jin Lu（劉金祿）, aged 51, is an independent non-executive Director and was graduated from The Beijing Sport University（北京體育大學）. Mr. Liu was the deputy head of 北京金鼎木製品廠 (Beijing Jinding Muzhipin Factory) from 1983 to 1998 and has been the general manager of 北京天頌三佳緣商貿中心 (Beijing Tiansong Sanjiayuan Commercial Centre) since 1998. Mr. Liu was appointed as an independent non-executive Director since 20 May 2010.

Saved as disclosed above, there are no relationships among the members of the Board.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group. In addition, the Directors' remuneration is reviewed by the remuneration committee of the Company annually. Details of the Director's remuneration are set out in note 11 of the financial statements.

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

As at 31 December 2012, interests or short positions in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are as follows:

(A) Long position in the Shares

Name of Director	Capacity	Number of Shares held/interested	Approximate Shareholding Percentage
Mr. Chen Jun ("Mr. Chen")	Interest of a controlled corporation	108,042,781 (Note 1)	49.78% (Note 1)
	Beneficial owner	5,525,000 (Note 2)	2.55% (Note 2)
		113,567,781	52.33%

(B) Long position in shares of associated corporations

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

Save as disclosed above, as at 31 December 2012, none of the Directors nor chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2012, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

(C) Interest in the Shares

Name of substantial shareholder	Capacity	Number of Shares held/interested	Approximate shareholding percentage
Fine Mean (Note 1)	Beneficial owner	108,042,781	49.78%
Ms. Su Haiqing (Notes 3)	Interest of spouse	113,567,781	52.33%

Notes:

1. Mr. Chen is the beneficial owner of 100% of the issued shares in Fine Mean, and therefore, Mr. Chen is deemed, or taken to be, interested in the Shares which were beneficially owned by Fine Mean for the purposes of the SFO.

2. The 5,525,000 Shares were personally held by Mr. Chen.

3. Ms. Su Haiqing is the spouse of Mr. Chen. Under the SFO, Ms. Su Haiqing is deemed, or taken to be, interested in all the 113,567,781 Shares in which Mr. Chen is interested.

Save as disclosed above, as at 31 December 2012, the Company had not been notified of any substantial Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director during the Year had a beneficial interest, either direct or indirect, in any contract of significance (as defined in Appendix 16 to the Listing Rules) to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the Year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective associates to acquire such rights in any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

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

	2012	2011
	%	%
Percentage of purchases:		
From the largest supplier	**100%**	100%
From the five largest suppliers	**100%**	100%
Percentage of turnover:		
From the largest customer	**97.5%**	96.1%
From the five largest customers	**100%**	100%

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

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2012, the Directors were not aware of any business or interest of the Directors and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

PUBLIC FLOAT

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

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

SHARE OPTION

As incentives and rewards to eligible persons for their contribution to the Group, the Group conditionally adopted a share option scheme (the "Scheme") on 27 July 2004 whereby the Directors are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Group (the "Shares") to, inter alia, any employees (full-time or part-time), Directors, consultants, customers, shareholders of and suppliers of goods and services to the Group. The Scheme shall be valid and effective for a period of ten years commencing on the date on which the Scheme becomes unconditional, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within 28 days from the day on which such offer was made. The amount payable by each grantee of options to the Group on acceptance of the offer for the grant of options is HK$1.00. The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price at the discretion of the Directors, provided that it shall be at the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the options; and (iii) the nominal value of the Shares on the date of grant of the options.

The Group shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Group does not exceed 10% of the Shares in issue at the date when the Shares were first listed on the Stock Exchange. The Group may at any time refresh such limit, subject to in compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group does not exceed 30% of the Shares in issue from time to time. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the shares in issue.

There was no outstanding share option during the Year. Details of the share option scheme of the Company are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

During the Year, the Group had not entered into any connected transaction which is not exempt under Rule 14A.31 of the Listing Rules.

Continuing connected transactions

The Group has entered into two leasing agreements with two associates of Mr. Chen Jun, an executive director and controlling shareholder of the Company (hence each a connected person), on 1 June 2012 and 14 June 2012. Their respective terms are from 1 June 2012 to 31 December 2012 and from 1 July 2012 to 30 June 2014. Accordingly, the leasing agreements constituted continuing connected transactions. Pursuant to the leasing agreements, a property and a vehicle would be leased to the Group for its business purpose. Both leasing agreements were exempt from the reporting, annual review, announcement and independent shareholders' approval requirements as they were on normal commercial terms where all of the applicable ratios were, in aggregate, on an annual basis, less than 5% and the annual consideration was less than HK$1,000,000. Further details of the rental agreements are disclosed under note 29(c) to the financial statement.

The Directors consider that those material related party transactions disclosed in note 29 to the financial statements did not fall or exempted under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the Code on Corporate Governance (the "Code") contained in Appendix 14 to the Listing Rules from 1 January 2012 to 31 March 2012. The Code was amended which took effect from 1 April 2012 (the "Revised Code"). The Company has complied with all the code provisions as set out in the Revised Code during the period from 1 April 2012 to 31 December 2012.

Code provision A.6.7 of the Revised Code provides that the independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. Due to other commitments, the independent non-executive Directors, Mr. Chen Wen Ping, Mr. Guo Qiang and Mr. Liu Jin Lu did not attend the annual general meeting of the Company held on 31 May 2012. All the Directors have given the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They will also endeavor to attend future general meetings and develop a balanced understanding of the views of shareholders.

The details of Group's compliance with the Code and the Revised Code is set out in the Corporate Governance Report from page 19 to page 29 of this report.

ANNUAL GENERAL MEETING AND BOOK CLOSURE

The annual general meeting of the Company will be held on 23 May 2013 at 10:00 a.m. at 4th Floor Conference Room, Yangfan Hotel, 38 Shandong Tou Road, Loashan District, Qingdao City, Shandong Province, the PRC.

The transfer books and Register of Members of the Company will be closed from 21 May 2013 to 23 May 2013, both days inclusive. During such period, no share transfers will be effected. In order to qualify for attending the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 20 May 2013.

EVENTS AFTER REPORTING PERIOD

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

On 25 January 2013, the Company announced that with effect from 26 January, 2013, the Company's principal share registrar and transfer agent in the Cayman Islands will be changed to Royal Bank of Canada Trust Company (Cayman) Limited.

Details of the change in principal share registrar and transfer agent were announced by the Company in its announcement dated 25 January 2013.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2012 have been audited by CCIF CPA Limited ("CCIF"). CCIF will retire as auditor at the conclusion of the forthcoming annual general meeting and will not offer themselves for re-appointment. There was no change in the Company's auditor in any of the preceding three years.

A resolution will be submitted to the forthcoming annual general meeting of the Company for the appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company, which was established by the merger of businesses of CCIF and PCP CPA Limited, is a member firm in Hong Kong for Crowe Horwath International.

On behalf of the Board

Chen Jun
Chairman

Hong Kong, 27 March 2013

CORPORATE GOVERNANCE REPORT

The Group's corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance (the "Code") contained in Appendix 14 to the Listing Rules from 1 January 2012 to 31 March 2012. The Code was amended which took effect from 1 April 2012 (the "Revised Code").

The Company has complied with all the code provisions as set out in the Code from 1 January 2012 to 31 March 2012 and the Revised Code during the period from 1 April 2012 to 31 December 2012.

Code provision A.6.7 provides that the independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. Due to other commitments, the independent non-executive Directors, Mr. Chen Wen Ping, Mr. Guo Qiang and Mr. Liu Jin Lu did not attend the annual general meeting of the Company held on 31 May 2012. All the Directors have given the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They will also endeavor to attend future general meetings and develop a balanced understanding of the views of shareholders.

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

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

BOARD OF DIRECTORS

Composition

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

Executive Directors

Chen Jun *(Chairman)*
Zhao Yun *(Chief executive officer)*

Independent Non-executive Directors

Mr. Chen Wen Ping
Mr. Liu Jin Lu
Mr. Guo Qiang

CORPORATE GOVERNANCE REPORT

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

There is no financial, business, family or other material/relevant relationship among the members of the Board, in particular, between the Chairman of the Board and the Chief Executive Officer. All the independent non-executive Directors namely, Mr. Guo Qiang, Mr. Chen Wen Ping and Mr. Liu Jin Lu have respectively entered into a service contract with the Company for a term of one year commencing on 31 May 2012 and ending at the conclusion of the forthcoming annual general meeting of the Company. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles.

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

Each of Mr. Chen Jun, Mr. Zhao Yun, Mr. Guo Qiang, Mr. Chen Wen Ping and Mr. Liu Jin Lu will retire from office as Directors at the forthcoming annual general meeting of the Company.

Mr. Chen Jun, Mr. Zhao Yun, Mr. Guo Qiang, Mr. Chen Wen Ping and Mr. Liu Jin Lu, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles of Association of the Company (the “Articles”).

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

Save as disclosed in the section headed “Directors’ and Senior Management’s Biographies” in this annual report, all members of the Board have no relationship with each others.

BOARD MEETINGS

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

A record of the Directors' attendance at the Board meetings and general meeting(s) are set out as follows:

	Attendance/ Number of Board Meetings	Attendance/ Number of General Meetings
Executive Directors		
Chen Jun *(Chairman)*	4/4	1/1
Zhao Yun	4/4	1/1
Independent Non-executive Directors		
Chen Wen Ping	4/4	0/1
Liu Jin Lu	4/4	0/1
Guo Qiang	4/4	0/1

Board responsibilities and delegation

The Board is responsible to the Shareholders for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the annual development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system and supervising and managing management's performance.

Regarding our Group's corporate governance, during the Year, the Board has in accordance with the terms of reference performed the duties following:

- to develop and review the policies and practices on corporate governance of the Group and make recommendations;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

- to review the Company's compliance with the CG Code as set out in Appendix 14 to the Listing Rules and disclosure in the corporate governance report of the Company.

The Board delegates the day-to-day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Group. The Board gives clear directions to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Group by the management.

CHAIRMAN AND CHIEF EXECUTIVE

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

COMPANY SECRETARY

Mr. Tai Man Hin, Tony, CPA, an external service provider, has been engaged by the Company as its Company Secretary. His primary contact person at the Company is Mr. Zhao Yun, the executive Director of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

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

DIRECTOR'S CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

All Directors are encouraged to and had confirmed that they had complied with the Coder Provision A.6.5 of the Code or the Revised Code during the Year, that all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged an in-house training on the Listing Rules and the Revised Code for Directors in the form of a seminar with provision of training materials compiled by the legal adviser. All Directors had attended the in-house training. The training covered disciplinary matters on breach of the Listing Rules and requirements on disclosure of insider information under the Listing Rules.

REMUNERATION COMMITTEE

The Company established a remuneration committee ("Remuneration Committee") on 25 April 2005. On 28 March 2012, Mr. Zhao Yun ceased to be the chairman and a member of the Remuneration Committee and on the same day, Mr. Chen Wen Ping has been appointed as the chairman of the Remuneration Committee and Mr. Chen Jun has been appointed as a member of the Remuneration Committee, all with effect from 28 March 2012. As at the date of this report, the Remuneration Committee comprised an executive director, namely Mr. Chen Jun, and two independent non-executive directors, namely Mr. Chen Wen Ping and Mr. Guo Qiang. Mr. Chen Wen Ping shall act as the chairman of the Nomination Committee.

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the Code and the Revised Code and are available on the Company and the Stock Exchange's website.

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

A record of the members' attendance at the remuneration committee is set out as follows:

Members of Remuneration Committee	**Attendance/ Number of Meetings**
Chen Wen Ping *(Chairman)*	1/1
Zhao Yun (resigned on 29 March 2012)	1/1
Chen Jun (appointed on 29 March 2012)	0/0
Guo Qiang	1/1

The Remuneration Committee held one meeting during the Year. Under the terms of reference, members of the remuneration committee had performed the following duties:

- consult the chairman of the Board and/or chief executive about their remuneration proposals for other executive Directors. The Remuneration Committee should have access to independent professional advice if necessary;
- make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

- review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

- make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should, include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

- make recommendations to the Board on the remuneration of non-executive Directors;

- consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company and its subsidiaries;

- review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

- ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management recognise the responsibility of safeguarding the interest of shareholders of the Company and provide transparent and real-time information on the Company so as to keep the shareholders and investors abreast of the Company's position and help them to make the best investment decision. The Company believes that maintaining good and effective communication with shareholders can facilitate the shareholders' understanding of the business performance and strategies of the Group. The Board and senior management also recognise the responsibility of safeguarding the interest of shareholders of the Company. In order to safeguard the shareholders' interest, information of the Company and the Group are delivered to the Shareholders through a number of channels, which includes annual report, interim report, announcements and circulars. The latest information of the Company and the Group together with the published documents are also available on the Company's website.

The Company holds annual general meeting every year as an appropriate media for direct communication between the Board and shareholders. Shareholders can raise questions directly to the Board in respect of the business performance and future development of the Group at such annual general meetings.

SHAREHOLDER'S RIGHTS

Procedures for putting forward proposals at general meeting by shareholders

In accordance with the requirements under Article 58 of the articles of association of the Company, extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 88 of the articles of association of the Company, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The minimum length of the period, during which the notices required under the articles of association of the Company will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Attention: Mr. Tony Tai
Zhongtian International Limited
21st Floor, Huaren International Mansion, No. 2 Shandong Road, Shinan District, Qingdao City, Shandong Province, PRC

Shareholders' enquiries and concerns are forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the Shareholders' questions.

INTERNAL CONTROL

The Board is committed to manage business risks and to maintain a proper and effective system of internal control to safeguard the Shareholders' investment and the Group's assets. The Board, through the audit committee of the Company (the "Audit Committee"), has conducted annual review of the effectiveness of the Group's system of internal control covering all controls, including financial, operational and compliance controls, and risk management processes.

The written terms of reference of the Audit Committee are in line with the Code and the Revised Code, and are available on the Company and the Stock Exchange's website.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the external auditor of the Group in 2012 comprised fees for audit services of RMB203,000. The non-audit services rendered by the Company's independent auditor and the relevant fees amounted to RMB12,000 during the Year.

AUDIT COMMITTEE

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

The Audit Committee held two meetings during the Year to review the financial results and reports (including the interim results of the Group for the six months ended 30 June 2012). Policies in relation to financial controls, internal controls, risk management systems of the Group, and the reappointment of the external auditor were reviewed by the Audit Committee at the meetings. The Audit Committee has reviewed this annual report and confirmed that this annual report is complete, accurate and complies with all applicable rules and regulations, including but not limited to the Listing Rules, the Code and the Revised Code. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor.

The Audit Committee comprises three independent non-executive Directors. A record of the Directors' attendance at the Audit Committee is set out as follows:

Members of Audit Committee	Attendance/ Number of Meetings
Chen Wen Ping *(Chairman)*	2/2
Liu Jin Lu	2/2
Guo Qiang	2/2

Under the terms of reference, members of the audit committee have performed the following duties during the Year:

Relationship with the Company's auditors

(a) primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the Company's external auditor, and to approve the remuneration and terms of engagement of the Company's external auditor, and any questions of its resignation or dismissal;

(b) reviewed and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee had also discussed with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) implemented policy on engaging the Company's external auditor to supply non-audit services. For this purpose, external auditor includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee had also reported to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

(d) monitored the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewed significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:

 (i) any changes in accounting policies and practices;

 (ii) major judgmental areas;

 (iii) significant adjustments resulting from audit;

 (iv) the going concern assumptions and any qualifications;

 (v) compliance with accounting standards; and

 (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(e) Regarding (d) above:

 (i) members of the Audit Committee had liaise with the Board and senior management of the Company and the Audit Committee met twice a year, with the Company's auditors; and

 (ii) the Audit Committee considered any significant or unusual items that are, or may need to be, reflected in the report and accounts, it had also given due consideration to any matters that were raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) discussed with the Company's external auditors questions and doubts arising in audit of interim and annual accounts, and other matters that the auditors wish to discuss;

(g) reviewed the letter to the Company's management from the Company's external auditors and the management's response;

Oversight of the Company's financial reporting system and internal control procedures

(h) reviewed the statement about the Company's internal control system which included in this annual report prior to submission for the Board's approval;

(i) reviewed the Company's financial reporting, financial controls, internal control and risk management systems;

(j) discussed the internal control system with the Company's management to ensure that management has performed its duty to have an effective internal control system. The discussion included the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(k) considered major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(l) ensured co-ordination between the Company's internal and external auditors, and ensured that the Company's internal audit function is adequately resourced and had appropriate standing within the Company, and reviewed and monitor its effectiveness;

(m) reviewed the financial and accounting policies and practices of the Group;

(n) reviewed the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(o) ensured that the Board had provided a timely response to the issues raised in the external auditor's management letter;

(p) reported to the Board on the matters in this terms of reference;

(q) considered other topics, as defined by the Board;

Others

(r) reviewed arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee had also ensured that proper arrangements had been in place for fair and independent investigation of these matters and for appropriate follow-up action; and

(s) acted as the key representative body for overseeing the Company's relations with the Company's external auditor.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") on 28 March 2012, which comprises an executive Director, namely Mr. Chen Jun, and two independent non-executive Directors, namely Mr. Chen Wen Ping and Mr. Guo Qiang. Mr. Chen Jun shall act as the chairman of the Nomination Committee.

A record of the members' attendance of the first meeting on 27 March 2013 at the nomination committee is set out as follows:

Members of Nomination Committee	**Attendance/ Number of Meetings**
Chen Jun *(Chairman)*	1/1
Chen Wen Ping	1/1
Guo Qiang	1/1

The written terms of reference of the Nomination Committee are in line with the Code and the Revised Code, and are available on the Company and the Stock Exchange's website.

Under the term of reference, the Nomination Committee has performed the following duties:

- review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- assess the independence of independent non-executive Directors; and

- make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

INDEPENDENT AUDITOR'S REPORT

CCIF CPA LIMITED
9/F Leighton Centre
77 Leighton Road
Causeway Bay Hong Kong

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

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Zhongtian International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 32 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 27 March 2013

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000 (Restated)
Continuing operations			
Turnover	6	**23,995**	18,157
Cost of sales		**(21,558)**	(16,166)
Gross profit		**2,437**	1,991
Other revenue and other income	7	**145**	95
Administrative expenses		**(5,082)**	(5,924)
Fair value gain on investment properties	16	**1,445**	–
Loss before taxation	8	**(1,055)**	(3,838)
Income tax	9	**(129)**	(271)
Loss for the year from continuing operations		**(1,184)**	(4,109)
Discontinued operation			
Loss for the year from discontinued operation	10	**(6,192)**	(10,991)
Loss for the year			
Attributable to owners of the Company		**(7,376)**	(15,100)
Loss attributable to owners of the Company:			
Continuing operations		**(1,184)**	(4,109)
Discontinued operation		**(6,192)**	(10,991)
		(7,376)	(15,100)
Loss per share (expressed in RMB cents)	14		
From continuing and discontinued operations			
Basic and diluted		**(3.4)**	(7.5)
From continuing operations			
Basic and diluted		**(0.6)**	(2.0)
From discontinued operation			
Basic and diluted		**(2.8)**	(5.5)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000 (Restated)
Loss for the year		**(7,376)**	(15,100)
Other comprehensive income for the year			
Reclassification adjustment on investment reserve upon recognition of impairment loss on available-for-sale equity investment net of deferred tax of RMB814,000		–	2,441
Total comprehensive loss for the year			
Attributable to owners of the Company		**(7,376)**	(12,659)
Total comprehensive loss attributable to owners of the Company arises from:			
Continuing operations		**(1,184)**	(4,109)
Discontinued operation		**(6,192)**	(8,550)
		(7,376)	(12,659)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Current			
Non-current assets			
Fixed assets	15	**20,513**	21,028
Investment properties	16	**31,050**	29,605
Available-for-sale equity investment	17	**–**	18,879
		51,563	69,512
Current assets			
Trade and other receivables	19	**47,291**	22,300
Amount due from a director	29(a)	**508**	–
Cash and cash equivalents	20	**26,418**	29,873
		74,217	52,173
Current liabilities			
Trade and other payables	21	**21,299**	7,780
Amount due to a director	29(b)	**937**	22
Current taxation	22(a)	**1,371**	1,371
		23,607	9,173
Net current assets		**50,610**	43,000
Total assets less current liabilities		**102,173**	112,512
Non-current liabilities			
Deferred tax liabilities	22(b)	**9,356**	12,319
Net assets		**92,817**	100,193
Capital and reserves			
Share capital	24	**2,073**	2,073
Reserves	25	**90,744**	98,120
Total equity		**92,817**	100,193

Approved and authorised for issue by the board of directors on 27 March 2013

Chen Jun
Director

Zhao Yun
Director

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Investments in subsidiaries	18	**84,911**	90,704
Current assets			
Other receivables	19	**29**	25
Amounts due from subsidiaries	18	**3,535**	3,000
Cash and cash equivalents	20	**1,156**	3,009
		4,720	6,034
Current liabilities			
Other payables	21	**489**	581
Amount due to a subsidiary	18	**1,282**	1,245
Amounts due to directors	29(b)	**2,887**	2,192
		4,658	4,018
Net current assets		**62**	2,016
Net assets		**84,973**	92,720
Capital and reserves			
Share capital	24	**2,073**	2,073
Reserves	25	**82,900**	90,647
Total equity		**84,973**	92,720

Approved and authorised for issue by the board of directors on 27 March 2013

Chen Jun
Director

Zhao Yun
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital	Share premium Note 25(a)	Warrant reserve Note 25(b)	Investment reserve Note 25(c)	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	1,772	127,892	–	(2,441)	(36,606)	90,617
Issue of ordinary shares on share placement (note (24)(a))	301	18,909	–	–	–	19,210
Issue of warrants (note (25)(b))	–	–	315	–	–	315
Deemed contribution (note (23))	–	–	–	–	2,710	2,710
Loss for the year	–	–	–	–	(15,100)	(15,100)
Reclassification adjustment on investment reserve upon recognition of impairment loss on available-for-sale equity investment net of deferred tax of RMB814,000	–	–	–	2,441	–	2,441
Total comprehensive loss for the year	–	–	–	2,441	(15,100)	(12,659)
At 31 December 2011 and 1 January 2012	2,073	146,801	315	–	(48,996)	100,193
Loss for the year	–	–	–	–	(7,376)	(7,376)
Total comprehensive loss for the year	–	–	–	–	(7,376)	(7,376)
At 31 December 2012	2,073	146,801	315	–	(56,372)	92,817

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Loss before taxation:			
– Continuing operations		**(1,055)**	(3,838)
– Discontinued operation		**(9,284)**	(13,992)
		(10,339)	(17,830)
Adjustments for:			
Interest income		**(145)**	(95)
Dividend income from equity investment		**–**	(455)
Depreciation of fixed assets		**598**	617
Fair value gain on investment properties		**(1,445)**	–
Impairment loss on available-for-sale equity investment		**–**	14,447
Loss on the disposal of available-for-sale equity		**9,284**	–
Unrealised foreign exchange loss		**111**	480
Operating cash outflows before changes in working capital		**(1,936)**	(2,836)
Increase in trade and other receivables		**(25,102)**	(16,628)
Increase in amount due from a director		**(508)**	–
Increase in trade and other payables		**13,519**	1,487
Increase in amount due to a director		**915**	728
Cash used in operations		**(13,112)**	(17,249)
Interest received		**145**	95
Dividend received		**–**	455
Net cash used in operating activities		**(12,967)**	(16,699)
Investing activities			
Net proceeds from disposal of available-for-sale equity investment	10	**9,595**	–
Net cash outflow on disposal of subsidiaries	23	**–**	(395)
Purchases of property, plant and equipment		**(83)**	–
Net cash generated from/(used in) investing activities		**9,512**	(395)
Financing activities			
Proceeds from issue of ordinary shares		**–**	19,210
Proceeds from issue of warrants		**–**	315
Net cash generated from financing activities		**–**	19,525
Net (decrease)/increase in cash and cash equivalents		**(3,455)**	2,431
Cash and cash equivalents at beginning of the year		**29,873**	27,922
Effect of foreign exchange rate changes		**–**	(480)
Cash and cash equivalents at end of the year	20	**26,418**	29,873

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group. None of these developments have a significant impact on the Group's and the Company's results of operations and financial position.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the following assets which are stated at their fair value as explained in the accounting policies set out below:

– investment properties; and

– available-for-sale equity investment.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

(c) Subsidiaries

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries *(Continued)*

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

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

(d) Business combination

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 values, except that:

– a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that existed at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 *Income Tax*;

– assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

– liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* (see the accounting policy below) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combination *(Continued)*

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.

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, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combination *(Continued)*

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(e) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's 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. If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual 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 on a pro-rata basis based on the carrying amount of each asset in the unit. An impairment loss for goodwill is recognised directly in profit or loss. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a cash-generating unit during the year, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investment in equity securities

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

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

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(i).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other property, plant and equipment

Other property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses (see note 2 (j)).

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

– Buildings situated on leasehold land are depreciated over the shorter of their estimated lives (being no more than 50 years) and the unexpired term of the lease

– Lease land classified as held under operating lease is depreciated over the unexpired term of lease

– Motor vehicles 5 years

– Furniture, fixtures and equipment 5 years

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

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economics benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other property, plant and equipment *(Continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(g)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets *(Continued)*

(ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(g)) or is held for development for sale.

(j) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

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

– For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2 (j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j)(ii).

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

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

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

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

(ii) Impairment of other assets

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

– Property, plant and equipment;

– Leasehold land held under operating lease; and

– Investments in subsidiaries

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

– **Calculation of recoverable amount**

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

– **Recognition of impairment losses**

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

– **Reversals of impairment losses**

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

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim Financial Reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see note 2(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of available-for-sale equity securities are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Trade and other receivables

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

(l) Interest-bearing borrowings

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

(m) Trade and other payables

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

(n) Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits

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

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2 (g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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

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

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

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

  – the same taxable entity; or

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Provisions and contingent liabilities

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

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

(r) Revenue recognition

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

(i) Sales of goods

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

(ii) Rental income from operating leases

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition *(Continued)*

(iii) Interest income

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

(iv) Dividend income

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

(s) Translation of foreign currencies

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

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Borrowing costs

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

(u) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(v) Discontinued operations

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

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

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

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

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

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(x) Segment reporting

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

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

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

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

Amendments to HKFRS 7	Financial Instruments: Disclosures-Transfers of Financial Assets
Amendments to HKAS 12	Income Taxes-Deferred Tax: Recovery of Underlying Assets

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

Amendments to HKFRS 7 Financial instruments: Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirely, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12 Income Taxes-Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 Deferred tax: Recovery of underlying assets in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment property are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment properties and concluded that these investment properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale and consequently the presumption in the amended HKAS 12 is rebutted for these properties. As a result, the Group continues to measure the deferred tax on changes in fair value of investment properties using the tax rate that would apply as a result of recovering their value through use.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's activities expose it to a variety of finance risks, including credit risk, liquidity risk, interest rate risk and currency risk. The Group's exposure to these risks and the financial risks management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group maintains a defined credit policy. An aging analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables. Normally, the Group does not obtain collateral from customers. At the end of the reporting period, the Group has a significant concentration of credit risk as 100% (2011: 100%) of the total trade receivables were due from the Group's one largest customer within the information technology segment. All of the trade receivables were subsequently settled up to the date of approval of these financial statements.

During the year ended 31 December 2012, the Group advanced RMB19,102,000 to an independent third party (note 19). The Group's exposure to credit risk from default of that independent third party is limited as the Group has also received an advance of RMB19,000,000 from the associate of that independent third party as collateral.

Cash at banks are with counterparties with sound credit ratings to minimise credit exposure.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows at the end of the reporting period and the earliest date the Group and the Company can be required to pay:

Group

	2012			2011		
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000
Trade and other payables	20,565	20,565	20,565	7,337	7,337	7,337
Amount due to a director	937	937	937	22	22	22
	21,502	21,502	21,502	7,359	7,359	7,359

Company

	2012			2011		
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000
Other payables	489	489	489	581	581	581
Amount due to a subsidiary	1,282	1,282	1,282	1,245	1,245	1,245
Amounts due to directors	2,887	2,887	2,887	2,192	2,192	2,192
	4,658	4,658	4,658	4,018	4,018	4,018

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk

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

At 31 December 2012, it is estimated that a general increase/decrease 100 basis points in interest rates, with all other variable held constant, the Group's loss and accumulated losses would decrease/increase by RMB264,000 (2011: RMB299,000) and the Company's loss and accumulated losses for the year would decrease/increase by RMB12,000 (2011: RMB30,000). This is mainly attributable to the interest earned from bank balances.

The sensitivity analysis above, which include interest rate exposure on variable interest bearing deposits, have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of reporting period. A 100 basis point change is used which represents the management's assessment of the possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2011.

(d) Currency risk

The Group is exposed to currency risk primarily through bank deposits and other payables that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US dollar and Hong Kong dollar. The Group considers that the exposure to the currency risk is not material and no hedging arrangement has been made.

(i) Exposure to currency risk

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

	Group		**Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents:				
United States dollar	**–**	318	**–**	283
Hong Kong dollar	**1,156**	23,167	**1,156**	2,690
Trade and other payables:				
Hong Kong dollar	**19,000**	–	**–**	

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies:

Group

	2012			2011		
	Increase/ (decrease) in foreign exchange rates	**Effect on loss after taxation and accumulated losses RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss after taxation and accumulated losses RMB'000	Effect on other components of equity RMB'000
United States dollar	**5%**	**–**	**–**	5%	16	–
	(5%)	**–**	**–**	(5%)	(16)	–
Hong Kong dollar	**5%**	**1,013**	**–**	5%	1,122	–
	(5%)	**(1,013)**	**–**	(5%)	(1,122)	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities loss after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2011.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair values

(i) Financial instruments carried at fair value

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

– Level 1(highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

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

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

Group	**Level 1** RMB'000	**Level 2** RMB'000	**Level 3** RMB'000
2012			
Assets			
– Available-for-sale equity investment-unlisted	**–**	**–**	**–**
2011			
Assets			
– Available-for-sale equity investment-unlisted	–	–	18,879

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

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2011.

5. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Depreciation

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

(b) Impairment of property, plant and equipment

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

(c) Estimation of fair value of investment properties

Investment properties are stated at market value at the end of the reporting period, which is assessed annually by independent qualified valuers, by reference to open market value basis calculated by reference to net rental income and/or on the basis of discounted cash flow projections based on estimates of future rental income from properties using current market rentals and yields as inputs. The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market transactions and the appropriate capitalisation rate.

5. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Impairment of trade and other receivables

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

(e) Income taxes

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

(f) Impairment of interests in subsidiaries

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

6. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

Turnover represents the sales value of goods supplied to customers and rental income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2012 RMB'000	2011 RMB'000
Continuing operations		
Sale of intelligent electronic products	**23,388**	17,891
Gross rental income from investment properties	**607**	266
	23,995	18,157

(b) Segment information

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the executive directors of the Company, for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Information technology: sale of intelligent electronic products in the PRC

– Property investment: this segment offer office premises to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently, the Group's investment properties are located entirely in the PRC

Operating segment of equity investment was discontinued in the current year. The following segment information does not include any amounts for the discontinued operation, which is described in note 10.

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocation of resources between segments, the Group's senior executive management monitors the results, assets and liabilities of each reporting segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "segment operating results". Segment operating profit/loss includes the operating profit/loss generated by the segment and finance costs directly attributable to the segment, without allocation of central administration costs. Taxation charge is not allocated to reportable segment.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below:

For the year ended 31 December 2012

Continuing operations	Information technology RMB'000	Property investment RMB'000	Total RMB'000
Reportable segment turnover from external customers	23,388	607	23,995
Reportable segment results	(280)	2,052	1,772
Interest income	145	–	145
Depreciation	598	–	598
Reportable segment assets	73,204	51,391	124,595
Reportable segment liabilities	18,860	–	18,860

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

For the year ended 31 December 2011

Continuing operations	Information technology RMB'000	Property investment RMB'000	Total RMB'000
Reportable segment turnover from external customers	17,891	266	18,157
Reportable segment results	(551)	266	(285)
Interest income	95	–	95
Depreciation	617	–	617
Reportable segment assets	49,241	50,532	99,773
Reportable segment liabilities	5,030	–	5,030

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Reconciliations of reportable segment turnover, profit or loss, assets and liabilities:

	2012 RMB'000	2011 RMB'000
Turnover		
Total reportable segment turnover	**23,995**	18,157
Elimination of inter-segment revenue	**–**	–
Consolidated turnover	**23,995**	18,157
Loss		
Reportable segment profit/(loss)	**1,772**	(285)
Unallocated corporate expenses	**(2,827)**	(3,553)
Consolidated loss from continuing operations before taxation	**(1,055)**	(3,838)
Assets		
Total reportable segment assets	**124,595**	99,773
Assets relating to equity investment (now discontinued)	**–**	18,879
Unallocated corporate assets	**1,185**	3,033
Consolidated assets	**125,780**	121,685
Liabilities		
Total reportable segment liabilities	**18,860**	5,030
Income tax payable	**1,371**	1,371
Deferred tax liabilities	**9,356**	12,319
Unallocated corporate liabilities	**3,376**	2,772
Consolidated liabilities	**32,963**	21,492

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(iii) Geographical information

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

(iv) Information from major customers

Revenue from a customer amounted to RMB23,388,000 (2011: RMB17,891,000) on sale of intelligent electronic products contributed more than 10% of the Group's total revenue. Further details of concentration of credit risk are set out in note 4(a).

7. OTHER REVENUE

	2012 **RMB'000**	2011 RMB'000
Continuing operations		
Interest income from bank deposits	**145**	95

8. LOSS BEFORE TAXATION

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

	2012 RMB'000	2011 RMB'000
Continuing operations		
(a) Staff costs		
Directors' emoluments	970	941
Salaries, wages and other benefits	277	181
Retirement benefit scheme contributions	27	31
	1,274	1,153
(b) Other items		
Auditor's remuneration		
– Audit services	203	212
– Non-audit services	12	41
– Over-provision in prior years	(41)	–
Deprecation of property, plant and equipment	598	617
Gross rental income from investment properties less direct outgoings RMB35,000 (2011: RMB154,000)	(572)	(112)
Net foreign exchange loss	111	480
Operating lease charges in respect of buildings	545	–
Cost of inventories	21,558	16,166

9. INCOME TAX IN THE CONSOLDIATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012 RMB'000	2011 RMB'000
Continuing operations		
Current tax		
PRC Enterprise Income Tax	–	271
Deferred tax		
Origination and reversal of temporary differences (note 22(b))	129	–
	129	271

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

The provision for Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2012 and 2011, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2012 and 2011.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2011: 25%).

(b) Reconciliation between tax expense and accounting loss at the applicable tax rates:

	2012 RMB'000	2011 RMB'000
Loss before taxation from continuing operations	(1,055)	(3,838)
Notional tax on loss before taxation calculated at the rates applicable to loss in the countries concerned	13	(657)
Effect on utilisation of tax loss	(672)	–
Tax effect of non-deductible expenses	654	920
Tax effect of non-taxable income	(2)	–
Tax effect of unrecognised tax losses	7	8
Tax effect on origination and reversal of temporary differences	129	–
Tax expense	129	271

10. DISCONTINUED OPERATION

During the year, the Group discontinued the equity investment segment upon the disposal of the available-for-sale equity investment.

The results of the equity investment operation for the year were as follows:

	2012 **RMB'000**	2011 RMB'000
Revenue	–	455
Impairment loss of available-for-sale equity investment	–	(14,447)
Loss before tax	–	(13,992)
Income tax – reversal of deferred tax	–	3,001
Loss after tax for the year	–	(10,991)
Loss on disposal of available-for-sale equity investment		
Cash consideration received	**9,595**	–
Less: Carrying amount of available-for-sale equity investment at the date of disposal	**(18,879)**	–
Loss on disposal	**(9,284)**	–
Income tax – reversal of deferred tax	**3,092**	–
	(6,192)	–
Loss for the year from discontinued operations	**(6,192)**	(10,991)

There was no significant net asset of the equity investment segment upon disposal of available-for-sale equity investment. The net cash inflow of RMB9,595,000 (2011: net cash outflow of RMB10,991,000) from the disposal of available-for-sale equity investment was attributable to investing activities.

11. DIRECTORS' REMUNERATION

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

	2012			
Name of directors	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Executive directors				
Chen Jun	–	552	9	561
Zhao Yun	–	339	10	349
Independent non-executive directors				
Chen Wen Ping	20	–	–	20
Guo Qiang	20	–	–	20
Liu Jinlu	20	–	–	20
	60	891	19	970

11. DIRECTORS' REMUNERATION *(Continued)*

	2011			
Name of directors	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Executive directors				
Chen Jun	–	515	10	525
Zhao Yun	–	337	11	348
Independent non-executive directors				
Chen Wen Ping	20	–	–	20
Guo Qiang (appointed on 8 April 2011)	15	–	–	15
Hung Randy King Kuen (resigned on 8 April 2011)	13	–	–	13
Liu Jinlu	20	–	–	20
	68	852	21	941

There was no amount paid during the years ended 31 December 2012 and 2011 to any directors or those individuals (note 12) of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2012 and 2011.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2011: two) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other three (2011: three) individuals are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	**152**	140
Retirement benefit scheme contributions	**20**	19
	172	159

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

13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of RMB7,747,000 (2011: RMB17,304,000) which has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of RMB7,376,000 (2011: loss of RMB15,100,000) and the weighted average number of 217,029,122 (2011: 202,164,738) ordinary shares in issue during the year, calculated as follows:

(i) Loss for the year attributable to owners of the Company

	2012	2011
	RMB'000	RMB'000
Loss for the year from continuing operations	**1,184**	4,109
Loss for the year from discontinued operation	**6,192**	10,991
	7,376	15,100

(ii) Weighted average number of ordinary shares

	Number of shares	
	2012	2011
Ordinary shares issued at 1 January	**217,029,122**	180,859,122
Effect of issue of ordinary shares upon share placement	–	21,305,616
Weighted average number of ordinary shares at 31 December	**217,029,122**	202,164,738

The diluted loss per share for the years ended 31 December 2012 and 2011 are same as the basic loss per share as the effect of the outstanding warrants would be anti-dilutive.

15. FIXED ASSETS

Group

	Leasehold land held under operating lease RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Furniture, Fixture and equipment RMB'000	Total RMB'000
Cost					
At 1 January 2011	9,900	12,100	2,626	290	24,916
Disposals	–	–	(267)	(288)	(555)
At 31 December 2011 and 1 January 2012	9,900	12,100	2,359	2	24,361
Additions	–	–	79	4	83
At 31 December 2012	9,900	12,100	2,438	6	24,444
Accumulated depreciation and impairment					
At 1 January 2011	219	268	2,466	87	3,040
Charge for the year	264	322	–	31	617
Written back on disposal	–	–	(207)	(117)	(324)
At 31 December 2011 and 1 January 2012	483	590	2,259	1	3,333
Charge for the year	264	322	11	1	598
At 31 December 2012	747	912	2,270	2	3,931
Carrying amount					
At 31 December 2012	9,153	11,188	168	4	20,513
At 31 December 2011	9,417	11,510	100	1	21,028

15. FIXED ASSETS *(Continued)*

Notes:

(a) The leasehold land and buildings are situated in Qingdao, the PRC, under medium term lease.

(b) As at 31 December 2012, leasehold land and buildings and investment properties with carrying amounts of RMB20,341,000 (2011: RMB20,927,000) and RMB22,250,000 (2011: RMB22,000,000), respectively, were pledged as security to a bank for banking facilities not exceeding RMB18,000,000 (2011: RMB18,000,000) granted to an independent third party supplier of the Group in the consideration of which the Group was not required to pay for purchase deposit for the same amount under the goods purchase contract dated 25 October 2011.

The supplier, together with its beneficial owner, has agreed to provide for a counter guarantee, by way of all its assets, in favour of the Group for the amount of RMB44,000,000 (2011: RMB44,000,000) to indemnify the Group for any loss arising from the pledge of properties of the Group. In the opinion of the directors of the Company, the above pledge of properties for trade credit finance was conducted in the normal course of business of the Group and the exposure is remote.

(c) The directors assessed the recoverable amount of the leasehold land and buildings by reference to the recent observable market prices for similar assets and valuations carried out by an independent firm of professional valuers, Asset Appraisal Limited, who have, among their staff, Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of properties being valued. The recoverable amount of the leasehold land and buildings exceed their carrying amounts at the end of the reporting period.

16. INVESTMENT PROPERTIES

	2012 **RMB'000**	2011 RMB'000
Investment properties, at fair value		
At 1 January	**29,605**	29,605
Fair value gain	**1,445**	–
At 31 December	**31,050**	29,605

Notes:

(a) The investment properties of the Group were revalued as at 31 December 2012 on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The valuations were carried out by an independent firm of professional valuers, Asset Appraisal Limited, who have, among their staff, Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of properties being valued.

16. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(b) The analysis of carrying amounts of investment properties is as follows:

	2012 **RMB'000**	2011 RMB'000
In Qingdao, the PRC		
– Medium term lease	**22,545**	22,295
– Long term lease	**8,505**	7,310
	31,050	29,605

(c) Investment properties with carrying value of RMB22,250,000 (2011: RMB22,000,000) were pledged as security to a bank for banking facilities not exceeding RMB18,000,000 (2011: RMB18,000,000) granted to an independent third party supplier of the Group in the consideration of which the Group was not required to pay for purchase deposit for the same amount under the goods purchase contract dated 25 October 2011.

17. AVAILABLE-FOR-SALE EQUITY INVESTMENT

	2012 **RMB'000**	2011 RMB'000
Unlisted equity investment, at fair value		
At 1 January	**18,879**	30,885
Impairment loss charged to profit or loss	**–**	(14,447)
Reclassification adjustment on investment reserve upon recognition of impairment loss	**–**	2,441
Disposal (note (10))	**(18,879)**	–
At 31 December	**–**	18,879

Available-for-sale equity investment represented 2.14% equity interest of Qingdao Huafeng Rural Cooperative Bank Limited in Qingdao, the PRC ("Huafeng Bank"). In the prior year, Huafeng Bank commenced its reorganisation for a merger with other local banks and consequently, the Group was no longer qualified as its legitimate shareholder in accordance with the regulations issued by the relevant authorities in the PRC. The Group's interest in Huafeng Bank shall be bought back by Huafeng Bank in accordance with the terms of its reorganisation.

17. AVAILABLE-FOR-SALE EQUITY INVESTMENT *(Continued)*

The mandatory buy-back of the Group's shareholding in Huafeng Bank was completed during the year ended 31 December 2012, upon the finalisation of the reorganisation of Huafeng Bank's merger with other local banks in the PRC and the Group received a sum of RMB9,595,000 for its shareholding in Huafeng Bank surrendered in accordance with the reorganisation and relevant regulations in the PRC. This resulted in a loss on disposal of RMB6,191,000, net of the reversal of deferred tax of RMB3,092,000 (note 22(b)).

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**53,347**	53,347
Amounts due from subsidiaries (note (a))	**121,509**	122,361
	174,856	175,708
Impairment loss (note (a))	**(89,945)**	(85,004)
Interests in subsidiaries, net	**84,911**	90,704
Amounts due from subsidiaries (note (b))	**3,535**	3,000
Amount due to a subsidiary (note (b))	**(1,282)**	(1,245)

Notes:

(a) The amounts due from subsidiaries of RMB121,509,000 (2011: RMB122,361,000) are unsecured, interest-free and will not be demanded for repayment and, in substance form part of the Company's investment in subsidiaries as its capital contributions to these subsidiaries. An additional allowance for impairment loss on the Company's investment in subsidiaries of RMB4,941,000 (2011: RMB13,340,000) was recognised for the year ended 31 December 2012 because the related recoverable amounts from these subsidiaries were estimated to be less than their carrying amounts.

(b) The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(c) The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary shares unless otherwise stated.

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

19. TRADE AND OTHER RECEIVABLES

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Trade receivables	**27,921**	21,198	**–**	–
Other receivable (note (c))	**19,102**	–	**–**	–
Prepayments and deposits	**268**	1,102	**29**	25
	19,370	1,102	**29**	25
	47,291	22,300	**29**	25

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

All of the trade and other receivables are expected to be recovered within one year. All of trade receivables were subsequently settled up to the date of approval for these financial statements.

(a) Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis:

	2012	2011
	RMB'000	RMB'000
0-60 days	**27,921**	21,198

Trade receivables are due within 30 days to 90 days from the date of billing. Receivables that are current related to customers for whom there is no recent history of default.

(b) Impairment of trade debtors

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The Group does not hold any collateral over the trade receivable balances.

(c) Other receivable represents a short-term loan advanced to an independent third party. The loan is interest free and repayable on 31 December 2013. The Group has collateral over the loan obtained from an associate of that independent third party (note 21(b)). The directors of the Company are of the view that no impairment loss is required as at 31 December 2012.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**26,418**	29,873	**1,156**	3,009
Cash and bank balances in the consolidated statement of cash flows	**26,418**	29,873	**1,156**	3,009

Cash at bank earns interest at floating rate based on daily market bank deposit rate at an average rate of 0.01% (2011: 0.01%) per annum.

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**–**	5,914	**–**	–
Other payable (note (b))	**19,000**	–	**489**	581
Value-added tax payable	**734**	443	**–**	–
Others	**1,565**	1,423	**–**	–
	21,299	1,866	**489**	581
	21,299	7,780	**489**	581

21. TRADE AND OTHER PAYABLES *(Continued)*

Notes:

(a) Included in trade and other payables are trade creditors with the following ageing analysis as of the end of the reporting period:

	2012 **RMB'000**	2011 RMB'000
Due after 1 months but within 3 months	–	5,914

(b) Other payable represents the advance from an associate of the independent third party as collateral for the short-term loan advanced to that independent third party. The balance is interest free and repayable on 31 December 2013.

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position:

	Group	
	2012 **RMB'000**	2011 RMB'000
PRC Enterprise Income Tax		
Provision for the year	–	271
Provision for prior years	**1,371**	1,100
	1,371	1,371

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax liabilities recognised

The components of deferred tax liabilities in respect of the fair value adjustments of the acquisition of the following assets, recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Group			
	Investment properties RMB'000	Leasehold land and buildings RMB'000	Available-for-sale equity investment RMB'000	Total RMB'000
At 1 January 2011	5,234	3,993	6,093	15,320
Credited to profit or loss and classified under discontinued operation (note (10))	–	–	(3,001)	(3,001)
At 31 December 2011and 1 January 2012	5,234	3,993	3,092	12,319
Charged/(credited) to profit or loss				
– Continuing operations	361	(232)	–	129
– Discontinued operation (note (10))	–	–	(3,092)	(3,092)
At 31 December 2012	5,595	3,761	–	9,356

(c) Deferred tax assets not recognised

At the end of the reporting period, the Group has not recognised deferred tax assets in respect of unused tax losses of RMB1,522,000 (2011: RMB1,495,000) because it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses expire five years after the year the loss occurred under the current tax legislation.

23. DISPOSAL OF SUBSIDIARIES – 2011

On 18 April 2011, the Group completed the disposal of the wholly-owned subsidiaries, Golden Century Trade Limited, Best Sight Limited and Qingdao Zhongtian Enterprise Development Company Limited to Mr. Chen Jun, the controlling shareholder and director of the Company at a cash consideration of US$1.

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

	2011 RMB'000
Property, plant and equipment	231
Deposits and prepayments	5
Cash and bank balances	395
Amounts due to directors	(3,257)
Other payables	(84)
Net liabilities disposed of	(2,710)
Consideration	–
Gain on disposal of subsidiaries (as deemed contribution from Mr Chen Jun)	(2,710)
Net cash outflow arising from the disposal:	
Cash and bank balances disposed of	395

As the disposal was transacted with the controlling shareholder of the Company in his capacity as owner of the Company, the gain was regarded as a deemed contribution from Mr. Chen Jun and credited to reserves for the year ended 31 December 2011.

24. SHARE CAPITAL

	Number of shares		Share capital	
	2012	2011	**2012**	2011
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid:				
At 1 January	**217,029**	180,859	**2,170**	1,808
Issue of ordinary shares on share placement (note (a))	**–**	36,170	**–**	362
At 31 December	**217,029**	217,029	**2,170**	2,170
Equivalent to RMB'000			**2,073**	2,073

Note:

(a) On 31 May 2011, the Company issued 36,170,000 new ordinary shares of HK$0.01 each at a price of HK$0.66 per placing share. The difference of HK$22,712,300 between the net proceeds of HK$23,074,000 and the par value of ordinary shares issued of HK$361,700 has been credited to the share premium account of the Company.

25. RESERVES

Group

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Share premium RMB'000 Note (a)	Warrant reserve RMB'000 Note (b)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	127,892	–	(39,165)	88,727
Issue of ordinary shares on share placement (note (24)(a))	18,909	–	–	18,909
Issue of warrants (note (25)(b))	–	315	–	315
Loss for the year	–	–	(17,304)	(17,304)
At 31 December 2011 and 1 January 2012	146,801	315	(56,469)	90,647
Loss for the year	–	–	(7,747)	(7,747)
At 31 December 2012	146,801	315	(64,216)	82,900

Nature and purpose of reserves are as follows:

(a) Share premium

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

25. RESERVES *(Continued)*

(b) Warrant reserve

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium account upon exercise of the warrants.

On 24 August 2011, the Company issued 43,405,824 non-listed warrants at an issue price of HK$0.01 per warrant by private placement. Each warrant entitles the holder to subscribe for one ordinary share at a subscription price of HK$0.64 per warrant share. The warrants will expire on 23 August 2014.

(c) Investment reserve

The investment reserve has been set up and is dealt with in accordance with accounting policy adoption for available-for-sale equity investment in note (2)(f).

(d) Distributability of reserves

The Company's reserves available for distribution represent the share premium and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, as at 31 December 2012, the Company had reserves available for distribution to equity shareholders of RMB82,585,000 (2011: RMB90,332,000).

(e) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 2011. At 31 December 2012 and 2011, the Group did not have any long term external borrowing and had net cash position.

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

26. SHARE OPTION SCHEME

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

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

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

The total number of shares available for issue under the Scheme as at the end of the reporting period was 21,702,912 shares (2011: 21,702,912 shares) which represented 10% of the issued share capital of the Company as at the end of the reporting period. There is no minimum period for which an option to be held before it can be exercised under the Scheme. At 31 December 2012, there were no outstanding share options (2011: Nil). No share option was granted, exercised, cancelled or lapsed during the years ended 31 December 2012 and 2011.

27. EMPLOYEE RETIREMENT BENEFITS

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

The Group's contributions to employee retirement benefits for the year ended 31 December 2012 were RMB46,000 (2011: RMB52,000). As at 31 December 2012, there was no material outstanding contribution to employee retirement benefits. The Group does not have any other obligations other than the contributions described above.

28. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2012, the Group had total minimum lease receivables and payables under non-cancellable operating leases are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
As lessor:		
Within 1 year	**828**	–
After 1 year but within 5 years	**3,208**	–
	4,036	–
As lessee:		
Within 1 year	**886**	–
After 1 year but within 5 years	**91**	–
	977	–

Operating lease rentals represented rental receivables by the Group for its investment properties under operating lease arrangements, with leases negotiated for 1 to 3 years and rentals are fixed over the lease terms and do not include contingent rentals.

Operating lease payables represented rental payable by the Group to the related companies as referred to in note 29 (c) for certain of its offices. Leases are principally negotiated for 1 to 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

29. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2012, the directors are of the view that related parties of the Group include the following individuals:

Name of related party	Relationship with the Group
Chen Jun	Executive director and controlling shareholder of the Company
Zhao Yun	Executive director of the Company

(a) Amount due from a director

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Chen Jun	**508**	–	**–**	–

The amount due is unsecured, interest-free and repayable on demand.

(b) Amount due to a director

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Chen Jun	**–**	–	**1,950**	1,500
Zhao Yun	**937**	22	**937**	692
	937	22	**2,887**	2,192

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

29. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with related companies

	Group	
	2012	2011
	RMB'000	RMB'000
Rental expenses paid to related companies	**545**	–

Rental expenses were paid to two related companies, Mr. Chen Jun, a director of the Company is the common director of the two related companies.

(d) Key management personnel remuneration

Remuneration for key management personnel, including amount paid to the Company's directors as disclosed in note 11 is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**950**	921
Post-employment benefits	**19**	20
Equity compensation benefits	**–**	–
	969	941

Total remuneration is included in staff costs in note 8.

30. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements.

Amendments HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 7	Disclosures-Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) –Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2014
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 July 2012

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

31. COMPARATIVE FIGURES

The comparative consolidated income statement together with the related notes has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
			(Restated)	(Restated)	
Results					
Turnover	8,826	5,402	9,680	18,157	**23,995**
Loss from operations	(53,849)	(15,597)	(5,077)	(3,838)	**(1,055)**
Finance costs	(1,704)	–	–	–	**–**
Loss before income tax	(55,553)	(15,597)	(5,077)	(3,838)	**(1,055)**
Income tax	–	–	(101)	(271)	**(129)**
Loss for the year from continuing operations	(55,553)	(15,597)	(5,178)	(4,109)	**(1,184)**
Profit/(loss) from discontinued operation	–	–	591	(10,991)	**(6,192)**
Attributable to:					
Owners of the Company	(55,553)	(15,597)	(4,587)	(15,100)	**(7,376)**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and liabilities					
Total assets	66,581	62,163	115,965	121,685	**125,780**
Total liabilities	(11,729)	(11,117)	(25,348)	(21,492)	**(32,963)**
	54,852	51,046	90,617	100,193	**92,817**

PARTICULARS OF INVESTMENT PROPERTIES

	Address	Use	Lease Term	Approximate gross floor area (sq. metres)	Group's interest %
(a)	19th (currently known as 21st Floor) Huaren International Building No. 2 Shantung Road Shinan District Qingdao City Shandong Province The PRC	Office	Medium-term lease	1,511	100
(b)	Unit No. 2707 Yang Guang Building No. 61 Xiang Gang Zhong Road Shinan District Qingdao City Shandong Province The PRC	Office	Long-term lease	365	100