ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司 *

(Incorporated in Bermuda with limited liability)

Stock Code: 1064

Annual Report 2010

* For identification purposes only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Director

Ho Kam Hung

Non-Executive Director

Young Kwok Sui

Independent Non-Executive Directors

Lawrence K. Tam
Wong Miu Ting, Ivy
Wong Kui Fai

COMPANY SECRETARY

Tsang Tsz Hung, *CPA*

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2911, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Central
Hong Kong

PRINCIPAL OFFICE IN MAINLAND CHINA

Level 14, Gang Yu Square
Chiaodong Road
Chiaotianmen
Chongqing

AUDITORS

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

COMPANY WEBSITE

www.zhonghuagroup.com

LEGAL ADVISERS

As to Hong Kong Law
Richards Butler
20th Floor, Alexandra House
16-20 Chater Road
Central
Hong Kong

As to Bermuda Law
Conyers Dill & Pearman
3408 Two Exchange Square
8 Connaught Place
Central
Hong Kong

PROPERTY VALUERS

Savills Valuation and Professional Services Limited
23rd Floor, Two Exchange Square
Central
Hong Kong

Vigers Appraisal and Consulting Limited
10th Floor, The Grande Building
398 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL BANKERS

The Wing Hang Bank Limited, *Guangzhou Branch*
Nanyang Commercial Bank Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

1064

The board of directors (the "Directors") of Zhong Hua International Holdings Limited (the "Company") would like to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

FINANCIAL REVIEW

The Group recorded a turnover of HK$32,775,000 (2009: HK$32,849,000) for the year ended 31 December 2010. Net profit for the year attributable to ordinary equity holders of the Company was HK$29,956,000 (2009: HK$17,743,000).

The Group generally financed its operations with internally generated cash flows and banking facilities during the year.

Cash and cash equivalents of the Group as at 31 December 2010 amounted to HK$19,582,000 (2009: HK$23,316,000).

Borrowings

As at 31 December 2010, the Group had outstanding borrowings of approximately HK$227,647,000 (2009: HK$244,954,000) comprising interest-bearing bank loans amounted to HK$67,822,000 (2009: HK$87,701,000), certain long term other payables amounted to HK$84,000,000 (2009: HK$84,000,000), finance lease payable amounted to HK$329,000 (2009: HK$956,000) and a loan from a director amounted to HK$75,496,000 (2009: HK$72,297,000). Of the Group's interest-bearing bank loans, 9%, 10%, 41% and 40% respectively were repayable within one year or on demand, in the second year, in the third to fifth years, inclusive, and over five years.

As at 31 December 2010, the secured bank loans of HK$67,822,000 (2009: HK$87,701,000) and the finance lease payables of HK$329,000 (2009: HK$956,000) of the Group bore interest at floating interest rate and fixed interest rate, respectively. The secured bank loan of HK$18,395,000 (2009: HK$20,580,000) and finance lease payables of the Group are denominated in Hong Kong dollars. HK$49,427,000 (2009: HK$67,121,000) of the secured bank loans are denominated in Renminbi ("RMB").

The Group's gearing ratio as at 31 December 2010 was 0.04 (2009: 0.05), calculated based on the Group's interest-bearing bank and other borrowings and loan from a director of HK$143,647,000 (2009: HK$160,954,000) over total assets of HK$3,484,456,000 (2009: HK$3,210,629,000). The Group's gearing was maintained at a relatively low level during the year.

Currency structure

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were primarily conducted in Hong Kong dollars or Renminbi and the exchange rates for these two currencies were relatively stable throughout the year under review.

Pledge of assets

The Group had utilised secured bank loan facilities amounting to HK$67,822,000 (2009: HK$87,701,000) as at 31 December 2010. The loan was charged by certain of the Group's investment properties and a corporate guarantee executed by the Company and one of the Company's substantial shareholders.

Contingent liabilities

As at 31 December 2010, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK$139,000 (2009: HK$139,000).

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be temporarily closed from Wednesday, 22 June 2011 to Friday, 24 June 2011, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance at the Company's annual general meeting to be held at 11:30 a.m. on Friday, 24 June 2011, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 11:30 a.m. on Wednesday, 22 June 2011.

Notice of annual general meeting of the Company and related circular to shareholders will be sent to the shareholders under separate cover.

BUSINESS REVIEW

The Company is an investment holding company. Its subsidiaries are principally engaged in property investment and development in Mainland China and have two property interests, one in Chongqing (重慶市) and the other in Guangzhou (廣州市).

Guang Yu Square (港渝廣場), a 16-storey plus a basement commercial building, is situated at the most prime commercial area at Chaotianmen (朝天門), Yuzhong District (渝中區), Chongqing (重慶市). Chaotianmen is one of the major clothing wholesale points in Chongqing while Guang Yu Square is the most popular clothing and footwear wholesale centre in the region. The Group has 100% interest in 7 floors of and 60% interest in the basement of Guang Yu Square with a total gross floor area of approximately 26,500 sq.m. and all of them are almost fully let. The Group is contemplating plan for repurchases of two additional floors which were sold to individual occupiers a couple of years ago.

The property interest in Guangzhou (廣州市) is situated at the most prime commercial area in Yuexiu District (越秀區), Guangzhou with a total site area of approximately 22,800 sq.m. It is planned that the development site will be developed into a versatile grade A commercial building complex with wholesale and exhibition hall facilities having a total gross floor area of approximately 234,000 sq.m. and with an objective to be the landmark of the Yuexiu District. The development site is comprised of three contiguous land parcels located at the east of Jiefang Road South (解放南路), to the south of Daxin Road (大新路), to the north of Yede Road (一德路) and to the west of Xieen Road (謝恩里), Yuexiu District and is wholly owned by Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司) ("Guangzhou Zheng Da") which in turn Zheng Da Real Estate Development Co. Ltd. ("Zheng Da") (a Hong Kong incorporated private company controlled by the Company's largest single shareholder and its associates) has 100% interest.

Guangzhou Zheng Da was set up as a Sino-foreign joint venture by Zheng Da as the foreign partner and a third party as the Sino partner in Guangzhou in December 1993. Since its formation the Sino partner has not provided any capital or management support to Guangzhou Zheng Da to a material extent. Pursuant to the terms of the Enforcement Rules of the Joint Venture Agreement (合作合同實施細則) (the "Enforcement Rules") executed in 1994, the Sino partner agreed to surrender its entire interest in Guangzhou Zheng Da except those benefits specified in the Enforcement Rules and therefore Zheng Da assumed 100% interest in Guangzhou Zheng Da.

The Group acquired a 25% indirect interest in Zheng Da in December 2007 while the remaining 75% interest to be completed by the Group not later than 30 June 2011 at an aggregate consideration of RMB1,361,100,000 (approximately HK$1,546,705,000). Details of the intended acquisition, including terms and conditions, consideration and settlement mechanism, and their amendments thereafter were disclosed in the Company's circular dated 26 November 2007 and the Company's announcements dated 31 March 2009, 29 June 2009, 17 December 2009 and 22 June 2010 (primarily refers to the deferment of the long stop date for completion of the acquisition from 31 March 2009 to 30 June 2011).

Pending for re-developing into a commercial complex, the development site is presently comprised of a 2-storey non-permanent commercial podium and a car park for loading and offloading inventory. With a history of over one century for footwear wholesale business in the area surrounding the development site, the commercial podium is the most popular footwear wholesale centre in Guangzhou.

The development project was initially planned to be completed within a period of 15 years but its progress was interrupted by the modifications of municipal planning in the region from time to time in the past years. Pursuant to the terms of the relevant joint venture agreement, the joint venture period of Guangzhou Zheng Da is from 31 December 1993 to 31 December 2008 and can be further extended at the request of either foreign or Sino partner upon maturity. In December 2008, both Guangzhou Zheng Da and its foreign partner, Zheng Da, agreed to extend the joint venture period by 15 years with effect from 1 January 2009 but its Sino partner withheld its consent to such extension. As such, Guangzhou Zheng Da served a writ against its Sino partner at the Yuexiu District People's Court (越秀區人民法院) in late December 2008 demanding for disqualification of the Sino partnership of the subject joint venture, details of which are described under the "Material Litigation" section below.

MATERIAL ACQUISITION UPDATE

The Group entered into a conditional sale and purchase agreement in October 2007 (the "Agreement") with the private companies wholly owned by Messrs. Ho Pak Hung, Ho Tsam Hung and Ho Kam Hung (collectively the "Vendors"), pursuant to which, amongst other things, the Vendors agreed to sell, and an indirectly wholly-owned subsidiary of the Company (the "Purchaser") agreed to acquire 100% equity interest in Zheng Da at a consideration of RMB1,814,800,000 (the "Acquisition"). The principal asset held by Zheng Da is the indirect entire interest in a property interest situated in Guangzhou. Details of the Acquisition were set out in a circular of the Company dated 26 November 2007 (the "Circular").

As set out in the Circular, completion of the Acquisition should have taken place in four tranches to be completed in different phases on terms as follows:

Tranches	Equity interests in Zheng Da represented	Consideration for each tranche *(RMB)*	Original expected completion date
First Tranche	25%	453,700,000	31 December 2007
Second Tranche	26%	471,848,000	31 May 2008
Third Tranche	24%	435,552,000	31 October 2008
Fourth Tranche	25%	453,700,000	31 March 2009
	100%	1,814,800,000	

Pursuant to the terms and conditions of the Agreement, the Purchaser could at its sole discretion elect to defer completion of one or more tranches (except the First Tranche) to a date later than the expected completion date of the relevant tranche as mentioned above. If the Purchaser did not complete any of the tranches on or before the relevant expected completion date, the Purchaser was obliged to pay to the Vendors a deferred interest payment (the "Deferred Interest") calculated at the rate of 4% p.a. on the consideration for such tranche for the period commencing from the relevant original expected completion date and ending on and excluding the day when the relevant consideration was settled by the Purchaser or 31 March 2009, whichever the earlier. In the event that the entire Agreement did not complete by 31 March 2009 (the "Long Stop Date"), the Agreement should lapse (save for any part of completed tranches) and the Purchaser should have no liabilities save for the Deferred Interest obligations.

Completion of the First Tranche took place on 17 December 2007. As at 31 March 2009, the Second Tranche, the Third Tranche and the Fourth Tranche were not completed. As such, the Purchaser was obliged to pay to the Vendors the Deferred Interest of the Second Tranche and the Third Tranche, which was RMB22,927,000 (HK$25,837,000) in total. No Deferred Interest was required to be paid by the Purchaser in respect of the Fourth Tranche as the original expected completion date for the Fourth Tranche was on 31 March 2009. The Purchaser and the Vendors then executed three supplementary agreements to the effect that the Long Stop Date was deferred to 30 June 2010.

In June 2010, the Purchaser and the Vendor executed a fifth supplementary agreement to explore opportunity to arrive any revised terms for the settlement of and the consideration for, and completion timetable in relation to the acquisition of the remaining 75% indirect interest in Zheng Da not later than the revised long stop date which was further deferred to 30 June 2011. If a revised agreement is concluded, it is anticipated that the acquisition will be financed by debt financing, equity financing, bank borrowings or a combination of the three kinds. If in case the acquisition lapses on 30 June 2011, no party shall be liable to any other. If this happens, the Group will no longer deem control over the Zheng Da group and there will be a major accounting adjustment to the consolidated accounts of the Company for the year ending 31 December 2011 to the effect that the Zheng Da group will be regarded as an associated company with a 25% equity interest but not a 25% owned subsidiary of the Company. Further announcement will be made once a concrete decision is made by the Group.

MATERIAL LITIGATIONS

(a) In late December 2008, Guangzhou Zheng Da, a member of the Group, served a writ against its Sino partner at the Yuexiu District People's Court (越秀區人民法院) demanding for disqualification of the Sino partner from the partnership of a Sino-foreign joint venture established between Zheng Da and the Sino partner. The relevant judgment has been obtained in July 2009 with rulings endorsing the forfeiture of the partnership qualification and legal entitlements of the Sino partner in the joint venture. The Sino partner then filed an appeal petition (the "Appeal") at the Guangzhou Municipal Middle People's Court (廣州市中級人民法院) (the "Guangzhou Court") in August 2009. An hearing was made in October 2009 and no further hearings had been made since then. Both Guangzhou Zheng Da and Zheng Da not yet received a valid judgement in writing issued by the Guangzhou Court in accordance with the relevant PRC laws and due judicial procedures. Further details about the recent developments of, and events incidental to the Appeal were described in the Company's announcement dated 23 March 2011. Taking into account the latest rulings granted by the Yuexiu District People's Court in July 2009, the facts and legal grounds substantiated at the first hearing of the Appeal, and the opinion given by the PRC legal counsels and advisors, the Group remains optimistic in obtaining a favourable judgment in the Appeal.

(b) Two writs were filed at Chongqing Municipal High People's Court (重慶市高級人民法院) in November 2006 by a third party (the "Plaintiff") against a wholly owned subsidiary of the Group (the "Defendant") whereby the Plaintiff claimed certain damages in relation to the unilateral termination of an estate management contract by the Defendant, and demanded for payment of compensation and amounts due to the Plaintiff in an aggregate amount of RMB29.0 million (approximately HK$33 million). The Defendant subsequently filed a writ in the capacity of plaintiff at the same court in November 2006 for a counterclaim of an aggregate amount of RMB68.5 million (approximately HK$77.8 million) against the Plaintiff in respect of the estate management contract in concern.

    The Chongqing Municipal High People's Court (重慶市高級人民法院) gave direction to consolidate the proceedings of the three writs. The judgements were made in May 2009 (the "Judgements") with rulings in favour of the Plaintiff in respect of the first two writs and rulings in favour of the Defendant in respect of the third writ. In summary, the Judgements ruled that both the Plaintiff and the Defendant were liable to pay each other damages and/ or compensation as dictated by the court orders. After setting off the compensation amounts payable to each other, the Defendant's liabilities for compensations payable to the Plaintiff amounted to approximately RMB 9.0 million (equivalent to HK$10 million) plus accrued interests.

Subsequent to the Judgements, the Defendant as petitioner in this case (the Petitioner") filed three petitions at the Supreme People's Court of The People's Republic of China (中華人民共和國最高人民法院) ("Supreme People's Court") in May 2009 whereby the Petitioner made petitions for over-riding certain rulings in the Judgements that were not in favour of the Petitioner. The final judgements were made in December 2009 with the first petition was declined and the second and third petitions were endorsed (the "Final Judgements"). In aggregate, the Petitioner is entitled to claim compensations in an aggregate net amount of approximately RMB15.8 million (equivalent to HK$17.9 million) (after set-off of the Petitioner's liabilities of compensations for its counterparty) plus accrued interests from its counterparty.

However, the Plaintiff lodged two requisitions for review of the Final Judgements at the Supreme People's Court. In November 2010, the Supreme People's Court turned down the two requisitions lodged by the Plaintiff and withheld the Final Judgements. The Final Judgements are therefore absolute and final.

(c) A writ of summons was issued in Hong Kong in August 2005 by a former director of a subsidiary of the Company (the "Plaintiff") against, inter alia, the Company (the "Defendant"), a wholly-owned subsidiary of the Company, and a former director and certain accounting staff of the Company. According to the summons, the Plaintiff claimed certain damages in relation to the acquisition of a subsidiary by the Group from a private company controlled by the Plaintiff in December 2000. In the Indorsement of Claims, the Plaintiff claimed that a receipt for a consideration of HK$33.5 million signed by the private company controlled by the Plaintiff be set aside and demanded for payment of outstanding consideration in the amount of HK$33.5 million. The Defendant, together with other defendants, filed an acknowledgement of service to defend the proceedings in February 2006. No further development took place since then.

Having consulted with its legal counsel, the Defendant is of the view that the legal ground of the claim is remote and unsustainable and expects the legal proceedings will continue pending.

BUSINESS PROSPECTS

Despite the State Council is taking stricter measures to cool down the booming property market in most cities, the Group remains optimistic in the development potential and prospects of the property market in Mainland China in the medium to long term spectrum. The Group also considers that the location spread of its investment property projects in Chongqing, the capital city of the western China, and Guangzhou, the capital city of the southern China, may, to a better extent, diversify the business risks of different economic magnitude of the two regions. As such, the investment properties in Chongqing and Guangzhou generated about 40% and 60% of the Group's total revenue respectively during the year under review.

The Group expects that the investment potential of the Guang Yu Square (港渝廣場) will be further improved in the medium term, as the Chongqing Municipal Government is prepared to undergo a major urban re-development (城市改造工程) at Chaotinanmen (朝天門) in the coming years so that most old and poorly managed buildings surrounding the Guang Yu Square will be demolished. To couple with this major urban re-development, the Group intends to refurbish the Guang Yu Square to upgrade its facilities and exterior design.

The development project in the Yuexiu District (越秀區), Guangzhou (廣州市) was intended to be completed in 2013 but the construction schedule is deferred pending the outcome of rulings of the Appeal. Meantime, the non-permanent commercial podium at the development site continues to operate as a footwear wholesale centre and to contribute 60% of the Group's total revenue.

Amid the surge of inflationary pressures around the world to which both Mainland China and Hong Kong cannot be immune, it is anticipated that most responsible governments will impose measures to tighten money supply and combat speculative economic activities in 2011. The earthquake and tsunami disasters in the northern part of Japan in March 2011 further cast volatility and uncertainty to the global economy, particularly in the areas of commodities and hi-tech material supplies. The potential impact of radiation fallout spreading from the damaged Fukushima nuclear plants to the Asia Pacific region remains unascertainable at this stage.

In light of the above, the Directors have been taking a cautious approach in its property development projects on hand and re-mapping its business directions for the coming three years. Given high land costs, high commodity prices, implementation of stringent administrative measures and tools for cooling down overheated economic growth in Mainland China, the Directors are of the view that the Group should diversify its businesses. It is foreseen that the engagement in renewable energy and related industries will be a new business model all over the world in the forthcoming years.

The anticipated rapid surge of both inflation and interest rates in Mainland China may not hit the Group's financial position to a material extent given its strong asset backing and low gearing ratio. Instead, the Group may further lever on these advantages to explore new business opportunities in 2011 and 2012. In particular, the Directors will strengthen its management expertise and redeploy the Group's resources for meeting these new challenges.

Looking ahead, the Directors are confident and optimistic about the Group's future prospects.

Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 84.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2010.

FIVE YEAR GROUP FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 85 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment of the Company and of the Group, and of the investment properties of the Group during the year are set out in notes 12 and 13, respectively, to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 25 and 26 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for cash distribution and distribution in specie were HK$79,935,000. In addition, in accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK$398,726,000, are distributable in the form of fully paid bonus shares.

FINANCIAL RESOURCES AND LIQUIDITY

The Group generally finances its operations with internally generated cash flows, equity financing and with facilities mainly provided by banks in Mainland China during the year. As at 31 December 2010, the Group had cash and bank balances and deposits totalling HK$19,582,000.

At 31 December 2010, the Group had aggregate bank loans of HK$67,822,000, of which HK$6,145,000 is repayable within one year from the end of the reporting period.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and supplier were as follows:

(i) The aggregate amount of sales attributable to the Group's four largest customers represented 100% of the total sales for the year. The sales attributable to the Group's largest customer represented 40% of the Group's total sales for the year.

(ii) The Group had no major supplier due to the nature of principal activities of the Group.

As far as the Directors are aware, neither the directors, their respective associates nor any substantial shareholders (which, to the best knowledge of the Directors, own more than 5% of the company's issued share capital) had any beneficial interest in the Group's four largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive Director:

Ho Kam Hung

Non-Executive Director:

Young Kwok Sui

Independent Non-Executive Directors:

Lawrence K. Tam
Wong Miu Ting, Ivy
Wong Kui Fai

In accordance with the Company's bye-laws, Messrs. Lawrence K. Tam and Wong Kui Fei shall retire from office by rotation, and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting of the Company.

All non-executive directors, including independent non-executive directors, are appointed for a term of one year. In accordance with the Company's bye-laws, all of them shall retire from office by rotation, and, being eligible, will offer themselves for re-election at the Company's annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and business performance of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Except for those disclosed in section headed "Connected Transactions" below and note 35 to the financial statements, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted as at the end of the reporting period or at any time during the year.

MANAGEMENT CONTRACTS

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

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who make contributions to the Group's operations and profitability. Further details of the Scheme are disclosed in note 26 to the financial statements.

The following table discloses the movement in the Company's share options outstanding during the year:

Name or category of participant	Number of share options: At 1 January 2010	Granted during the year	Exercised during the year	Expired during the year	At 31 December 2010	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Other employees, advisors and consultants								
In aggregate	800,000	–	–	(800,000)	–	6 March 2007	6 March 2007 to 5 March 2010	2.0

Notes to the table of share options outstanding during the year:

* The vesting period of the share options is from the date of grant up to the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the interests and short positions of directors in the share capital and the underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Ltd. (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

The Company:

Name of director	Capacity and nature of interest	Number of shares held		Percentage of the Company's issued share capital
		Long position	Short position	
Ho Kam Hung *(Note)*	Through controlled corporations	27,650,000	–	18.26

Note:

Ho Kam Hung is deemed (by virtue of the SFO) to be interested in these shares in the following capacities.

(i) 2,700,000 shares are held by Morcambe Corporation, which is beneficially owned by him.

(ii) 21,780,000 shares are held by EC Fair Limited which he has 33 1/3% interest.

(iii) 3,170,000 shares are held by High Rank Enterprises Limited, which he has approximately 31.6% interest.

Associated Company:

Name of director	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Numbers of shares/equity derivatives held		Capacity and nature of interest	Percentage of the associated corporation's issued share capital
				Long position	Short position		
Ho Kam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	–	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	–	Directly beneficially owned	30.13

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 14 to the financial statements.

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

CONNECTED TRANSACTIONS

The Company had the following connected transactions, details of which were disclosed in accordance with the requirements of Chapter 14A of the Listing Rules.

An interest expense of HK$5,758,000 was incurred in respect of a loan from a director during the year. Details of a loan from a director are disclosed in notes 23 and 35 to the financial statements.

Certain bank loan is secured by a personal guarantee of Ho Pak Hung, a substantial shareholder of the Company. Further details are disclosed in note 21 to the financial statements.

On 28 February 2011, Ho Kam Hung, a director of the Company, and on 11 March 2011, Ho Pak Hung, a director of a subsidiary and brother of Ho Kam Hung, entered into agreements with the Company to indemnify the Company from any potential losses arising from certain other receivables totalling RMB9,706,000 (equivalent to HK$11,453,000) and RMB29,649,000 (equivalent to HK$34,986,000) respectively. The full amount of the said other receivables has been included in the Company's consolidated statement of financial position as at 31 December 2010. The indemnity covers the period from 1 January 2011 to 31 December 2011.

On 30 June 2010, a creditor of a long term other payable (which is an associate of a director of the Company) granted consent so that the Company might elect to defer the repayment of then outstanding principal amount of HK$84,000,000 in full to a later date not later than 31 January 2012, as detailed in note 20 to the financial statements.

During the year, on 21 June 2010, the Company entered into fifth supplementary agreement with the Vendors (as defined in note 14 to the financial statements) to extend the dates of completion of the second, the third and the fourth tranches in relation to an acquisition to 30 June 2011, while no deferred interest is required for the period of extension. Further details are disclosed in note 14 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouses or minor children to acquire such rights in any other body corporate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group had 24 employees and the total staff costs (including directors' fees) accumulated to approximately HK$2.9 million. Remuneration policies are reviewed regularly by the Directors and by the Remuneration Committee in respect of the Directors and senior management. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective regions in which the Group operates.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the interests and short positions of 5% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position:

Name of shareholders	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Ye Jia Li *(Note 1)*	Interest of spouse	27,650,000	18.26
Ho Tsam Hung *(Note 2)*	Through controlled corporations	26,400,000	17.44
Ho Pak Hung *(Note 3)*	Through controlled corporations	24,950,000	16.48
Liang Gui Fen *(Note 4)*	Interest of spouse	24,950,000	16.48
Strong Hero Holdings Limited *(Note 5)*	Directly beneficially owned	25,000,000	16.51
Xie Xiaoxiang *(Note 5)*	Through controlled corporation	25,000,000	16.51
EC Fair Limited	Directly beneficially owned	21,780,000	14.39
Hero Grand Investments Limited *(Note 6)*	Directly beneficially owned	7,700,000	5.09
Leung Po Wa *(Note 6)*	Through controlled corporation	7,700,000	5.09

Notes:

1. Ye Jia Li is deemed (by virtue of the SFO) to be interested in these shares in the capacity as the spouse of Ho Kam Hung, a Director.

2. Ho Tsam Hung is deemed (by virtue of the SFO) to be interested in these shares in the following capacities:

   (i) 1,450,000 shares are held by Morgan Estate Assets Limited which is beneficially owned by him.

   (ii) 21,780,000, shares are held by EC Fair Limited, a company which he has $33^1/_3$% interest.

   (iii) 3,170,000 shares are held by High Rank Enterprises Limited, which he has approximately 31.6% interest.

3. Ho Pak Hung is deemed (by virtue of the SFO) to be interested in these shares in the following capacities:

   (i) 21,780,000 shares are held by EC Fair Limited which he has $33^{1}/_{3}$% interest.

   (ii) 3,170,000 shares are held by High Rank Enterprises Limited which he has approximately 31.6% interest.

4. Liang Gui Fen is deemed (by virtue of the SFO) to be interested in these shares in the capacity as the spouse of Ho Pak Hung.

5. Strong Hero Holdings Limited is wholly-owned by Xie Xiaoxiang.

6. Hero Grand Investments Limited is wholly-owned by Leung Po Wa.

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed amount of public float as required under the Listing Rules at all times up to the date of this report (being the latest practicable date prior to the printing of this report).

AUDITORS

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

BY ORDER OF THE BOARD

Ho Kam Hung
Executive Director

Hong Kong
23 March 2011

This report describes the Company's corporate governance practices and explains the application of the principles of the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code for securities transactions by the Directors. Amendments will be made to the Model Code from time to time in order to conform with any new amendments made to Appendix 10 of the Listing Rules. Having made specific enquiry to all Directors, the Company confirmed that the Directors have complied with the required standard set out in the Model Code throughout the year.

BOARD OF DIRECTORS

The Directors are responsible for determining those matters that are to be retained for full board's sanction including, but not limited to, overall strategy and long-term objectives, new business opportunities, business plans and financial statements, interim and final results, material acquisitions and disposal of assets, capital projects and commitments, funding and risk management policies, material litigations as well as connected transactions.

The Directors have delegated the day-to-day responsibilities in respect of management and administrative functions to senior management including, but not limited to, implementing and achieving the strategies and objectives set by the Directors as well as overseeing the performance of different operating subsidiaries and monitoring and implementing proper accounting system internal controls.

Seven regular board meetings were held during the year ended 31 December 2010. The attendance record of each Director at the said meetings during the year is set out as follows:

Name	Attended/Eligible to Attend
Executive Director	
Mr. Ho Kam Hung	7/7
Non-Executive Director	
Mr. Young Kwok Sui	7/7
Independent Non-Executive Directors	
Mr. Lawrence K. Tam	7/7
Ms. Wong Miu Ting, Ivy	7/7
Mr. Wong Kui Fai	7/7

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be exercised by the same individual. In order to comply with this provision by spirit, the board meetings of the Company were chaired by Non-Executive Director or Independent Non-Executive Directors at most of the times during the year ended 31 December 2010.

NON-EXECUTIVE DIRECTORS

The terms of office of all Independent Non-Executive Directors, subject to earlier determination or retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws and/or applicable laws and regulations, are fixed for one year renewable on an annual basis.

The Company has received from each of its Independent Non-Executive Directors an annual confirmation of independence and considers that each of them is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

REMUNERATION COMMITTEE

The Remuneration Committee comprises of three Independent Non-Executive Directors, Mr. Lawrence K. Tam, Ms. Wong Miu Ting, Ivy and Mr. Wong Kui Fai, and one Executive Director, Mr. Ho Kam Hung.

The main duties of the Remuneration Committee include determining remuneration policy for Directors and senior management and reviewing the remuneration package including performance-based remuneration.

No specific Remuneration Committee meeting had been held during the year as the aggregate remuneration expenses for Directors and senior management for the year was insignificant in absolute amount.

NOMINATION COMMITTEE

The Company does not have a nomination committee as the role and functions of such a committee are performed by the Directors.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the provisions of the Bye-laws of the Company, any director appointed by the Company either to fill a casual vacancy or as an addition to the board shall hold office until the forthcoming annual general meeting and shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the Chairman and/or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. However, the Managing Director, though without a specified term, voluntarily retired and offered himself for re-election at the Company's annual general meetings in the past years. The Directors consider that this practice is in line with the spirit of the Code's practice.

AUDIT COMMITTEE

The present members of the Audit Committee are comprised of three Independent Non-executive Directors, Mr. Wong Kui Fai, Mr. Lawrence K. Tam and Ms. Wong Miu Ting, Ivy and one Non-Executive Director, Mr. Young Kwok Sui. During the year ended 31 December 2010, the Audit Committee held two regular meetings.

The attendance record of each member at the audit committee meetings during the year ended 31 December 2010 is as follows:

Name of members	Attended/Eligible to Attend
Young Kwok Sui	2/2
Wong Miu Ting, Ivy	2/2
Lawrence K. Tam	2/2
Wong Kui Fai	2/2

The main duties of the Audit Committee include reviewing the financial information of the Group and overseeing the Group's financial reporting system and internal control procedures.

INTERNAL CONTROL

The Directors acknowledge their responsibility for the Group's internal control system and through the Audit Committee, conduct reviews on the effectiveness of such system at least annually, covering all material controls, financial, operational and compliance controls and risk management functions. The process used in reviewing the effectiveness of such internal control system includes discussion with management on risk areas identified by management. The purpose of the Group's internal control is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational system so that the Group's objectives can be achieved.

AUDITORS' REMUNERATION

During the year ended 31 December 2010, the fees charged to the accounts of the Group for the Group's statutory audit services amounted to HK$1,480,000.

Profiles of Directors

Directors

Executive director

Mr. Ho Kam Hung, aged 56, has been appointed as the Managing Director of the Company since October 1997. Mr. Ho has over 20 years' experience in property investment and development, manufacturing and cross-border trading in Mainland China and Hong Kong. Mr. Ho has been enthusiastic in community services in Mainland China and is currently the vice presidents of Guangzhou Merchant Association (廣州市招商協會) and Guangzhou Yuexiu Ren Ai Association (廣州市越秀區仁愛會).

Non-executive director

Mr. Young Kwok Sui, aged 53, was appointed as an independent non-executive director of the Company in December 2002 and was re-designated as a non-executive director of the Company in March 2006. He holds bachelor degrees in laws and commerce. He is also a solicitor and barrister of the High Court of New Zealand. He has over 20 years' professional and commercial experiences in finance, corporate strategies and property sector.

Independent non-executive directors

Mr. Lawrence K. Tam, aged 66, was appointed in December 2005 as an independent non-executive director of the Company. He is a seasoned banking and finance professional. He is a member of The Institute of Chartered Secretaries and Administrators, the United Kingdom, and holds a Post-Graduate Diploma in Management Studies from the University of Hong Kong and completed the Pacific Rim Bankers Program at the University of Washington, Seattle, the United States of America.

Ms. Wong Miu Ting Ivy, aged 49, was appointed in December 2005 as an independent non-executive director of the Company. She holds a Bachelor Degree in Accounting and Financial Management from Loughborough University of Technology, England. She is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Ms. Wong has over 20 years of experience in auditing and business advisory. She also has experience in the IPOs of various companies and has been providing financial advisory services to listed companies in relation to accounting, internal control and financial matters.

Mr. Wong Kui Fai, aged 53, was appointed in November 2006 as an independent non-executive director of the Company. He holds a Bachelor Degree in Actuarial Science from University of Kent at Canterbury, England. He has been in the information technology ("IT") field for over 20 years with regional exposure covering the Greater China region and the United States. He had served at senior management levels for a number of multinational e-commerce solutions corporations and IT investment companies with hands-on experience in operations, strategic planning and direct investments. Mr. Wong formerly was the General Manager of Microsoft Hong Kong Limited and is presently actively engaged in mergers and acquisitions of cross border IT investment projects.

ERNST & YOUNG
安 永

To the shareholders of **Zhong Hua International Holdings Limited**
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 25 to 84, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit 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.

ERNST & YOUNG
Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong
23 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**32,775**	32,849
Other income		**626**	642
Changes in fair value of investment properties	13	**151,294**	161,418
Administrative expenses		**(16,076)**	(18,528)
Other operating expenses, net		**–**	(1,247)
Finance costs	6	**(10,515)**	(24,913)
PROFIT BEFORE TAX	7	**158,104**	150,221
Income tax expense	9	**(42,294)**	(46,102)
PROFIT FOR THE YEAR		**115,810**	104,119
Attributable to:			
Ordinary equity holders of the Company	10	**29,956**	17,743
Non-controlling interests		**85,854**	86,376
		115,810	104,119
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**HK$0.20**	HK$0.12
Diluted		**N/A**	N/A

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR	**115,810**	104,119
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**98,081**	17,067
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**213,891**	121,186
Attributable to:		
Ordinary equity holders of the Company	**63,787**	23,173
Non-controlling interests	**150,104**	98,013
	213,891	121,186

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**7,759**	8,212
Investment properties	13	**3,311,740**	3,022,022
Investments in jointly-controlled entities	15	**–**	–
Total non-current assets		**3,319,499**	3,030,234
CURRENT ASSETS			
Properties held for sales		**39,047**	37,393
Trade receivables	16	**39,336**	42,499
Deposits and other receivables	17	**66,992**	59,107
Pledged deposits	18	**–**	18,080
Cash and cash equivalents	18	**19,582**	23,316
Total current assets		**164,957**	180,395
CURRENT LIABILITIES			
Trade payables	19	**(24,941)**	(26,319)
Tax payable		**(36,803)**	(30,956)
Other payables and accruals	20	**(82,528)**	(77,438)
Interest-bearing bank and other borrowings	21	**(6,474)**	(22,748)
Total current liabilities		**(150,746)**	(157,461)
NET CURRENT ASSETS		**14,211**	22,934
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,333,710**	3,053,168
NON-CURRENT LIABILITIES			
Loan from a director	23	**(75,496)**	(72,297)
Due to a director	23	**(77,904)**	(74,604)
Long term other payables	20	**(178,476)**	(180,000)
Interest-bearing bank and other borrowings	21	**(61,677)**	(65,909)
Deferred tax liabilities	24	**(684,531)**	(618,623)
Total non-current liabilities		**(1,078,084)**	(1,011,433)
Net assets		**2,255,626**	2,041,735

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*25*	**15,140**	15,140
Reserves	*27*	**690,089**	626,302
		705,229	641,442
Non-controlling interests		**1,550,397**	1,400,293
Total equity		**2,255,626**	2,041,735

Ho Kam Hung
Director

Young Kwok Sui
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to equity holders of the Company									
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 *(note 27)*	Equity component of convertible bond HK$'000	Share option scheme reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2009	12,640	386,226	80,258	44,737	277	85,745	(6,614)	603,269	1,302,280	1,905,549
Issue of new shares *(note 25(a))*	2,500	12,500	–	–	–	–	–	15,000	–	15,000
Expiry of share options	–	–	–	–	(118)	–	118	–	–	–
Exchange differences on translation of foreign operations	–	–	–	–	–	5,430	–	5,430	11,637	17,067
Profit for the year	–	–	–	–	–	–	17,743	17,743	86,376	104,119
Total comprehensive income for the year	–	–	–	–	–	5,430	17,743	23,173	98,013	121,186
At 31 December 2009	15,140	398,726	80,258	44,737	159	91,175	11,247	641,442	1,400,293	2,041,735
At 1 January 2010	15,140	398,726	80,258	44,737	159	91,175	11,247	641,442	1,400,293	2,041,735
Expiry of share options	–	–	–	–	(159)	–	159	–	–	–
Exchange differences on translation of foreign operations	–	–	–	–	–	33,831	–	33,831	64,250	98,081
Profit for the year	–	–	–	–	–	–	29,956	29,956	85,854	115,810
Total comprehensive income for the year	–	–	–	–	–	33,831	29,956	63,787	150,104	213,891
At 31 December 2010	15,140	398,726*	80,258*	44,737*	–*	125,006*	41,362*	705,229	1,550,397	2,255,626

* *These reserve accounts comprise the consolidated reserves of HK$690,089,000 (2009: HK$626,302,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**158,104**	150,221
Adjustments for:			
Finance costs	*6*	**10,515**	24,913
Interest income	*7*	**(102)**	(36)
Depreciation	*7*	**1,061**	1,031
Impairment of other receivables	*7*	**–**	1,247
Changes in fair value of investment properties	*7*	**(151,294)**	(161,418)
		18,284	15,958
Decrease/(increase) in trade receivables		**3,163**	(8,280)
Decrease/(increase) in deposits and other receivables		**(7,885)**	721
Increase/(decrease) in trade payables		**(1,378)**	169
Increase/(decrease) in other payables and accruals		**5,090**	(11,816)
Exchange difference on translation of foreign operations		**(6,338)**	(1,997)
Cash generated from/(used in) operations		**10,936**	(5,245)
Interest received		**102**	36
Interest paid		**(4,713)**	(3,238)
Interest element on finance lease rental payments	*6*	**(44)**	(84)
Net cash flows from/(used in) operating activities		**6,281**	(8,531)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(307)**	(100)
Decrease in deposits pledged to a bank		**–**	14
Net cash flows used in investing activities		**(307)**	(86)

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*25*	**–**	15,000
New bank loans raised		**–**	67,122
Repayments of bank loans		**(19,879)**	(41,665)
Capital element of finance lease rental payments		**(627)**	(587)
Decrease in an amount due to a director		**(5,758)**	(16,869)
Decrease in long term other payables		**(1,524)**	(9,204)
Net cash flows from/(used in) financing activities		**(27,788)**	13,797
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(21,814)**	5,180
Cash and cash equivalents at beginning of year		**41,396**	36,216
CASH AND CASH EQUIVALENTS AT END OF YEAR		**19,582**	41,396
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**19,582**	23,316
Pledged time deposits with original maturity of less than three months when acquired	*18*	**–**	18,080
		19,582	41,396

Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**163**	253
Investments in subsidiaries	*14*	**290,218**	290,218
Total non-current assets		**290,381**	290,471
CURRENT ASSETS			
Due from subsidiaries	*14*	**364,234**	371,793
Deposits and other receivables	*17*	**447**	362
Cash and cash equivalents		**4,564**	4,551
Total current assets		**369,245**	376,706
CURRENT LIABILITIES			
Tax payable		**(3,610)**	(3,610)
Other payables and accruals	*20*	**(33,478)**	(33,323)
Total current liabilities		**(37,088)**	(36,933)
NET CURRENT ASSETS		**332,157**	339,773
TOTAL ASSETS LESS CURRENT LIABILITIES		**622,538**	630,244
NON-CURRENT LIABILITY			
Long term other payable	*20*	**(84,000)**	(84,000)
Total non-current liability		**(84,000)**	(84,000)
Net assets		**538,538**	546,244
EQUITY			
Issued capital	*25*	**15,140**	15,140
Reserves	*27*	**523,398**	531,104
Total equity		**538,538**	546,244

Ho Kam Hung
Director

Young Kwok Sui
Director

1. CORPORATE INFORMATION

Zhong Hua International Holdings Limited (the "Company") was incorporated in Bermuda on 23 September 1997 as an exempted company with limited liability under the Bermuda Companies Act 1981.

The register office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. During the year, the principal office of the Company in Hong Kong was located at Suite 2911, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Central, Hong Kong.

The principal activity of the Company has not changed during the year and was investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the principal activities of the subsidiaries during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the investment properties, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

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

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

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

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

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

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

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as further explained below regarding the impact of HKFRS 3 (Revised) and HKAS 27 (Revised), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

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

The changes introduced by these revised standards are applied prospectively and affect the accounting of future acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in its financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint venture

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint venture (continued)

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

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

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different from the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio.

Business combinations and goodwill

Business combinations from 1 January 2010

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

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

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

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

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

Business combinations prior to 1 January 2010 but after 1 January 2005

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

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

Property, plant and equipment and depreciation

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Land and buildings	Over the lease terms
Leasehold improvements	20%
Equipment	20%
Computer and office equipment, furniture and fixtures	20%
Motor vehicles	20%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

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

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

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

Properties held for sale

Properties held for sale, consisting of completed properties intended for sale are classified as current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other cost attributable to such properties. Net realisable value is determined by directors with reference to the prevailing market prices on an individual property basis.

Leases

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, pledged deposits, and trade and other receivables.

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

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

Fair value of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Derecognition of financial assets

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

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, a loan from and an amount due to a director and interest-bearing bank and other borrowings.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Loans and borrowings

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

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

Convertible bonds

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

Derecognition of financial liabilities

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

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

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

Revenue recognition

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

(i) from the sale of completed properties held for sale, when all of the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;

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

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

Other employee benefits

Pension scheme

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits (continued)

Pension scheme (continued)

The Group's subsidiaries in Mainland China are required to participate in the employee retirement scheme operated by the relevant local government bureau in Mainland China and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages for those eligible employees.

Share-based payment transactions

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

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using a binomial model.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits (continued)

Share-based payment transactions (continued)

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

Borrowing costs

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

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

Management judgement is required in the area of asset impairment, including goodwill, particularly in assessing whether: (1) an event has occurred that may affect asset values; (2) the carrying value of an asset can be supported by the net present value of future cash flows from the assets using estimated cash flow projections; and (3) the cash flow is discounted using an appropriate rate.

Estimation uncertainty

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

Impairment of trade and other receivables

The Group makes allowances for impairment based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and impairment allowances in the year in which such estimate has been changed.

Estimation of fair value of an investment property

As described in note 13 to the financial statements, the investment properties were revalued at the end of the reporting period on an open market, existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of the reporting period.

4. OPERATING SEGMENT INFORMATION

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

(a) the property investment segment, which invests in properties located in Mainland China for rental income potential; and

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(b) the corporate and others segment, which provides management services to group companies.

The management of the Group (the "Management") monitors the results of its operating segments separately for the purpose of making decision about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from operations. The adjusted profit/(loss) before tax from operations is measured consistently with the Group's profit/(loss) before tax from operations except that other income and finance costs are excluded from such measurement. Segment assets exclude cash and cash equivalents and pledged deposits as these assets are managed on a group basis. Segment liabilities exclude tax payable, deferred tax liabilities, interest-bearing bank and other borrowings, a loan from a director and certain long term other payables as these liabilities are managed on a group basis.

	Property investment		Corporate and others		Total	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Segment revenue:						
Sales to external customers	**32,775**	32,849	**–**	–	**32,775**	32,849
Segment results	**176,469**	184,561	**(8,476)**	(10,069)	**167,993**	174,492
Other income					**626**	642
Finance costs					**(10,515)**	(24,913)
Profit before tax					**158,104**	150,221
Income tax expense					**(42,294)**	(46,102)
Profit for the year					**115,810**	104,119
Segment assets	**3,463,808**	3,167,552	**1,066**	1,681	**3,464,874**	3,169,233
Unallocated assets					**19,582**	41,396
Total assets					**3,484,456**	3,210,629
Segment liabilities	**246,349**	241,459	**33,500**	32,902	**279,849**	274,361
Unallocated liabilities					**948,981**	894,533
Total liabilities					**1,228,830**	1,168,894
Other segment information:						
Capital expenditure	**307**	16	**–**	84	**307**	100
Depreciation	**352**	323	**709**	708	**1,061**	1,031
Impairment of other receivables	**–**	–	**–**	1,247	**–**	1,247

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

Revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No geographical information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Information about major customers

Revenues from four (2009: four) customers, each of whom accounted for revenue exceeding 10% of the Group's total revenues, amounted to approximately HK$32,775,000 (2009: HK$32,205,000).

5. REVENUE

Revenue, which is also the Group's turnover, represents gross rental income, after elimination of all significant intra-group transactions less any applicable turnover taxes.

	2010 HK$'000	2009 HK$'000
Rental income from investment properties	**32,775**	32,849

6. FINANCE COSTS

		Group	
	Notes	**2010 HK$'000**	2009 HK$'000
Interest on:			
Bank loans wholly repayable within five years		**–**	44
Bank loans wholly repayable over five years		**4,678**	3,103
Finance lease		**44**	84
Convertible bond	*22*	**–**	5,851
Loan from a director		**5,758**	5,654
Deferred completion of the Remaining Tranches in relation to the Acquisition	*14*	**–**	10,086
Other loan		**35**	91
		10,515	24,913

7. PROFIT BEFORE TAX

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

	2010 HK$'000	2009 HK$'000
Depreciation	**1,061**	1,031
Minimum lease payments under operating leases on land and buildings	**987**	1,044
Employee benefits expense (including directors' remuneration – note 8):		
Wages and salaries	**2,696**	3,497
Pension scheme contributions #	**155**	210
	2,851	3,707
Auditors' remuneration	**1,480**	1,375
Impairment of other receivables*	**–**	1,247
Rental income on investment properties, net	**(32,775)**	(32,849)
Foreign exchange differences, net	**(647)**	(30)
Bank interest income	**(102)**	(36)
Changes in fair value of investment properties	**(151,294)**	(161,418)

* Included in "Other operating expenses, net" on the face of the consolidated income statement.

\# At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2009: Nil).

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the "Stock Exchange") (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

2010

	Directors' fees HK$'000	Salaries, allowances and benefit in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Executive Director				
Ho Kam Hung	240	–	24	264
Non-executive Director				
Young Kwok Sui	210	–	–	210
Independent Non-executive Directors				
Lawrence K. Tam	120	–	–	120
Wong Miu Ting, Ivy	120	–	–	120
Wong Kui Fai	120	–	–	120
	360	–	–	360
	810	–	24	834

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

2009

	Directors' fees HK$'000	Salaries, allowances and benefit in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Executive Director				
Ho Kam Hung	240	–	24	264
Non-executive Directors				
Lam Kuo	40	–	–	40
Young Kwok Sui	210	–	–	210
	250	–	–	250
Independent Non-executive Directors				
Lawrence K. Tam	120	–	–	120
Wong Miu Ting, Ivy	120	–	–	120
Wong Kui Fai	120	–	–	120
	360	–	–	360
	850	–	24	874

The Executive director of the Company is the key management personal of the Group.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

Five highest paid employees

The five highest paid individuals during the year included three (2009: two) directors, details of whose remuneration are set out above. Details of the remuneration of the two (2009: three) non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**696**	1,420
Pension scheme contributions	**24**	72
	720	1,492

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

	Number of individuals	
	2010	2009
Nil to HK$1,000,000	**2**	3

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

During the year, no emoluments were paid by the Group to the directors or non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. INCOME TAX EXPENSE

	Group	
	2010	2009
	HK$'000	HK$'000
Group:		
Current – elsewhere	**4,470**	5,747
Deferred (note 24)	**37,824**	40,355
Total tax charge for the year	**42,294**	46,102

No provision for Hong Kong profits tax has been made as the Group did not generate any taxable profits in Hong Kong during the year (2009: Nil).

9. INCOME TAX EXPENSE (CONTINUED)

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. The subsidiaries established in Mainland China are subject to income taxes at tax rate of 25% (2009: 25%) after the effective date of the Corporate Income Tax Law of the People's Republic of China on 1 January 2008.

A reconciliation of the tax expense applicable to profit before tax at the the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2010

	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**
Profit/(loss) before tax	**(8,513)**	**166,617**	**158,104**
Tax at the statutory tax rate	**(1,405)**	**41,654**	**40,249**
Expenses not deductible for tax	**1,405**	**640**	**2,045**
Tax charge at the Group's effective rate	**–**	**42,294**	**42,294**

Group – 2009

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	(24,817)	175,038	150,221
Tax at the statutory tax rate	(4,095)	43,760	39,665
Expenses not deductible for tax	4,095	2,342	6,437
Tax charge at the Group's effective rate	–	46,102	46,102

10. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2010 includes a loss of HK$7,706,000 (2009: HK$23,967,000) which has been dealt with in the financial statements of the Company (note 27).

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$29,956,000 (2009: HK$17,743,000), and the weighted average number of ordinary shares of 151,404,130 (2009: 150,856,185) in issue during the year.

During the year ended 31 December 2010, no adjustment has been made to the basic earnings per share amounts presented in respect of a dilution as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's ordinary share during the year and the share options had no diluting effect.

During the year ended 31 December 2009, no adjustment has been made to the basic earnings per share amounts presented in respect of a dilution as the impact of the convertible bonds had an anti-dilutive effect on the basic earnings per share amounts presented and as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's ordinary share during the year and the share options had no diluting effect.

12. PROPERTY, PLANT AND EQUIPMENT

Group

2010	Land and buildings HK$'000	Leasehold improvements HK$'000	Equipment HK$'000	Computer and office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:						
At 1 January 2010	9,167	558	473	383	3,615	14,196
Additions	–	–	–	–	307	307
Exchange realignment	406	9	8	13	23	459
At 31 December 2010	9,573	567	481	396	3,945	14,962
Accumulated depreciation:						
At 1 January 2010	2,395	395	359	326	2,509	5,984
Provided during the year	259	70	9	17	706	1,061
Exchange realignment	113	9	7	11	18	158
At 31 December 2010	2,767	474	375	354	3,233	7,203
Net book value:						
At 31 December 2010	6,806	93	106	42	712	7,759
At 31 December 2009	6,772	163	114	57	1,106	8,212

2009	Land and buildings HK$'000	Leasehold improvements HK$'000	Equipment HK$'000	Computer and office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:						
At 1 January 2009	9,086	556	483	351	3,610	14,086
Additions	–	–	70	30	–	100
Disposals	–	–	(82)	–	–	(82)
Exchange realignment	81	2	2	2	5	92
At 31 December 2009	9,167	558	473	383	3,615	14,196
Accumulated depreciation:						
At 1 January 2009	2,121	313	429	321	1,825	5,009
Provided during the year	255	80	10	4	682	1,031
Disposals	–	–	(82)	–	–	(82)
Exchange realignment	19	2	2	1	2	26
At 31 December 2009	2,395	395	359	326	2,509	5,984
Net book value:						
At 31 December 2009	6,772	163	114	57	1,106	8,212
At 31 December 2008	6,965	243	54	30	1,785	9,077

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

2010	Leasehold improvements HK$'000	Computer and office equipment, furniture and fixtures HK$'000	Total HK$'000
At cost:			
At 1 January 2010 and 31 December 2010	**351**	**369**	**720**
Accumulated depreciation:			
At 1 January 2010	**188**	**279**	**467**
Provided during the year	**70**	**20**	**90**
At 31 December 2010	**258**	**299**	**557**
Net book value:			
At 31 December 2010	**93**	**70**	**163**
At 31 December 2009	**163**	**90**	**253**
2009			
At cost:			
At 1 January 2009	351	367	718
Additions	–	84	84
Disposals	–	(82)	(82)
At 31 December 2009	351	369	720
Accumulated depreciation:			
At 1 January 2009	118	354	472
Provided during the year	70	7	77
Disposals	–	(82)	(82)
At 31 December 2009	188	279	467
Net book value:			
At 31 December 2009	163	90	253
At 31 December 2008	233	13	246

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles as at 31 December 2010 amounted to HK$310,000 (2009: HK$928,000).

The Group's land and buildings included above are held under medium term leases in Mainland China.

13. INVESTMENT PROPERTIES

	Group 2010 HK$'000	Group 2009 HK$'000
Carrying amount at 1 January	**3,022,022**	2,836,156
Changes in fair value of investment properties (*note 7*)	**151,294**	161,418
Exchange realignment	**138,424**	24,448
Carrying amount at 31 December	**3,311,740**	3,022,022

The Group's investment properties are held under medium term land use rights in Mainland China.

The Group's investment properties with carrying values of HK$2,955,900,000 and of HK$355,840,000 are revalued as at 31 December 2010 by Vigers Appraisal and Consulting Limited and Savills Valuation and Professional Services Limited, independent professionally qualified valuers, on an open market, existing use basis, respectively. Certain of the investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(i) to the financial statements.

At the end of the reporting period, certain Group's investment properties were pledged to secure banking facilities granted to the Group as set out in note 21 to the financial statements.

14. INVESTMENTS IN SUBSIDIARIES

	Company 2010 HK$'000	Company 2009 HK$'000
Unlisted shares, at cost	**467,158**	467,158
Provision for impairment	**(176,940)**	(176,940)
	290,218	290,218
Due from subsidiaries	**588,899**	596,458
Impairment for amounts due from subsidiaries	**(224,665)**	(224,665)
	364,234	371,793
	654,452	662,011

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2010	2009	
Directly held					
China Land Realty Investment (BVI) Limited ("CLRIL")	British Virgin Islands/Hong Kong	US$11,204 Ordinary	**100**	100	Investment holding
Indirectly held					
Chongqing Smart Hero Real Estate Development Company Limited ("CQ Smart Hero")	People's Republic of China ("PRC")/ Mainland China	US$2,000,000 Registered capital *(Note a)*	**100**	100	Property development, holding and management
Smart Hero (Holdings) Limited	Hong Kong	HK$2 Ordinary, HK$300 Non-voting deferred *(Note b)*	**100**	100	Investment holding
Proland International Technology Limited	Hong Kong	HK$2 Ordinary	**100**	100	Investment holding
廣州遠朋天成電子科技有限公司	PRC/ Mainland China	HK$1,500,000 Registered capital *(Note a)*	**100**	100	Inactive
Zheng Da Real Estate Development Company Limited ("Zheng Da")	Hong Kong	HK$4 Ordinary *(Note c)*	**25**	25	Investment holding
廣州市正大房地產開發有限公司 ("Guangzhou Zheng Da")	PRC/ Mainland China	RMB150,000,000 Registered capital *(Notes a, c and d)*	**25**	25	Property investment business

The above table lists the subsidiaries of the Company as at 31 December 2010 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Notes:

a. CQ Smart Hero, 廣州遠朋天成電子科技有限公司 and Guangzhou Zheng Da are wholly-foreign-owned enterprises established in the PRC.

b. The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company, or to participate in any distribution on winding-up.

c. The Group entered into a conditional sale and purchase agreement on 9 October 2007 (as amended on 26 October 2007) (the "Agreement") with two private companies (the "Vendors") to acquire the entire equity interest in Zheng Da and Guangzhou Zheng Da (collectively the "Zheng Da Group") (the "Acquisition"). The acquisition of the entire equity interest in the Zheng Da Group is to be completed in four tranches. The first tranche was completed on 17 December 2007 and, as a result, the Group has acquired 25% equity interest in Zheng Da. According to the Agreement, the Group has the currently exercisable right to acquire and complete the acquisition of the remaining 75% equity interest in Zheng Da up to 31 March 2009. Therefore, the Company has obtained the exercisable potential voting rights over Zheng Da, and hence the Company has potential power to govern the financial and operating policies of the Zheng Da Group and the directors considered it is appropriate to account for Zheng Da and Guangzhou Zheng Da as subsidiaries of the Group since 17 December 2007.

   In accordance with the Agreement, the second, third and fourth tranches (the "Remaining Tranches") have to be completed on or before 31 May 2008, 31 October 2008 and 31 March 2009, respectively. Should the Remaining Tranches not be completed according to the dates specified above, a deferred interest would be incurred which is calculated based on a rate of 4% per annum on the relevant consideration based on the period from the relevant completion date of each tranche as mentioned above and ending on and excluding the day when the relevant consideration is settled by the Company or 31 March 2009, whichever the earlier.

   During the year ended 31 December 2009, the Company entered into a second, third and fourth supplementary agreements with the Vendors to extend the completion of the Remaining Tranches to 30 June 2009, 31 December 2009 and 30 June 2010, respectively. During the current reporting year, the Company entered into a fifth supplementary agreement on 21 June, 2010, to extend the completion of the Remaining Tranches to 30 June 2011. No deferred interest is required for the period of extension from 1 April 2009 to 30 June 2011. Accordingly, the Company has accrued a deferred interest of HK$10,086,000 for the period from 1 January 2009 to 31 March 2009 during the year ended 31 December 2009. In accordance with the original agreement. At the end of the reporting period and up to the date of this report, the completion of the Remaining Tranches remained outstanding.

d. Subject to the payment of a fixed sum of RMB50,000 per month for 200 months up to 28 February 2011 to the other joint venture party, Zheng Da is entitled to all of the profits and bears all of the losses of Guangzhou Zheng Da.

15. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2010 HK$'000	Group 2009 HK$'000
Share of net assets	–	–
Due from jointly-controlled entities	**11,873**	11,873
Less: Impairment for amounts due from jointly-controlled entities	**(11,873)**	(11,873)
	–	–

The amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

世聯匯通信息科技有限公司("Shi Lian"), an indirectly held jointly-controlled entity of the Group, remains dormant during the year.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
I-Mall Investments Limited	Corporate	British Virgin Islands	68.6	33.3	68.6	Dormant
B2B Market Investments Limited	Corporate	British Virgin Islands	35.0	33.3	35.0	Dormant
Cyber Union Enterprise Limited	Corporate	Hong Kong	35.0	50.0	35.0	Dormant
Shi Lian	Corporate	PRC/ Mainland China	35.0	33.3	35.0	Dormant

All of the above investments in jointly-controlled entities are directly held by I-Action Agents Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

16. TRADE RECEIVABLES

An aged analysis of the trade receivables at the end of the reporting period as follows:

	Group			
	2010		2009	
	HK$'000	Percentage	HK$'000	Percentage
Within 6 months	8,872	22	19,648	46
More than 6 months but within 1 year	3,540	9	–	–
More than 1 year but within 2 years	3,062	8	–	–
More than 2 years	23,862	61	22,851	54
	39,336	100	42,499	100

The Group generally grants a credit term of 3 months to 12 months to its customers.

The age of the Group's trade receivables is based on the date of recognition of turnover and the due date of instalments as stipulated in the sale contracts.

An amount of HK$23,862,000 (2009: HK$22,851,000) included in the total trade receivables is attributable to properties sold in prior years.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	12,412	19,648
Past due within 1 year	3,062	–
Past due over 1 year	23,862	22,851
	39,336	42,499

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

Receivables that were past due but not impaired relate to the trade receivables arising from the properties sold in prior years. The legal titles of the properties sold are retained by the Group until the contracted amounts have been fully settled. Accordingly, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as the legal titles are still retained by the Group as at 31 December 2010 and the balances are still considered fully recoverable.

17. DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits and other receivables	**66,992**	**59,107**	**447**	**362**

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default. On 28 February 2011, Ho Kam Hung, a director of the Company, and on 11 March 2011, Ho Pak Hung, a director of a subsidiary, have indemnified the Company from any losses arising from certain other receivables totaling RMB9,706,000 (equivalent to HK$11,453,000) and RMB29,649,000 (equivalent to HK$34,986,000), respectively. The indemnity covers the period from 1 January 2011 to 31 December 2011.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

At the end of the reporting period, total cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to HK$13,371,000 (2009: HK$26,738,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks that are authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposit is made for a period depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

At 31 December 2009, a three-month time deposit of HK$18,080,000 included in current assets was pledged to a bank to secure a bank loan granted to the Group (Note 21).

19. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period is as follows:

	Group			
	2010		2009	
	HK$'000	**Percentage**	HK$'000	Percentage
More than 1 year	**24,941**	**100**	26,319	100

The age of the Group's trade payables is based on the date of the goods received or services rendered.

20. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**120,510**	121,754	**982**	982
Accrued deferred interest on the Remaining Tranches in relation to the Acquisition *(note 14)*	**25,837**	25,837	**25,837**	25,837
Transferred from convertible bond upon maturity# *(note 22)*	**84,000**	84,000	**84,000**	84,000
Other accruals	**30,657**	25,847	**6,659**	6,504
	261,004	257,438	**117,478**	117,323
Less: current portion	**(82,528)**	(77,438)	**(33,478)**	(33,323)
	178,476	180,000	**84,000**	84,000

The balance transferred from convertible bond upon maturity of HK$84,000,000 in the prior year was payable to a related company of which certain substantial shareholders of the Company are the shareholders. The balance is unsecured, interest-free and not repayable before 31 January 2012.

The balances of other payables and accruals included in the current liabilities are non-interest-bearing and have no fixed terms of repayment. Except for the amount of HK$84,000,000 transferred from convertible bond upon maturity which is non-interest-bearing and is not repayable before 31 January 2012, the non-current portion as at 31 December 2010 is non-interest-bearing and not repayable before 31 March 2012.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2010 HK$'000	Group 2009 HK$'000
Current				
Finance lease payables	6.5	2011	**329**	627
Bank loans – secured	5.5 – 7.36	2011	**6,145**	22,121
			6,474	22,748
Non-current				
Finance lease payables	6.5	2011	**–**	329
Bank loans – secured	5.5 – 7.36	2016 – 2019	**61,677**	65,580
			61,677	65,909
			68,151	88,657

	Group 2010 HK$'000	Group 2009 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**6,145**	22,121
In the second year	**6,567**	6,231
In the third to fifth years, inclusive	**28,071**	26,385
Over five years	**27,039**	32,964
	67,822	87,701
Other borrowings repayable:		
Within one year	**329**	627
In the second year	**–**	329
	329	956
	68,151	88,657

21. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

As at 31 December 2010, the secured bank loans of HK$67,822,000 (2009: HK$87,701,000) and the finance lease payables of HK$329,000 (2009: HK$956,000) of the Group bear interest at floating interest rate and fixed interest rate, respectively. The secured bank loan of HK$18,395,000 (2009: HK$20,580,000) and finance lease payables of the Group are denominated in Hong Kong dollars. The remaining secured bank loans of HK$49,427,000 (2009: HK$67,121,000) are denominated in RMB.

At 31 December 2010 and 2009, bank loans are secured by certain of the Group's investment properties, a corporate guarantee executed by the Company and a personal guarantee executed by one of the Company's substantial shareholders.

In addition, at 31 December 2009, a bank loan was secured by a bank deposit.

Finance lease payables

The Group leases certain of its motor vehicles as at 31 December 2010 and 31 December 2009 for its business use. These leases are classified as finance leases and have lease terms of five years.

As at 31 December, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2010 HK$'000	Present value of minimum lease payments 2010 HK$'000	Minimum lease payments 2009 HK$'000	Present value of minimum lease payments 2009 HK$'000
Amounts payable:				
Within one year	**336**	**329**	671	627
In the second year	**–**	**–**	336	329
Total minimum finance lease payments	**336**	**329**	1,007	956
Future finance charges	**(7)**		(51)	
Total net finance lease payables	**329**		956	
Portion classified as current liabilities	**(329)**		(627)	
Non-current portion	**–**		329	

22. CONVERTIBLE BOND

On 17 December 2007, the Company issued a zero-coupon convertible bond (the "Bond") with a nominal value of HK$84,000,000 and a maturity date of 16 December 2009. The Bond is convertible into a total of 30,000,000 ordinary shares of the Company with a par value of HK$0.10 each of the Company, at the conversion price of HK$2.80 per share at any time from 17 December 2007 up to the day falling seven days prior to the maturity date of the Bond on 16 December 2009. Any convertible bond not converted will be redeemed on 16 December 2009 at nominal value of the bond. The Bond can be redeemed at the option of the Company at the amount equal to 105% of the principal amount of the Bond being redeemed during the period from the date of issue to the date of maturity. Further details of the terms and conditions of the Bond are set out in the circular of the Company dated 26 November 2007.

The Bond issued on 17 December 2007 of HK$84,000,000 has been split into liability, equity and derivative components. On issuance of the Bond, the fair value of the liability component of the Bond was determined using the prevailing market interest rate for similar debt without a conversion option and is carried as a non-current liability. The fair values of the derivative component of the Bond at date of issuance of the Bond and 31 December 2008 were determined by using a Binomial Model and were included in the liability component. The residual amount is assigned to the conversion option as the equity component that is recognised in shareholders' equity. The derivative component is measured at fair value on the issuance date and any subsequent changes in fair value of the derivative component as at the end of the reporting period are recognised in the consolidated income statement.

On 16 April 2009, the Bondholder granted consent so that the Company may elect to defer the repayment of the Bond in full to a date not later than 30 June 2010. The Bond matured on 16 December 2009 and the liability component of the Bond was transferred to other payables. On 17 December 2009, the Bondholder extended its consent so that the Company may elect to defer the repayment of the Bond in full to a date not later than 1 January 2011. During the year, the Bondholder further extended its consent to that the Company may elect to defer the repayment of the Bond in full to a date not later than 31 January 2012 (note 20).

The movement of the liability and derivative components are analysed as follows:

	Group and Company	
	2010	2009
	HK$'000	HK$'000
Liability component at 1 January	–	78,149
Interest expense	–	5,851
Transferred to other payables *(note 20)*	–	(84,000)
Liability component at 31 December	–	–
Derivative component – asset at 1 January and 31 December	–	–
Net liabilities recognised in the statement of financial position	–	–

23. BALANCES WITH A DIRECTOR

The loan from a director (the "Loan") is unsecured and bears interest at 7.821% (2009: 7.821%) per annum for the year. The balance due to a director (the "Balance") included in the non-current liabilities is unsecured and interest-free. The director has undertaken not to demand repayment of the Loan and the Balance before 31 March 2012 and until the Group is able to generate sufficient cash inflows to meet its daily working capital requirement, and accordingly the Loan and the Balance are included under non-current liabilities.

24. DEFERRED TAX

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

Deferred tax liabilities

Group

	2010 Fair value adjustment on investment properties HK$'000	2009 Fair value adjustment on investment properties HK$'000
At 1 January	**618,623**	573,326
Deferred tax debited to the income statement during the year *(note 9)*	**37,824**	40,355
Exchange differences	**28,084**	4,942
Gross deferred tax liabilities at 31 December	**684,531**	618,623

The Group has tax losses arising in Hong Kong of HK$24,138,000 (2009: HK$24,138,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in Group companies that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and jointly-controlled entities will distribute such earnings in the foreseeable future.

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

25. SHARE CAPITAL

Shares

	2010 HK$'000	2009 HK$'000
Authorised: 1,000,000,000 (2009:1,000,000,000) ordinary shares of HK$0.10 (2009: HK$0.10) each	**100,000**	100,000
Issued and fully paid: 151,404,130 (2009: 151,404,130) ordinary shares of HK$0.10 (2009: HK$0.10) each	**15,140**	15,140

A summary of the movements in the Company's issued ordinary share capital during the current and last years is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2009	126,404,130	12,640	386,226	398,866
Issue of shares *(note)*	25,000,000	2,500	12,500	15,000
At 31 December 2009, 1 January 2010 and 31 December 2010	151,404,130	15,140	398,726	413,866

Note:

On 16 December 2008, the Company entered into a subscription agreement with an independent party which conditionally agreed to subscribe for 25,000,000 shares to be issued and allotted by the Company at an issue price of HK$0.60 per shares. On 9 January 2009, the Company issued and allotted 25,000,000 shares at HK$0.60 per share and raised net proceeds of approximately HK$14,800,000 (net of expense of HK$200,000) to provide for general working capital of the Group.

26. SHARE OPTION SCHEMES

The Company's share option scheme which was adopted on 19 September 1997 was terminated and replaced by a new share option scheme at the special general meeting held on 11 June 2002 (the "Scheme").

The principal purpose of the Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in the Company and as an incentive to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Eligible participants of the Scheme include all directors, employees, any entity in which the Group holds an equity interest (the "Invested Entity"), consultants, advisors, suppliers and customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, any shareholder of any member of the Group or any Invested Entity and holders of securities issued by the Group or any Invested Entity. The Scheme became effective on 11 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a director, chief executive, a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at anytime and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors. No options will be exercisable ten years after the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the ordinary shares of the Company on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; and (iii) the average closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

26. SHARE OPTION SCHEMES (CONTINUED)

The following share options were outstanding under the Scheme during the year:

	2010		2009	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**2.0**	**800**	2.1	880
Expired during the year	**2.0**	**(800)**	3.2	(80)
At 31 December	**–**	**–**	2.0	800

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options '000	Exercise price* HK$ per share	Exercise period
800	2.0	6 March 2007 to 5 March 2010

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

At the end of the reporting period and the date of approval of these financial statement, the Company had no share option outstanding under the Scheme.

27. RESERVES

Group

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor.

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Equity component of convertible bond HK$'000	Share option scheme reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	386,226	547,326	44,737	277	(435,995)	542,571
Expiry of share options	–	–	–	(118)	118	–
Issue of new shares (note 25(a))	12,500	–	–	–	–	12,500
Loss for the year	–	–	–	–	(23,967)	(23,967)
At 31 December 2009 and 1 January 2010	**398,726**	**547,326**	**44,737**	**159**	**(459,844)**	**531,104**
Expiry of share options	**–**	**–**	**–**	**(159)**	**159**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**(7,706)**	**(7,706)**
At 31 December 2010	**398,726**	**547,326**	**44,737**	**–**	**(467,391)**	**523,398**

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

As detailed in note 22, the liability component of the Bond including the interest, amounted to HK$84,000,000 at the date of maturity was transferred to the balance of long term other payables (note 20) during the reporting period ended 31 December 2009.

29. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties	**139**	139	**–**	–
Guarantees given to a bank in respect of facilities granted by a subsidiary	**–**	–	**67,822**	71,429
	139	139	**67,822**	71,429

30. PLEDGE OF ASSETS

Details of the Group's bank borrowings secured by the assets of the Group are included in note 21 to the financial statements.

31. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases certain of its investment properties under operating lease arrangements with leases negotiated for a term of one year.

At the end of the reporting period, the Group has no future minimum lease receivables under non-cancellable operating leases with its tenants.

(ii) As lessee

The Group leases its office properties in Hong Kong under operating lease arrangements with leases negotiated for terms ranging from one to two years.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**553**	948	**–**	–
In the second to fifth years, inclusive	**–**	553	**–**	–
	553	1,501	**–**	–

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	Loans and receivables 2010 HK$'000	Loans and receivables 2009 HK$'000
Trade receivables	**39,336**	42,499
Financial assets included in deposits and other receivables	**66,992**	59,107
Pledged deposits	**–**	18,080
Cash and cash equivalents	**19,582**	23,316
	125,910	143,002

Financial liabilities

	Financial liabilities at amortised cost 2010 HK$'000	Financial liabilities at amortised cost 2009 HK$'000
Trade payables	**24,941**	26,319
Financial liabilities included in other payables and accruals	**26,034**	25,753
Interest-bearing bank and other borrowings	**68,151**	88,657
Loan from a director	**75,496**	72,297
Due to a director	**77,904**	74,604
Long term other payables	**178,476**	180,000
	451,002	467,630

32. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company

Financial assets

	Loans and receivables 2010 HK$'000	Loans and receivables 2009 HK$'000
Due from subsidiaries	**364,234**	371,793
Financial assets included in deposits and other receivables	**447**	362
Cash and cash equivalents	**4,564**	4,551
	369,245	376,706

Financial liabilities

	Financial liabilities at amortised cost 2010 HK$'000	Financial liabilities at amortised cost 2009 HK$'000
Financial liabilities included in other payables and accruals	**400**	400
Long term other payable	**84,000**	84,000
	84,400	84,400

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise interest-bearing bank and other borrowings and cash and short term deposits. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables and balances with directors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The interest rates of the interest-bearing bank and other borrowings of the Group are disclosed in note 21 to the financial statements. The Group believes its exposure to interest rate risk is minimal.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000
2010		
Hong Kong Dollar	**50**	**(339)**
Hong Kong Dollar	**(50)**	**339**
2009		
Hong Kong Dollar	50	(439)
Hong Kong Dollar	(50)	439

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from substantial portion of its revenues and expenses are generated and incurred by its operating units in RMB.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's net profit (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in net profit HK$'000
2010		
If Hong Kong dollar weakens against RMB	**5**	**920**
If Hong Kong dollar strengthens against RMB	**(5)**	**(920)**
2009		
If Hong Kong dollar weakens against RMB	5	1,029
If Hong Kong dollar strengthens against RMB	(5)	(1,029)

Credit risk

The credit risk of the Group's other financial assets, which comprise trade receivables, other receivables, pledged deposits and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and bank balances and equity attributable to owners of the Company, which comprises issued capital and reserves as detailed in the consolidated statement of changes in equity.

The Group monitors capital using a gearing ratio, which is interest-bearing borrowings divided by total assets. Interest-bearing borrowings included interest-bearing bank and other borrowings and loan from a director. The gearing ratios as at the end of the reporting period were as follows:

Group

	2010 HK$'000	2009 HK$'000
Interest-bearing bank and other borrowings	**68,151**	88,657
Loan from a director	**75,496**	72,297
Total interest-bearing borrowings	**143,647**	160,954
Total non-current assets	**3,319,499**	3,030,234
Total current assets	**164,957**	180,395
Total assets	**3,484,456**	3,210,629
Gearing ratio	**0.04**	0.05

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The directors of the Company have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The maturity profile of the financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

Group

			2010		
	On demand	Less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	24,941	–	–	–	24,941
Financial liabilities included in other payables and accruals	26,034	–	–	–	26,034
Loan from a director	–	–	75,496	–	75,496
Due to a director	–	–	77,904	–	77,904
Long term other payables	–	–	178,476	–	178,476
Finance lease payables	–	336	–	–	336
Interest-bearing bank borrowings	–	6,145	34,638	27,039	67,822
	50,975	6,481	366,514	27,039	451,009

			2009		
	On demand	Less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	26,319	–	–	–	26,319
Financial liabilities included in other payables and accruals	25,753	–	–	–	25,753
Loan from a director	–	–	72,297	–	72,297
Due to a director	–	–	74,604	–	74,604
Long term other payables	–	–	180,000	–	180,000
Finance lease payables	–	671	336	–	1,007
Interest-bearing bank borrowings	–	22,121	32,616	32,964	87,701
	52,072	22,792	359,853	32,964	467,681

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

Company

	2010				
	On demand HK$'000	Less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Long term other payable	–	–	84,000	–	84,000
Financial liabilities included in other payables and accruals	400	–	–	–	400
	400	**–**	**84,000**	**–**	**84,400**

	2009				
	On demand HK$'000	Less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Long term other payable	–	–	84,000	–	84,000
Financial liabilities included in other payables and accruals	400	–	–	–	400
	400	–	84,000	–	84,400

34. LITIGATION

(a) A writ of summon was issued in Hong Kong in August 2005 by a former director of a subsidiary of the Company (the "Former Director") against certain defendants which include, inter alia, the Company, a wholly-owned subsidiary of the Company, and a former director and certain accounting staff of the Company. According to the summon, the Former Director claimed certain damages in relation to the acquisition of a subsidiary by the Group from a private company controlled by the Former Director in December 2000. In the Indorsement of Claims, the Former Director claimed that a receipt for a consideration of HK$33,500,000 signed by the private company controlled by the Former Director be set aside and demanded for payment of the outstanding consideration in the amount of HK$33,500,000.

The Company together with other defendants filed an acknowledgement of service to defend the proceedings in February 2006. No further development took place since then. Having consulted the Group's legal counsel, the directors concluded that no provision for the proceedings is required at this stage.

34. LITIGATION (CONTINUED)

(b) During the year ended 31 December 2006, a wholly-owned subsidiary (the "Subsidiary") of the Group received two notices issued by the Chongqing Municipal High People's Court (重慶市高級人民法院). The former property agent (the "Former Agent") claimed that the Subsidiary has improperly early terminated their business relationships in 2006 and the Former Agent made an aggregate claim of RMB29,000,000 (equivalent to HK$32,770,000) against the Subsidiary.

The Subsidiary subsequently filed a writ to the Former Agent in November 2006 for the counter-claim of an aggregate amount of RMB68.5 million (approximately HK$77.8 million).

The relevant judgement was obtained in May 2009 (the "Judgement") with rulings in favour of the Former Agent which ruled that both the Former Agent and the Subsidiary were liable to pay each other damages and/or compensation as dictated by the court orders. In aggregate, the Subsidiary's liabilities for payments (after set-off its compensations receivable from the Former Agent) amounted to approximately RMB9.0 million (equivalent to HK$10 million) plus accrued interests.

Subsequent to the Judgement, the Subsidiary as petitioner in this case filed three petitions to the Supreme People's Court of The People's Republic of China (中華人民共和國最高人民法院) ("Supreme People's Court") in May 2009 whereby the Subsidiary made petition for over-riding certain rulings under the Judgement that are not in favour of the Subsidiary. The final judgements were obtained in December 2009 with rulings in favour of the Subsidiary (the "Final Judgements").

However, the Former Agent lodged two requisitions for review of the Final Judgements at the Supreme People's Court. In November 2010, the Supreme People's Court turned down the two requisitions lodged by the Former Agent and withheld the Final Judgements. No provision for any liabilities has been made as at 31 December 2010.

34. LITIGATION (CONTINUED)

(c) The operating period of Guangzhou Zheng Da was initially set for a term of 15 years commencing from 31 December 1993 to 31 December 2008 and can be further extended at the request of either foreign or sino partner upon maturity. In December 2008, Guangzhou Zheng Da and its foreign Partner, Zheng Da, agreed to extend the joint venture period by 15 years with effect from 1 January 2009 but its sino partner withheld its consent to such extension. As such, Guangzhou Zheng Da served a writ against a third party (the "Defendant") at the Yuexiu District People's court (越秀區人民法院) demanding for disqualification of the Defendant as the sino partner to a sino-foreign joint venture established between Zheng Da (as the foreign party) and the Defendant (as the Sino partner).

The relevant judgement was obtained in July 2009 with rulings endorsing the forfeiture of the partnership qualification and legal entitlements of the Defendant under the relevant joint venture agreement. Subsequent to this judgement, the Defendant filed an appeal petition at the Guangzhou Municipal Middle People's Court (廣州市中級人民法院) in August 2009 ("the Appeal") and an hearing of the Appeal was made in October 2009. Details about the developments of the Appeal were disclosed in the Company's announcement dated 23 March 2011.

Taking into account the latest rulings granted by the Yuexiu District People's Court in July 2009, the facts and legal ground substantiated at the first hearing of the Appeal, and the opinion given by the PRC legal counsels and advisors, the directors of the Company remain optimistic in obtaining a favourable judgment in the Appeal.

35. RELATED PARTY TRANSACTION

In addition to the related party transactions and balances with related parties as detailed elsewhere in these financial statements, the Group also incurred an interest expense of HK$5,758,000 (2009: HK$5,654,000) in respect of a loan from a director during the year. Details of a loan from a director were disclosed in note 23 to the financial statements.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2011.

Five Year Group Financial Summary

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

RESULTS

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover					
Continuing operations	**32,775**	32,849	32,558	10,070	8,790
Discontinued operations	**–**	–	–	3,988	3,949
	32,775	32,849	32,558	14,058	12,739
Profit/(loss) before tax					
Continuing operations	**158,104**	150,221	(456,876)	9,811	(12,683)
Discontinued operations	**–**	–	–	(7,272)	(132,855)
	158,104	150,221	(456,876)	2,539	(145,538)
Income tax expense/(credit)	**(42,294)**	(46,102)	97,249	10,285	(223)
Profit/(loss) before non-controlling interests	**115,810**	104,119	(359,627)	12,824	(145,761)
Non-controlling interests	**(85,854)**	(86,376)	214,864	–	–
Profit/(loss) for the year attributable to ordinary equity holders of the Company	**29,956**	17,743	(144,763)	12,824	(145,761)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**3,484,456**	3,210,629	3,013,819	3,290,965	589,795
TOTAL LIABILITIES	**(1,228,830)**	(1,168,894)	(1,108,270)	(1,164,142)	(136,905)
NON-CONTROLLING INTERESTS	**(1,550,397)**	(1,400,293)	(1,302,280)	(1,449,365)	–
	705,229	641,442	603,269	677,458	452,890

Schedule of Property Interests

Particular of the principal properties in Mainland China held by the Group as at 31 December 2010 is as follows:

Investment Properties

	Description	Use	Lease term	Approximate gross floor area (sq.m.)	Attributable percentage interest
1.	The whole of Level 1, Level 2, Level 3, Level 4, Level 8, and Level 11, and portion of the Basement Level of Gang Yu Square Chiao Dong Road Chiaotianmen Chongqing The people's Republic of China	Commercial	Medium	24,372	100
2.	The Land Parcels located to the east of Jiefang Road South, to the south of Daxin Road; to the north of Yede Road and to the west of Xieen Street, Yuexiu District, Guangzhou Guangdong Province, The people's Republic of China	Commercial	Medium	233,818	25