THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or professional adviser.

If you have sold or transferred all your shares in Beijing Development (Hong Kong) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities nor is it calculated to invite any such offer.

北京發展(香港)有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under Companies Ordinance)

(Stock Code: 154)

PROPOSED SUBSCRIPTION OF NEW SHARES AND BONDS
CONNECTED TRANSACTIONS
APPLICATION FOR WHITEWASH WAIVER
INCREASE IN AUTHORISED SHARE CAPITAL
AND
NOTICE OF EGM

Financial Adviser to the Company

Morgan Stanley

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Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

粵海證券有限公司

GUANGDONG SECURITIES LIMITED

A letter from the Board is set out on pages 6 to 48 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 49 and 50 of this circular. A letter of advice from Guangdong Securities Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 51 to 75 of this circular.

A notice convening an EGM of the Company to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 11 January 2013 at 3:30 p.m. is set out on pages III-1 and III-2 of this circular. If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Tricor Tengis Limited, at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

21 December 2012

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In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"acting in concert"	has the meaning ascribed thereto in the Takeovers Code
"Announcement"	the joint announcement dated 15 September 2011 of the Company and BEHL regarding, among other things, the Subscription Agreement and the Whitewash Waiver
"associate(s)"	has the meanings ascribed thereto under the Listing Rules
"BEHL"	Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 392) and the sole shareholder of the Subscriber
"Board"	the board of Directors
"Bonds"	the Firm Bonds and the Standby Bonds
"Business Day"	a day (other than a Saturday, Sunday, public holiday or a day on which a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours and the Stock Exchange is open for the business of dealing in securities
"Company"	Beijing Development (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Subscription Agreement
"Completion Date"	the date on which Completion takes place
"connected person(s)"	has the meaning ascribed to it in the Listing Rules

"Conversion Shares"	Shares to be issued upon conversion of the Firm Bonds and the Standby Bonds (as the case may be)
"Director(s)"	director(s) of the Company
"EGM"	extraordinary general meeting of the Company to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 11 January 2013 at 3:30 p.m. to consider and, if thought fit, to approve the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver and the increase of the authorised share capital of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Firm Bonds"	the convertible bonds due 2018 in the aggregate principal amount of HK$300,580,000 proposed to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
"First Supplemental Agreement"	the supplemental agreement dated 25 October 2011 among the Company, the Subscriber and BEHL to revise certain terms of the Subscription Agreement
"First Supplemental Announcement"	the announcement of the Company dated 25 October 2011 regarding, among other things, the First Supplemental Agreement
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	an independent board committee of the Board comprising the independent non-executive Directors, namely, Dr. Jin Lizuo, Dr. Huan Guocang and Dr. Wang Jianping, which has been formed for the purpose of advising the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver and approving the appointment of Independent Financial Adviser
"Independent Financial Adviser" or "Guangdong Securities"	Guangdong Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver
"Independent Shareholders"	Shareholders other than the Subscriber, BEHL and parties acting in concert with any of them and their respective associates and those parties who are involved in, or interested in, the Subscription Agreement and/or the Whitewash Waiver
"Initial Conversion Price"	the initial conversion price of each Conversion Share of HK$1.13
"Last Trading Date"	9 September 2011, being the last trading day of the Shares on the Stock Exchange prior to the publication of the Announcement
"Latest Practicable Date"	19 December 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information set out in this circular
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Long Stop Date"	31 March 2013 or any later date as agreed by the parties to the Subscription Agreement
"MOU"	the memorandum of cooperation dated 11 September 2011 between the Company and BEHL
"PRC" or "China"	the People's Republic of China, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Proposed Transactions"	the proposed issue of and subscription for the Subscription Shares, the Firm Bonds and the Standby Bonds pursuant to the Subscription Agreement
"Second Supplemental Agreement"	the supplemental agreement dated 29 March 2012 among the Company, the Subscriber and BEHL to extend the Long Stop Date of the Subscription Agreement to 31 December 2012
"SFC"	the Securities and Futures Commission in Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$1.00 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Standby Bonds"	the standby convertible bonds due 2018 in the aggregate principal amount of HK$3,000,150,000 proposed to be issued by the Company pursuant to the terms of the First Supplemental Agreement and the Third Supplemental Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Idata Finance Trading Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by BEHL

"Subscription Agreement"	the conditional subscription agreement dated 15 September 2011 (as amended by the First Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) among the Company, the Subscriber and BEHL in relation to the Proposed Transactions
"Subscription Price"	the subscription price of each Subscription Share of HK$1.13
"Subscription Shares"	a total of 177,000,000 new Shares to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
"subsidiary"	has the same meaning ascribed thereto in section 2 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time) and "subsidiaries" shall be construed accordingly
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Third Supplemental Agreement"	the supplemental agreement dated 12 December 2012 among the Company, the Subscriber and BEHL to revise certain terms of the Subscription Agreement (as amended by the First Supplemental Agreement and the Second Supplemental Agreement)
"Whitewash Waiver"	a waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of the Subscriber and parties acting in concert with it to make a mandatory general offer for all the Shares other than those held by the Subscriber and parties acting in concert with it as a result of the proposed issue of the Subscription Shares
"%"	per cent.

* *For identification purpose only*

北京發展(香港)有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under Companies Ordinance)

(Stock Code: 154)

Directors:
Executive Directors
Mr. E Meng
Mr. Zhang Honghai
Mr. Wang Yong
Mr. Yan Qing
Ms. Sha Ning
Mr. Ng Kong Fat, Brian

Independent non-executive Directors
Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping

Registered office:
66th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

21 December 2012

To the Shareholders

Dear Sir or Madam,

PROPOSED SUBSCRIPTION OF NEW SHARES AND BONDS
CONNECTED TRANSACTIONS
APPLICATION FOR WHITEWASH WAIVER
INCREASE IN AUTHORISED SHARE CAPITAL
AND
NOTICE OF EGM

INTRODUCTION

On 15 September 2011, it was announced that the Company, the Subscriber and BEHL (as guarantor) had entered into the Subscription Agreement which superseded the MOU. Pursuant to the Subscription Agreement, (i) the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 163,000,000 new Shares at a price of HK$1.23 per new Share; (ii) the Company conditionally agreed to issue and the Subscriber conditionally agreed to purchase the Firm Bonds in the aggregate principal amount of HK$1,300,110,000; and (iii) the Company conditionally agreed to grant the call option to the Subscriber to subscribe for the convertible bonds in the aggregate principal amount of HK$1,999,980,000 (the "**Option Bonds**"). Pursuant to the Subscription Agreement, BEHL unconditionally and irrevocably guaranteed the performance and discharge by the Subscriber of all its obligations under the Subscription Agreement in favour of the Company. It was further announced that an application will be made for the Whitewash Waiver and the Company proposed to seek approval by the Independent Shareholders by way of ordinary resolutions at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver. It was further announced that the Directors propose to increase the authorised share capital of the Company to HK$5,000,000,000 divided into 5,000,000,000 Shares by the creation of an additional 4,000,000,000 unissued Shares. The Company also proposed to seek approval by the Shareholders by way of an ordinary resolution at the EGM to approve the increase in the authorised share capital of the Company in this regard.

On 25 October 2011, it was further announced that the Company had entered into the First Supplemental Agreement pursuant to which the Company, the Subscriber and BEHL have agreed to, among other things:

1. revise the Share consideration for the new Shares from HK$200,490,000 to HK$200,010,000 and the number of new Shares from 163,000,000 new Shares to 177,000,000 new Shares;

2. revise the aggregate principal amount of the Firm Bonds from HK$1,300,110,000 to HK$300,580,000 and the initial conversion price of the Firm Bonds from HK$1.23 to HK$1.13; and

3. replace and substitute the Option Bonds with the Standby Bonds, such that the terms and conditions of the Option Bonds (including the definition of Option Bonds itself) shall apply to the Standby Bonds provided that the aggregate principal amount of the Standby Bonds shall be HK$3,000,150,000 (instead of HK$1,999,980,000) with the conversion price of the Standby Bonds to be initially HK$1.13 (instead of HK$1.23) and through Review Meetings (as defined below in this section of the circular headed "The Subscription Agreement — The Standby Request") and pursuant to the terms of the First Supplemental Agreement, the Subscriber may notify the Company in writing that it will subscribe for such amount of Standby Bonds as the Subscriber may consider appropriate and approve at the Review Meetings.

On 29 March 2012, it was further announced that the Company had entered into the Second Supplemental Agreement pursuant to which the Company, the Subscriber and BEHL have agreed to revise the Long Stop Date to 31 December 2012.

On 12 December 2012, the Company announced that it had further entered into the Third Supplemental Agreement pursuant to which the Company, the Subscriber and BEHL have agreed to further revise the terms of the Subscription Agreement (as amended by the First Supplemental Agreement and the Second Supplemental Agreement) to, among other things, replace the terms of the Review Meetings in its entirety with the parties agreeing that the Company, subject to satisfaction of certain pre-conditions to giving notice (as further detailed in this section of the circular headed "The Subscription Agreement — The Standby Request"), shall have the discretion to notify the Subscriber at any time during the term of the Bonds to require the Subscriber to subscribe for such amount of Standby Bonds as the Company may, from time to time, consider appropriate. It was further announced that pursuant to the Third Supplemental Agreement, the Company, the Subscriber and BEHL have agreed to revise the Long Stop Date to 31 March 2013.

Following the entering into of the Third Supplemental Agreement, the principal terms of the Proposed Transactions are that (i) the Company had conditionally agreed to issue and the Subscriber had conditionally agreed to subscribe for 177,000,000 new Shares at a price of HK$1.13 per new Share; (ii) the Company had conditionally agreed to issue and the Subscriber had conditionally agreed to purchase the Firm Bonds in the aggregate principal amount of HK$300,580,000 at the initial conversion price of the Firm Bonds of HK$1.13; and (iii) subject to the Company's satisfaction of certain pre-conditions to giving notice (as further detailed in this section of the circular headed "The Subscription Agreement — The Standby Request"), the Company shall have the discretion to notify the Subscriber at any time during the term of the Bonds to require the Subscriber to subscribe for such amount of Standby Bonds of an aggregate principal amount of HK$3,000,150,000 at the initial conversion price of the Standby Bonds of HK$1.13, as the Company may, from time to time, consider appropriate.

The purpose of this circular is to provide you with more information relating to, among other things, details of (i) the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver, and the proposed increase in authorised share capital; (ii) the recommendation of the Independent Board Committee in relation to the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver; and (iv) a notice of the EGM.

THE SUBSCRIPTION AGREEMENT

Date

15 September 2011 (as amended by the First Supplemental Agreement on 25 October 2011, the Second Supplemental Agreement on 29 March 2012 and the Third Supplemental Agreement on 12 December 2012)

Parties

(a) The Company;

(b) Idata Finance Trading Limited (i.e., the Subscriber), a company which is directly and wholly-owned by BEHL; and

(c) BEHL (as guarantor), a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange.

BEHL is a substantial shareholder of the Company and the Subscriber is a wholly-owned subsidiary of BEHL. As at the Latest Practicable Date, BEHL is interested in 290,459,000 Shares (representing approximately 42.87% of the issued share capital of the Company), BEHL is therefore a connected person of the Company. The Subscriber is an associate of BEHL and is therefore also a connected person of the Company.

The Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for, 177,000,000 new Shares at a subscription price of HK$1.13 per new Share. The Subscription Shares represent approximately 26.13% of the existing issued share capital and approximately 20.71% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. The Subscription Shares when allotted and issued shall rank pari passu with all other Shares in issue in the share capital of the Company. Dealings in the Subscription Shares will be subject to the payment of stamp duty in Hong Kong (where applicable). There is no restriction on the subsequent sale of the Subscription Shares by the Subscriber. Pursuant to the Subscription Agreement, BEHL unconditionally and irrevocably guaranteed the performance and discharge by the Subscriber of all its obligations under the Subscription Agreement in favour of the Company. The Subscription Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the EGM.

The Subscription Price

The Subscription Price of HK$1.13 per Subscription Share represents:

(a) a discount of approximately 6.61% to the closing price of HK$1.210 per Share as quoted on the Stock Exchange on the Last Trading Date and a discount of approximately 3.42% to the closing price of HK$1.170 per Share as quoted on the Stock Exchange on 24 October 2011, being the last trading day of the Shares on the Stock Exchange prior to the publication of the First Supplemental Announcement (the "**Supplemental Last Trading Date**");

(b) a discount of approximately 8.43% to the average closing price of HK$1.234 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date and a discount of approximately 0.53% to the average closing price of HK$1.136 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Supplemental Last Trading Date;

(c) a discount of approximately 9.67% to the average closing price of HK$1.251 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date and a discount of approximately 1.31% to the average closing price of HK$1.145 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Supplemental Last Trading Date;

(d) a discount of approximately 24.7% to the closing price of HK$1.500 as quoted on the Stock Exchange as at the Latest Practicable Date, a discount of approximately 25.9% to the average closing price of HK$1.524 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Practicable Date; and a discount of approximately 26.6% to the average closing price of HK$1.539 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Practicable Date; and

(e) a premium of approximately 9.8% to the net asset value of the Group of approximately HK$1.029 per Share as at 30 June 2012, being the date to which the latest unaudited consolidated financial statements of Company were made up.

The Subscription Price was determined with reference to the then prevailing market price of the Shares at the time of such issues, after taking into account the financial position of the Company including the net asset value per Share, and was negotiated on an arm's length basis between the Company and the Subscriber.

Despite the recent share price increase driven by the optimistic market expectation of the Company's outlook, the Company's fundamental has not changed in a meaningful way as compared to one year ago when the Company entered into the Subscription Agreement. Except for the one-time after-tax gain of HK$115.45 million from the disposal of Beijing Municipal Administration & Communications Card Co., Ltd. ("**BMAC**"), the business structure, asset quality and profitability of the Company has not improved materially. As at the end of 2011, the net assets of the Company was HK$738.14 million which further deceased by HK$29.43 million to HK$708.71 million as at 30 June 2012.

Influenced by both broad market conditions and company specific factors, the Share price has gone through fluctuations since the announcement of the Proposed Transactions on 16 September 2011. From the Last Trading Date to the Latest Practicable Date, the average closing price of the Shares was HK$1.323, with the highest of HK$1.640 and the lowest of HK$1.120. In particular, boosted by the recent announcement of the Proposed Green Energy Project on 18 September 2012, the Share price has increased by 13.6% up to the Latest Practicable Date. Hang Seng Index, a broad market indicator in Hong Kong, increased by 9.8% during the same period.

The Firm Bonds

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for, the Firm Bonds at the selling price of HK$300,580,000 with the conversion price to be initially HK$1.13.

The Firm Bonds will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the EGM.

The Standby Request

Pursuant to the Subscription Agreement, the Company has agreed that the Subscriber may require the Company to issue the Standby Bonds with an aggregate amount of HK$3,000,150,000 and the conversion price to be initially HK$1.13 any time during the five-year period commencing on the Completion Date (which may be extended by agreement between the Subscriber and the Company). Pursuant to the First Supplemental Agreement, subject to Completion and compliance with the Listing Rules, the Company shall, for every month during the five-year period following the Completion Date and so long as any Standby Bonds remain unissued, convene a meeting between representatives of the Company and the Subscriber to review the Company's requirement for funds in view of any acquisition and investment opportunity or business plan which may have been identified by the Company (the "**Review Meeting**"). The Company and the Subscriber will at the Review Meeting consider and discuss any such acquisition and investment opportunity or business plan, at which the Subscriber may, having regard to the requirements of the Listing Rules including the requirements of Rule 14.82 of the Listing Rules, notify the Company in writing that it will subscribe for such amount of Standby Bonds as the Subscriber may consider appropriate and approve at the Review Meeting. On 12 December 2012, the Company had entered into the Third Supplemental Agreement pursuant to which the Company, the Subscriber and BEHL have agreed to revise the terms of the Subscription Agreement (as amended by the First Supplemental Agreement and the Second Supplemental Agreement) to, among other things, replace the terms of the Review Meetings in its entirety with the parties agreeing that the Company, subject to satisfaction of certain pre-conditions to giving notice, shall have the discretion to notify the Subscriber at any time during the term of the Bonds to require the Subscriber to subscribe for such amount of Standby Bonds as the Company may, from time to time, consider appropriate. The pre-conditions that must be satisfied before the Company is eligible to serve any such notice (together with all such supporting documents as may be required to the reasonable satisfaction of the Subscriber) to the Subscriber requiring the Subscriber to subscribe for the Standby Bonds are:

1. in respect of each of the specific projects (namely, the Proposed Green Energy Project, the Proposed Shanxi Project and/or any of the Potential Projects as further described in this section of the circular headed "Use of Proceeds"), a formal binding sale and purchase agreement for the Group's acquisition of the project shall have been entered into between a member of the Group and the counterparty(ies) within one calendar year from the Completion Date;

2. details of the consideration for the acquisition and any related funding requirements shall have been specified in a published announcement (as required by the Listing Rules) and/or a circular despatched to the Shareholders (as required by the Listing Rules) or alternatively, where an announcement is not required to be published or a circular is not required to be despatched in accordance with the requirements of the Listing Rules, in a business plan in respect of such project; and

3. there shall have been satisfaction of all (or, as the case may be, the waiver of any) applicable conditions precedent to completion of such specific project.

The total principal amount of the Standby Bonds so specified under each such notice to be given by the Company shall match the required funding of, and shall be in accordance with the timeline for business plan stated in 2 above.

Principal terms of the Bonds

Issuer	:	The Company
Principal amount	:	Firm Bonds – HK$300,580,000 Standby Bonds – HK$3,000,150,000
Maturity date	:	For both Firm Bonds and Standby Bonds (whenever they may be issued), the date falling on the fifth anniversary of the date of issue by the Company of the Firm Bonds
Initial conversion price	:	HK$1.13 per Conversion Share The Initial Conversion Price was determined with reference to the prevailing market price of the Shares and the Subscription Price and was negotiated on an arm's length basis between the Company and the Subscriber. No minimum conversion price was stipulated in the Subscription Agreement.

The Initial Conversion Price is subject to adjustment upon the occurrence of certain prescribed events, among other things, consolidation or subdivision of shares, capitalisation of profits or reserves, extraordinary distributions, rights issues of Shares or options over Shares, rights issues of other securities, and (i) issue (other than issues to all or substantially all Shareholders as a class by way of rights) wholly for cash of any Shares (other than through exercise of Conversion Rights or other conversion rights) or the issue or grant of, whether for cash or otherwise, options, warrants or other subscription rights, at a price per Share which is less than the arithmetic average of the price of a Share for each day during the five consecutive Business Days ending on and including the Business Day immediately preceding such date (the "**Current Market Price**") or the fair market value (as determined by two leading independent investment banks) on the last Business Day preceding the date of announcement of the terms of such issue in the case of a granting of option, or (ii) issue of any securities (other than the Bonds) which carry conversion or subscription rights at a consideration per Share that is less than 95 per cent. of the Current Market Price on the last Business Day preceding the date of announcement of the terms of issue of such securities, whereby in each case (i) and (ii), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by a multiple factor comprising latest published information (that is the Current Market Price and the number of issued Shares immediately before such issue) and/or a fair market value which would be determined by two leading independent investment banks. The Company considers any adjustment by reference to such multiple factor to be fair and reasonable in balancing interests of the holder of the Bonds and the Company and its Shareholders as a whole given the multiple factor is a pre-determined formula comprising objective and published information.

The Company also considers any adjustment by reference to such multiple factor to be fair and reasonable to all Shareholders as a whole as any such adjustment so carried out would not itself be conferring any additional benefit to the holder of the Bonds as against the Shareholders in the context of the relevant event triggering the adjustment. In addition, the Initial Conversion Price may not be reduced so that, on conversion of the Bonds, Shares would be issued at a discount to their par value in contravention with the relevant laws and regulations. The Company therefore considers that foregoing events of adjustment are normal and customary of their kind. If the conversion price is set at the par value of the Shares, the maximum number of Shares to be issued upon full conversion of the Firm Bonds and the Standby Bonds shall be 300,580,000 Conversion Shares and 3,000,150,000 Conversion Shares respectively.

The Initial Conversion Price represents:

(a) a discount of approximately 6.61% to the closing price of HK$1.210 per Share as quoted on the Stock Exchange on the Last Trading Date and a discount of approximately 3.42% to the closing price of HK$1.170 per Share as quoted on the Stock Exchange on the Supplemental Last Trading Date;

(b) a discount of approximately 8.43% to the average closing price of HK$1.234 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date and a discount of approximately 0.53% to the average closing price of HK$1.136 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Supplemental Last Trading Date;

(c) a discount of approximately 9.67% to the average closing price of HK$1.251 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date and a discount of approximately 1.31% to the average closing price of HK$1.145 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Supplemental Last Trading Date;

(d) a discount of approximately 24.7% to the closing price of HK$1.500 as quoted on the Stock Exchange as at the Latest Practicable Date; a discount of approximately 25.9% to the average closing price of HK$1.524 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Practicable Date; and a discount of approximately 26.6% to the average closing price of HK$1.539 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Practicable Date; and

(e) a premium of approximately 9.8% to the net asset value of the Group of approximately HK$1.029 per Share as at 30 June 2012, being the date to which the latest unaudited consolidated financial statements of Company were made up.

The holders of the Bonds shall have the rights at any time during the applicable conversion period to convert the Bonds in whole, or in any part representing at least HK$10,000,000 of the outstanding principal amount of the Bonds, into the Conversion Shares at the applicable conversion price.

Ranking	:	The Conversion Shares, when allotted and issued, will rank pari passu in all respects with the other Shares in issue as at the date of issue of the Conversion Shares.
Interest	:	The Firm Bonds shall bear interest from the Completion Date, and the Standby Bonds shall bear interest from the date of issue (the "**Date of Issue**"), at the rate of 1% per annum payable in arrears on the last day of every six months from the Completion Date, or the Date of Issue, as the case may be, and the first interest payment date shall fall on the day that is six months immediately following the Completion Date, or the Date of Issue, as the case may be. Such rate of interest was arrived at after arm's length negotiation between the Company and the Subscriber.
Transferability	:	The Bonds may be transferable in whole or in part in multiples of HK$10,000,000, provided that if necessary, the prior approval of the Stock Exchange shall be required for any transfer to any transferee which is a connected person (as defined in the Listing Rules) of the Company.
Early Repayment	:	At any time following the second anniversary of the Completion Date, the holder(s) of the Bonds shall have the right at such holder's option to demand by giving three-months prior written notice to the Company for repayment of the aggregate amount of the outstanding Bonds held by such bondholder which would have become payable on the maturity date of the Bonds together with any interest accrued thereon.
Voting rights	:	The Bonds do not confer on the holder(s) of the Bonds the right to vote at a general meeting of the Company.

Events of default	:	On the occurrence and subsequent continuation of certain events of default specified in the Bonds (that is, failure to pay the principal, interest, premium or otherwise in accordance with the terms of the Subscription Agreement, a continuing default in the performance or observance by the Company or any of its subsidiaries of any obligations under the Subscription Agreement, winding up, liquidation or dissolution of the Company or any of its subsidiaries, the taking of possession of or the appointment of a receiver over the assets of the Group, the Company or any of its subsidiaries ceasing or threatening to cease to carry on its business or a material part thereof taken as a whole, the Company or any of its subsidiaries unable to fulfill any of its obligations regarding financial indebtedness or the initiation of proceedings and other arrangements with creditors including those in respect of bankruptcy or insolvency, any prolonged suspension of trading of the Shares on the Stock Exchange, if it shall become unlawful for the Company to perform its obligations under the Subscription Agreement, any litigation, arbitration, prosecution or other legal proceedings (whether threatened or otherwise) outstanding against the Company or any of its subsidiaries which may have a significant financial impact on the Group and/or may have a material adverse effect on the operations or the financial position of the Group taken as a whole, and any material misrepresentation or breach of warranty made by the Company in respect of the Subscription Agreement), the holder(s) of the Bonds shall be entitled to demand repayment of the relevant Bonds.
Listing	:	No application will be made for the listing of the Bonds on the Stock Exchange or any other stock exchange

Public float	:	The Company, at all times, shall use its reasonable endeavours to ensure that the relevant provisions as to the minimum public float requirement of the Listing Rules are complied with. It will be a term of the Bonds that the holder(s) of the Bonds shall not exercise any of the conversion rights attaching to the Bonds, if following such exercise, the Company's minimum public float cannot be maintained.

Upon exercise in full of the conversion rights attaching to the Firm Bonds (any such exercise will be conducted in compliance with the relevant requirements of the Takeovers Code), an aggregate of 266,000,000 Conversion Shares would fall to be allotted and issued by the Company at the Initial Conversion Price, which represents (a) approximately 39.26% of the existing issued share capital of the Company; (b) approximately 31.13% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares; and (c) approximately 23.74% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Conversion Shares upon full exercise of the Firm Bonds.

Upon exercise in full of the conversion rights attaching to the Standby Bonds (any such exercise will be conducted in compliance with the relevant requirements of the Takeovers Code), an aggregate of 2,655,000,000 Conversion Shares would fall to be allotted and issued by the Company at the Initial Conversion Price, which represents (a) approximately 391.91% of the existing issued share capital of the Company; (b) approximately 310.72% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares; (c) approximately 236.96% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Conversion Shares upon full exercise of the Firm Bonds; and (d) approximately 70.32% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Conversion Shares upon full exercise of the Firm Bonds and the Conversion Shares upon full exercise of the Standby Bonds.

Conditions Precedent

Completion of the Subscription Agreement is conditional upon:

(a) (i) the passing by the Independent Shareholders (other than those prohibited from voting under the Listing Rules and/or the Takeovers Code, if applicable) of all necessary resolutions at the EGM approving:

(A) the Subscription Agreement and the transactions contemplated thereunder including (but not limited to) the issue of the Subscription Shares, the Bonds and the Conversion Shares in accordance with the terms of the Subscription Agreement;

(B) the grant of a waiver in respect of the obligation of the Subscriber and the parties acting in concert with it (if any) to make a mandatory general offer to the Shareholders in respect of the Shares not already owned or agreed to be acquired or subscribed by the Subscriber or parties acting in concert with it (if any) as a result of the issue of the Subscription Shares in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code; and

(ii) the passing by the Shareholders of the resolution at the EGM approving the increase in the authorised share capital of the Company from HK$1,000,000,000 to HK$5,000,000,000;

(b) the Executive granting to the Subscriber a waiver of the obligation to make a mandatory general offer to the Shareholders in respect of the Shares not already owned or agreed to be acquired or subscribed by the Subscriber or parties acting in concert with it (if any) as a result of the issue of the Subscription Shares;

(c) the Stock Exchange having granted the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares (and such permission and listing not subsequently being revoked prior to the delivery of the definitive certificate(s) with respect to the Subscription Shares and the bond certificates with respect to the Firm Bonds);

(d) the Subscriber being reasonably satisfied with the results of the due diligence review on the Group, including in relation to the Group's assets, liabilities, contracts, commitments, and its business and financial, legal, taxation and compliance aspects, provided that such due diligence review shall be completed within 7 days from the date of the Subscription Agreement;

(e) the grant of the approval by the Stock Exchange for the resumption of trading in Shares on the Stock Exchange pending the release of the Announcement;

(f) the current listing of the Shares not having been withdrawn and the Shares continuing to be traded on the Stock Exchange (save for any temporary suspension of not more than seven consecutive trading days (as defined in the Listing Rules) or any suspension pending clearance of any announcement in connection with the execution of the Subscription Agreement or the transactions contemplated under the Subscription Agreement); no indication having been received on or before the Completion Date from the Stock Exchange or the SFC to the effect that the listing of the Shares may be withdrawn or objected to for any reason having arisen which may adversely affect the listing status of the Company on the Stock Exchange;

(g) the warranties set forth in the Subscription Agreement remaining true and accurate and not misleading in any material respects;

(h) all other requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of the Subscription Agreement having been obtained by the Company;

(i) the Subscriber being reasonably satisfied that there has been no material adverse change;

(j) there being no event existing or having occurred and no condition being in existence which would (if after the issue of the Firm Bonds) constitute an event of default and no event or act having occurred which, with the giving of notices, or the lapse of time, or both, would (if after the issue of the Firm Bonds) constitute an event of default; and

(k) the Subscriber being reasonably satisfied that there has been no material breach of obligations and undertakings given by the Company under the Subscription Agreement to be performed not later than one hour before the agreed time for Completion.

The Subscriber may in its absolute discretion waive the conditions precedent referred to in paragraph (d), (f), (g), (h), (i), (j) and (k) above at any time by notice in writing to the Company. Except the foregoing conditions precedent, the Subscriber does not have the rights to waive the conditions precedent under the Subscription Agreement. In the event that not all of the conditions precedent are fulfilled, or waived by the Subscriber (as the case may be) by the Long Stop Date, then none of the parties shall be bound to proceed with the issue and subscription of the Subscription Shares and the Bonds, and the Subscription Agreement shall be automatically terminated forthwith and cease to be of any effect whereupon the parties shall have no claim against each other arising out of or in connection with the Subscription Agreement and save in respect of claims arising out of any antecedent breach thereof. As at the Latest Practicable Date, conditions precedent referred to in paragraphs (d) and (e) above have been fulfilled.

Subject to the continuing fulfillment of the conditions precedent or waiver thereof (as the case may be) in accordance with the Subscription Agreement, Completion shall take place on the third Business Day immediately following the fulfillment or satisfaction (or if applicable, waiver) of the conditions precedent. At Completion, the Company shall issue all of the Subscription Shares and the Firm Bonds.

Indemnification

Pursuant to the Subscription Agreement and the Third Supplemental Agreement, the Company has represented and warranted to the Subscriber that the Company has no liabilities, actual, contingent or otherwise, except (i) liabilities expressly provided in the audited consolidated accounts of the Group for the financial year ended 31 December, 2011 (as revised from the previous 31 December 2010 under the Subscription Agreement pursuant to the Third Supplemental Agreement) and the unaudited consolidated management accounts of the Group for the six months ended 30 June 2012 (as revised from the previous 30 June 2011 under the Subscription Agreement pursuant to the Third Supplemental Agreement); and (ii) actual liabilities incurred in the ordinary course of business of the relevant members of the Group not exceeding HK$20,000,000 in a single transaction (as revised from the previous HK$10,000,000 in a single transaction under the Subscription Agreement pursuant to the Third Supplemental Agreement) or HK$50,000,000 in aggregate (as revised from the previous HK$30,000,000 in aggregate under the Subscription Agreement pursuant to the Third Supplemental Agreement). Subject to and conditional on the Completion, in the event of any breach of the foregoing warranty, the Company shall indemnify the Subscriber and pay to the Subscriber on demand an amount equal to the product of the liabilities to which any member of the Group is liable as confirmed and certified by the auditors of the Company and the percentage of the Shares held by the Subscriber in the then issued share capital of the Company upon Completion.

The maximum aggregate liability of the Company for breach of any warranty contained in the Subscription Agreement shall not exceed the aggregate amount of the consideration of the Subscription Shares and selling price of the Bonds received by the Company. All claims for indemnification shall be brought in writing to the Company no later than the third anniversary of the Completion Date.

CHANGE OF THE SHAREHOLDING STRUCTURE

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon issue and allotment of the Subscription Shares; (iii) upon full conversion of the Firm Bonds; and (iv) upon full conversion of the Standby Bonds:

Shareholders	As at the Latest Practicable Date		Upon issue and allotment of the Subscription Shares		Upon issue and allotment of the Subscription Shares and upon full conversion of the Firm Bonds		Upon issue and allotment of the Subscription Shares and upon full conversion of the Firm Bonds and upon full conversion of the Standby Bonds		Upon issue and allotment of the Subscription Shares and upon full conversion of the Firm Bonds and upon conversion of the Standby Bonds in compliance with the requirement to maintain the Company's minimum public float	
	Number of Shares	*Approximate shareholding %*	*Number of Shares*	*Approximate shareholding %*	*Number of Shares*	*Approximate shareholding %*	*Number of Shares*	*Approximate shareholding %*	*Number of Shares*	*Approximate shareholding %*
The Subscriber and BEHL *(Note (a))*	290,459,000	42.87	467,459,000	54.71	733,459,000	65.46	3,388,459,000	89.75	1,101,012,430	73.99
Directors *(Note (d))*										
— Mr. E Meng	601,000	0.09	601,000	0.07	601,000	0.05	601,000	0.02	601,000	0.04
— Mr. Zhang Honghai	4,000,000	0.59	4,000,000	0.47	4,000,000	0.36	4,000,000	0.11	4,000,000	0.27
The Subscriber and parties acting in concert with it	295,060,000	43.55	472,060,000	55.25	738,060,000	65.87	3,393,060,000	89.87	1,105,613,430	74.30
Directors										
— Mr. Yan Qing	4,000	—	4,000	—	4,000	—	4,000	—	4,000	—
— Mr. Ng Kong Fat, Brian	10,392,755	1.53	10,392,755	1.22	10,392,755	0.93	10,392,755	0.28	10,392,755	0.70
Other public shareholders	372,003,395	54.91	372,003,395	43.54	372,003,395	33.20	372,003,395	9.85	372,003,395	25.00
Total	677,460,150	100.00	854,460,150	100.00	1,120,460,150	100.00	3,775,460,150	100.00	1,488,013,580	100.00

Notes:

(a) The interest disclosed includes the 275,675,000 Shares owned by the Subscriber, a wholly-owned subsidiary of BEHL, accordingly, BEHL is deemed to be interested in the Shares owned by the Subscriber. BEHL directly owns 14,784,000 Shares. Beijing Enterprises Group (BVI) Company Limited ("**BEBVI**") and Beijing Enterprises Group Company Limited ("**BEGCL**") are immediate holding company and the ultimate holding company of BEHL, respectively. Accordingly, each of BEBVI and BEGCL is deemed to be interested in the Shares owned by each of BEHL and the Subscriber.

(b) It is a term of the Bonds that the holder(s) of the Bonds shall not exercise any of the conversion rights attaching to the Bonds, if following such exercise, the Company's minimum public float cannot be maintained.

(c) The shareholding figures above may not add up to 100 due to rounding to 2 decimal places.

(d) Mr. E Meng and Mr. Zhang Honghai are also directors of BEHL and are together interested in 4,601,000 Shares and 13,540,000 share options of the Company.

DEALINGS IN THE SHARES BY THE SUBSCRIBER AND PARTIES ACTING IN CONCERT WITH IT AND OTHER MISCELLANEOUS MATTERS

Save for the entering into of the MOU and the Subscription Agreement, there has been no dealing of Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company by the Subscriber and parties acting in concert with it during the six month period immediately prior to the date of the Subscription Agreement and up to the Latest Practicable Date.

As at the Latest Practicable Date, saved as disclosed under the section headed "Change of the shareholding structure" in the "Letter from the Board" of this circular and other than the approximately 43.55% of the issued share capital of the Company owned by the Subscriber, BEHL and parties acting in concert with any of them (the details of which are set out under the section headed "Change of the shareholding structure" in the "Letter from the Board" of this circular) and transactions contemplated under the Subscription Agreement and as disclosed in the Announcement and this circular:

(i) the Subscriber, BEHL and parties acting in concert with any of them did not hold any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(ii) with reference to Note 8 to Rule 22 of the Takeovers Code, there was no other arrangement (whether by way of option, indemnity or otherwise) in relation to shares of the Subscriber or the Company and which may be material to the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver;

(iii) there was no other agreement or arrangement to which any of the Subscriber, BEHL and parties acting in concert with any of them was a party which related to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver;

(iv) the Subscriber, BEHL and parties acting in concert with any of them had not received any irrevocable commitment to accept or reject the Subscription Agreement or to vote in favour of or against the resolutions to be proposed at the EGM; and

(v) the Subscriber, BEHL and parties acting in concert with any of them had not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

INFORMATION OF THE SUBSCRIBER

The Subscriber is a company incorporated in the British Virgin Islands with limited liability and is directly and wholly-owned by BEHL, a company incorporated in Hong Kong with limited liability which is directly held as to approximately 36.15% by Beijing Enterprises Group (BVI) Company Limited ("**BEBVI**") while BEBVI 72.72% owned subsidiary, Beijing Enterprises Investment Limited, a company incorporated in the British Virgin Islands with limited liability, directly and indirectly owns an aggregate of approximately 23.19% of the issued share capital of BEHL. Accordingly, BEBVI together with Beijing Enterprises Investments Limited effectively own an aggregate of approximately 53.01% of the issued share capital of BEHL. BEBVI is therefore deemed to be interested in the Shares owned by BEHL. BEBVI is held directly as to 100% by Beijing Enterprises Group Company Limited, a company established in the PRC and is wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administrative Commission of People's Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會). As at the Latest Practicable Date, the directors of the Subscriber are Mr. Liu Kai and Mr. E Meng, and the directors of BEHL are Mr. Wang Dong, Mr. Zhang Honghai, Mr. Lin Fusheng, Mr. Li Fucheng, Mr. Zhou Si, Mr. Hou Zibo, Mr. Guo Pujin, Mr. Liu Kai, Mr. Lei Zhengang, Mr. E Meng, Mr. Jiang Xinhao and Mr. Tam Chun Fai (as executive directors) and Mr. Wu Jiesi, Mr. Robert A. Theleen, Mr. Lam Hoi Ham and Mr. Fu Tingmei (as independent non-executive directors). The principal business of the Subscriber is investment holding.

BEHL is a company incorporated in Hong Kong with limited liabilities, the shares of which are listed on the Main Board of the Stock Exchange. BEHL is principally engaged in natural gas operations, brewery operations, sewage and water treatment operations and toll road operations in the PRC.

INFORMATION OF THE GROUP

The Company is incorporated in Hong Kong as an investment holding company. The principal activity of the Group's subsidiaries is the provision of information technology ("**IT**") related services, including: (i) system integration; (ii) construction of information networks and sale of related equipment; (iii) IT technical support and consultation services and (iv) development and sale of software.

Set out below is the key financial information of the Group based on its audited consolidated financial statements for the year ended 31 December 2011 prepared under Hong Kong Financial Reporting Standards:

	(HK$'000)
Revenue	185,184
Loss before taxation and extraordinary items	(64,525)
Profit after taxation and extraordinary items	48,938

According to the audited consolidated financial statements of the Group as at 31 December 2011, the consolidated net asset value of the Group was approximately HK$738,139,000.

USE OF PROCEEDS

BEHL has expressed to the Company that it intends to invest in the Company to establish an environmental protection and solid waste treatment platform, improve the financial performance of the Company and explore diversified value-added business. The Company announced on 15 September 2011 that it would issue new Shares and convertible bonds to BEHL, the proceeds of which would be used for investment in environmental protection and solid waste treatment business. Subsequently, the Company has announced three transactions in relation to the investment and acquisition of waste-to-energy business, the Proposed Green Energy Project, the Proposed Haidian Project and the Proposed Shanxi Project. The Company intends to use the net proceeds from the Proposed Transactions for the following purposes and projects:

- Financing of the Proposed Green Energy Project (estimated capital needs of HK$2.49 billion), the Proposed Haidian Project (estimated total capital commitment of HK$1.15 billion) and the Proposed Shanxi Project (estimated total investment costs of HK$1.24 billion);

- In addition, as the Company continues to explore investment opportunities, it intends to allocate a maximum amount of US$100 million (approximately HK$778 million) for the financing of potential waste-to-energy projects of the Group which may emerge and be executed through signing of definitive agreements prior to a definitive agreement can be signed for the Proposed Green Energy Project or the Proposed Shanxi Project. (the "**Potential Projects**")

Leveraging on BEHL's extensive experience and leading position in utilities businesses, the Company is in the process of identifying other potential waste-to-energy projects since it first announced its intention to enter into the waste-to-energy industry. In addition to the three specific projects mentioned above, it is important for the Company to maintain funding flexibility in project planning and bidding. With sufficient funds on hand, it will help the Company expedite the process of winning new waste-to-energy projects and entering into binding contracts, which usually requires no less than 20% of the total investment to be in the form of share capital according to an industry guidance jointly promulgated by the State Planning Commission, the Ministry of Construction and the Ministry of Environmental Protection (《關於印發推進城市污水、垃圾處理產業化發展意見的通知》).

The deployment of funds by the Potential Projects, as with the Proposed Green Energy Project and the Proposed Shanxi Project, is subject to the notification pre-conditions which must be satisfied by the Company as referred to in this section of the circular headed "The Subscription Agreement — The Standby Request" including the entering into of a definitive agreement in relation to any of such projects within one calendar year from the Completion Date. Furthermore, the parties have agreed that the Company shall adopt a mixed-use approach in utilising the net proceeds from the Proposed Transactions on the Proposed Green Energy Project, the Proposed Shanxi Project and the Potential Projects which have yet to enter into any formal binding agreement, such that should, for example, the Company fail to enter into a formal binding agreement for the Proposed Shanxi Project within one year from the date of Completion, the net proceeds from the Proposed Transactions which would otherwise be used for funding the Proposed Shanxi Project would be allocated for use by the Proposed Green Energy Project in such amount as may be required for funding the entire costs of such project with reference to the approximate proposed total investment costs as stated above. Any net proceeds from the Proposed Transactions that remain unutilised by either of the Proposed Green Energy Project or Proposed Shanxi Project will be utilised by the Potential Projects with reference to the maximum amount of US$100 million (approximately HK$778 million) as stated above. The Company intends to finance the excess in the capital needs for the proposed projects with both internal sources of the Group such as cash on hand, and external sources such as bank loans in the future. With the completion of the proposed projects, especially the Proposed Green Energy Project, the Company is expected to generate positive cash flow from operations and gain better debt financing capability.

Based on precedent projects in the waste-to-energy industry, there are usually substantial capital needs in the early stage of a project before the construction of waste-to-energy facilities commences, such as for removal of existing facilities on the site, securing land use right and procurement of major equipment. Once construction commences, on-going capital expenditures continues to incur throughout the construction period which is typically 18 to 24 months. Therefore, the Company estimates that approximately 60% to

80% of the net proceeds from the Proposed Transactions will be used within 12 months upon signing of definitive agreements for the Proposed Green Energy Project and the Proposed Shanxi Project, for purposes such as demolition of existing facilities on the construction sites, securing of land use rights, down payments for procurement of major equipment and construction materials and labor costs.

Proposed Green Energy Project

The Company announced on 17 September 2012 that it had entered into a framework agreement for acquisition of equity interests in Green Energy Holding Company Limited ("**Green Energy Holding**") with China Green Energy Limited ("**China Green Energy**") (the "**Proposed Green Energy Project**"). Under the framework agreement, the Group will acquire 100% equity interests in Green Energy Holding, a wholly-owned subsidiary of China Green Energy. The total consideration payable for the possible acquisition is preliminarily estimated to be ranged from US$530 million to US$535 million, and will be settled by issuing consideration shares and/or convertible bonds of the Company. The Company and China Green Energy agreed to commence due diligence upon the signing of the framework agreement and to procure the entering into of definitive agreement(s) as soon as possible. As at the Latest Practicable Date, the parties are at the stage of conducting on-going due diligence in respect of the Proposed Green Energy Project.

Green Energy Holding is a leading player in the waste-to-energy industry in China with 14 waste-to-energy projects and a total treatment capacity of approximately 18,000 tonnes per day. Among its existing 14 waste-to-energy projects, 11 projects are in operation with a total treatment capacity of approximately 15,000 tonnes per day, 3 projects are under construction or at the preparation stage with a total treatment capacity of approximately 3,000 tonnes per day.

Green Energy Holding is one of the first players engaged in waste-to-energy power generation industry and focused on municipal waste treatment in China. Green Energy Holding, together with Hangzhou Jinjiang Group, its current controlling shareholder, ranked number one in terms of waste treatment capacity in China, according to《Chinese Environmental Protection Enterprises Ranking 2011》published by All-China Federation of Industry & Commerce and China Environment Chamber of Commerce in February 2012.

The projects of Green Energy Holdings are mostly located in large cities and provincial capitals, including Hangzhou, Wuhan, Zhengzhou, Kunming, Changchun, Yinchuan, etc. Large cities are more densely populated than small cities, hence there are more household garbage and stronger garbage treatment demand. In addition, garbage treatment fees are in general higher in large cities than in small cities. For example, according to local price bureaus, garbage treatment fee in Beijing is RMB150 per tonne, while in Wuhu

(Anhui province) it is only RMB16 per tonne. Lastly, as garbage treatment fees are paid by the government, governments in large cities in general have better fiscal positions than those in small cities, hence less likely to delay the payment. Accordingly, Green Energy Holding's overall profitability is also higher in comparison to its peers. In 2011, Green Energy Holding recorded a higher EBITDA margin as compared to its major Hong Kong listed peers Everbright International and China Power New Energy which reported EBITDA margins for their waste-to-energy segments of 38% and 20%, respectively.

Green Energy Holding has developed know-hows in circulating fluidised bed garbage incineration-power generation technology, and cooperates with Zhejiang University and Chinese Academy of Sciences closely. It is devoted to the research and industrialised application of fluidised bed garbage incineration-power generation technology. Its technology has achieved leading positions in the PRC and reached the international advanced level. Currently, Green Energy Holding has applied the multilayer circulating fluidised bed garbage incineration technology in waste-to-energy projects in different regions across the PRC, testifying to its capability to industrialise R&D products.

Green Energy Holding is equipped with a backbone team composed of senior experts in the waste-to-energy industry with extensive industry experience and expertise. After more than a decade of development, Green Energy Holding has cultivated a large school of talents in operational and technological innovation, laying out solid foundation for the continued sound operation of the Company in the future.

The rapid development of Green Energy Holding has been built on both organic growth and strategic acquisitions, both of which require extensive capital investment. Significant capital commitment is required to support the continued development of Green Energy Holding. Green Energy Holding targets to increase its total daily capacity significantly over the next few years through organic growth and strategic acquisitions. The management estimates that RMB400 million in investment capital is required for every increase in capacity of 1,000 tonnes per day. Green Energy Holding has already identified several potential waste-to-energy projects which would require approximately RMB 2 billion in total investment capital to materialise the scale expansion. Subject to volume demand for waste treatment around existing projects, there is also potential for additional capacity expansion at existing projects. According to the company's "Five Year Strategic Planning", Green Energy Holding plans to increase its waste treatment capacity more than two-fold to 40,000 tonne per day during the next five years.

The Company intends to finance the future expansion of Green Energy Holding through the net proceeds as may become available from the Proposed Transactions.

Proposed Haidian Project

As announced by the Company on 28 June 2012, the Company had entered into an increase of capital contract (the "**Increase of Capital Contract**") involving a proposed formation of an equity joint venture (the "**Joint Venture**") for investing, constructing and operating renewable energy power generation projects including solid waste pollution control and emission and gas control in Beijing, the PRC (the "**Proposed Haidian Project**"). The Company intends to finance 100% (instead of the previously announced intention to finance 80%) of the Proposed Haidian Project, comprising a proposed injection of additional registered capital into the target company (the "**Target Company**") of RMB256 million (the "**Capital Investment**"), a proposed injection of equity premium into the Target Company of a maximum amount of RMB27.55 million, and advancements of shareholder's loans of a total maximum amount of RMB644 million to the Joint Venture following its establishment, through such amount of net proceeds as may become available from the Proposed Transactions. The Target Company is the project legal person of the 北京市海澱區循環經濟產業園再生能源發電廠項目 (Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Project*) (the "**Project**") and is responsible for the investment, management, and operation of the Project. The Project is estimated to have a capacity of processing wastes of 2,500 tonnes per day, including garbage incineration of 1,800 tonnes per day, anaerobic fermentation of food waste garbage of 400 tonnes per day, leachate treatment capacity of 700 cubic meters per day, slag storage with a capacity of 600,000 cubic meters. The investment cost of the Project is estimated to be approximate a total of RMB1,534 million (equivalent to approximately HK$1,883 million) (the "**Total Project Costs**"). Pursuant to the Increase of Capital Contract, a portion of the Total Project Costs will be funded through the Capital Investment and capital injections from the original shareholders of the Target Company increasing the total registered capital of the Joint Venture to RMB512 million (equivalent to approximately HK$628 million) which represents one-third of the Total Project Costs, a portion of the Total Project Costs will be funded through advancement of the shareholder's loans by the Group of a total maximum aggregate amount of RMB644 million (equivalent to approximately HK$790 million) and there will be funding from the Beijing Municipal Government of RMB641 million (equivalent to approximately HK$786 million). The estimated construction period of the Project is about 30 months.

As at the Latest Practicable Date, the Company has entered into the formally binding Increase of Capital Contract in respect of the Proposed Haidian Project (as detailed in this section of the circular headed "Use of Proceed — Proposed Haidian Project"). Completion of the Proposed Haidian Project is subject to despatch of the circular in respect of the Increase of Capital Contract and the transactions contemplated thereunder and the obtaining of approval by the Shareholders at the EGM to be held in respect of the Proposed Haidian Project.

Based on the best knowledge of the Company, currently the largest waste-to-energy project in China, either in operation or under construction, has a waste processing capacity of 3,000 tonnes per day. The Proposed Haidian Project, in which the Group will be involved in, is a large scale waste-to-energy project in Beijing. In this regard, references may be made to the news article "Lanzhou will build China's largest waste-to-energy power plant" published by China Power News Network (CPNN.com.cn) on 24 October 2012 and the news article "Beijing Mentougou will build Asia's largest incineration plant" published by the Beijing Morning Post on 3 May 2012. The economy and feasibility of the Project are ensured by substantial policy support from the State and local authorities, including provisions of subsidies and preferential tax treatments, stable on-grid tariffs, advanced garbage incineration treatment of the Project and the position of being a key garbage harmless treatment plant in Haidian District. The Project will therefore enjoy a reasonable and stable return upon commencement of its operation.

Haidian District, where numerous universities and high-technology enterprises are located, is one of the districts with the fastest pace of development and one of the highest density populations in Beijing. As the economy and population of Haidian District continue to grow, garbage production also increases. Liulitun Sanitary Landfill（六里屯垃圾衞生填埋場）is the only garbage harmless treatment facility in Haidian District. The landfill has a designed treatment capacity of 1,500 tonnes per day, and a useful life of 18 years (up to 2017), but the actual daily garbage intake of Liulitun Landfill reaches 2,480 tonnes per day, far exceeding its designed capacity. Based on this pace, the landfill may be subject to an early closure. Therefore, there is an imminent need to construct a new garbage harmless treatment plant.

Meanwhile, sanitary landfill is currently the only method to treat garbage in Haidian District. The implementation of the Project through increasing the proportion of garbage incineration treatment will help to change the imbalanced garbage treatment mix in Beijing and Haidian District, to develop new ways of garbage treatment in Haidian District, to match the functional position of being a centre for high technology culture and tourism and at the same time to extend the service lifetime of Liulitun Sanitary Landfill. Utilisation of land resources will also be enhanced, and this will ease the tension of lacking landfill area in Beijing to a certain extent.

With a designed treatment capacity of 2,500 tonnes per day, the Project will become the key facility for harmless treatment of garbage in Haidian District upon completion and will be used to meet the increasing demand for garbage treatment in Haidian District. A national standardised on-grid tariff for garbage-generated power will be applied in addition to a garbage treatment fee. The on-grid tariff for garbage-generated power of the Project will be charged based on the national standardised benchmark power price of RMB0.65 per kWh (tax inclusive), while the garbage treatment fee is still under negotiation. Generally, the pricing standard of garbage treatment fee varies with different projects. For the Project, reference can be made to adjacent Gaoantun Domestic Garbage Incineration Plan（高安屯生活垃圾焚燒廠）in Chaoyang District, Beijing, which is comparable to the Project. The current unit garbage treatment service fee of the Gaoantun Project is RMB150 per tonne. Stable on-grid tariff and garbage treatment fee also ensure stable revenue upon the commencement of Project's operation.

Proposed Shanxi Project

The Company announced on 30 May 2012 that it had entered into a Framework Agreement for Investment and Cooperation in Shanxi Domestic Garbage Incineration-Power Generation Project with 山西國際能源集團有限公司 (Shanxi International Energy Group Co. Ltd.*), 北京北控環保工程技術有限公司 (Beijing Enterprises Holdings Environment Technology Co. Ltd.*) and 山西省環境保護基金有限公司 (Shanxi Environmental Protection Fund Co. Ltd.*) to establish long-term strategic cooperation partnership (the "**Proposed Shanxi Project**"). Under the framework agreement, the four parties thereto shall, in accordance with their shareholding percentages as agreed upon negotiation, jointly develop the domestic garbage incineration-power generation market in Shanxi, including (but not limited to) the investment in the new Yangquan Garbage Incineration-Power Generation Project and the Shuozhou Garbage Incineration-Power Generation Project. The parties thereto are currently still continuing with the in-depth investigation, research and due diligence in respect of the above specific projects. The concrete cooperation arrangements of the specific projects shall be subject to the legal documents (such as project investment and cooperation contracts) to be entered into by the parties thereto.

The designed waste treatment capacity for the new Yangquan Garbage Incineration-Power Generation Project and Shuozhou Garbage Incineration-Power Generation Project is 1,100 tonnes per day and 1,000 tonnes per day respectively. The Company expects the total investment costs of these two projects to be approximately RMB1 billion. As with the Proposed Haidian Project, the Company intends to finance its share of the costs under the Proposed Shanxi Project through such amount of net proceeds as may become available from the Proposed Transactions.

Shanxi province is a major province rich in coal resources. With rich resources and developed railway transport networks, many small-to-medium cities have enjoyed robust economic growth and rapid infrastructure development. The Proposed Shanxi Project capitalises on the good opportunities arising from the transformation and leapforward of Shanxi province, reform of industrial structure and development of environmental protection undertakings to jointly develop the waste-to-energy projects in the province. It is expected to deliver high economic benefits.

Yangquan is located in the eastern part of central Shanxi province. It is the central station of Shijiazhuang-Taiyuan Railway and one of the emerging heavy industry bases in Shanxi province. Shuozhou is a new coal-power-oriented energy and heavy chemical industry base in the PRC. The gross domestic product ("**GDP**") growth rates of Yangquan and Shuozhou in 2011 were 12.8% and 15.4% respectively, out-grew the country's national GDP. Both cities are fast-growing second-tier industrial towns with strategic importance. With urban development and population growth, the average daily garbage production is expected to increase further and higher requirements on garbage treatments are demanded. Local municipal government and urban management office have comprehensive recognition and strong environmental protection awareness on garbage incineration power generation plants, an environmental protection industry beneficial to both the country and its people. They recognise that the construction of garbage incineration power generation plants is crucial to the creation of an environmental protection model city with harmonic development of economic growth and environmental protection. From simple sanitary landfill to garbage reduction, harmless treatment facilities have become ancillary facilities indispensable to the development of Yangquan and Shuozhou.

The waste-to-energy projects in Yangquan and Shuozhou can meet the demand for urban construction development in Yangquan and Shuozhou, and will be designed and constructed in accordance with their urban development plans, with an aim to achieve 100% harmless treatment of urban domestic garbage.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUBSCRIPTION AGREEMENT

The Directors believe that the Company will benefit from BEHL's extensive experience in utilities businesses and capital market, solid operation and financial track record and strong government support. The Directors are of the view that the availability of the net proceeds from the Proposed Transactions in funding the Group's funding needs under the Proposed Green Energy Project, the Proposed Haidian Project, Proposed Shanxi Project and any of the Potential Projects, will provide the Group with opportunities to enter into China's waste-to-energy industry with vast prospects, to capture market shares through the consolidation of the fragmented industry, to achieve economies of scale, and to become a leader in the industry. The operational and financial performance of the Company will also be improved effectively, thereby creating value for the Shareholders. Accordingly, the Proposed Transactions are beneficial to the Company and the Shareholders.

There is an imminent need to improve the profitability and growth prospects of the Company's existing businesses

Currently the Company mainly develops its business in two major segments: system integration and information technology service. Despite years of operation and development, the businesses of the Group are shrinking and had incurred loss for three consecutive years from 2008 to 2010. Excluding the one-off gain on disposal of BMAC of HK$122,041,000, the Group would still have made a loss before taxation of HK$64,525,000 in 2011, doubled that of 2010. The Group continued to record loss in the first half of 2012. The Directors consider that in absence of a timely transition, the Group's loss-making position will continue and it will be difficult to deliver value to the Shareholders.

Steady and strong cash flows and high growth rate are characteristic of the waste-to-energy industry which represents a very attract investment opportunity

The profit model of waste-to-energy industry basically epitomises the characteristics of stable nature of business, controllable risks, as well as steady and strong cash flow. A project generally has an operating period ranging from 20 to 30 years. Upon commencement of operation, the minimum amount of garbage treatment will be guaranteed by the local governments, while the garbage treatment fees and on-grid tariffs at RMB0.65 per kWh stipulated by the State will remain stable and free from the risk of fluctuating fuel prices.

With environmental issues gaining increasing concern, energy-saving and environmental protection have become the theme of development for many countries, bringing along opportunities for the development of the garbage treatment. According to the "What a Waste — a Global Review of Solid Waste Management" report issued by the World Bank in March 2012, currently world cities generate about 1.3 billion tonnes of solid waste per year. This volume is expected to increase to 2.2 billion tonnes by 2025. China surpassed the US as the world's largest waste generator in 2004. Annual waste generation in China makes up around 70% of the total waste generation in the East Asia and the Pacific region. According to the National Bureau of Statistics of China, China's annual waste generation in 2011 was approximately 164 million tonnes.

As at the end of 2010, the urban population of the PRC has reached 670 million, representing an urbanisation rate of 50.0% and a significant increase from 19.4% as at the end of 1980. During the same period, the amount of household garbage collection and transportation in cities of the PRC has increased by over 4 times, and at 2015, the amount of household garbage collection and transportation in cities and counties will reach 268 million tonnes, according to the China Urban Construction Design & Research Institute. Given the relatively under-developed disposal system for household garbage in the PRC, a vast amount of urban household garbage are not subject to central collection, clearance and harmless treatment, leading to vast amount of garbage accumulation and worsening situation of "cities besieged by garbage". Also, the production of urban garbage is on a continual increase under the acceleration of the urbanisation process, driving a continually strong demand for volume reduction of garbage, turning garbage to resources and harmless treatment of garbage.

The Board believes that in the coming years, turning garbage into energy will become the predominant method of garbage treatment. Based on past trends, garbage production per capita is expected to increase in correspondence with continued improvements in the living standards for dwellers in cities and towns and sustained economic growth. The waste-to-energy industry can achieve solid social benefits through the harmless treatment of garbage, turning garbage into resources, reduction in land resource consumption and energy saving, bringing to itself enormous room for growth.

Urban garbage treatment also received great attention from and endorsement by the Chinese government. In April 2011, the State Council has promulgated the "Notice of Opinion on Further Strengthening Domestic Garbage Treatment" (《關於進一步加強城市生活垃圾處理工作意見的通知》), which emphasised the importance and urgency of strengthening urban garbage treatment. In April 2012, the State Council has also promulgated the "Twelfth Five-Year Plan for the Construction of Harmless Treatment Plants for Household Garbage in Cities and Towns Across the State" (《「十二五」全國城鎮生活垃圾無害化處理設施建設規劃》), which clearly states the objectives, major goals and protective measures for the construction of harmless treatment plants for household garbage in cities and towns across the State during the period of the Twelfth Five-Year Plan. The plan requires complete harmless treatment of household garbage in municipalities, capital cities and cities under independent planning by 2015, an urban household garbage harmless treatment rate of more than 90% in designated cities, possessing of garbage harmless treatment capacity in all counties, a household garbage harmless treatment rate of more than 70% in counties and cities, and an additional capacity of household garbage harmless treatment facility in cities and towns in China of 580,000 tonnes per day. By 2015, the capacity of household garbage incineration treatment facilities in cities and towns in China will represent more than 35% (and more than 48% in the Eastern region) of the total harmless treatment capacity. The NDRC published the "Circular on Improving the Pricing Policy of Garbage Incineration-Power Generation" (《關於完善垃圾焚燒發電價格政策的通知》), which stipulates that a national standardised benchmark on-grid tariff for garbage-generated electricity of RMB0.65 per kWh (tax inclusive) is fixed for domestic garbage incineration-power generation projects. This has further regulated the pricing policy for waste-to-energy power generation and improved the cost-sharing system for waste-to-energy power generation. In response to the requirements of the above policies, the local governments have successively invested in the construction of waste-to-energy power generation facilities, and extended preferential policy support to professional waste-to-energy companies. All these policies have provided continued room for growth for the future business development of the Group.

In terms of financial and taxation policies, the State has stipulated that enterprises generating power or heat fuelled by garbage with a garbage to power generation fuel ratio of not less than 80% and up to standard production emission may apply for the "Resources Comprehensive Utilisation Certificate" (「資源綜合利用認證」) under the State's support and may qualify for the preferential policy of immediate refund of value-added tax paid, of which 100% of the output VAT levied on revenue generated from sales of electricity by the garbage-fired power plants, net of input VAT prepaid for relevant purchases, will be paid in the month of which the revenue is generated and refunded upon application to the relevant tax authority in the subsequent months. For qualified treatment of public garbage, enterprise income tax is exempted from the first year to the third year from the taxation year when they get their first operation income, and is reduced by 50% from the fourth year to the sixth year.

With the standardisation of the pricing policy of garbage incineration-power generation, and policies such as provisions of garbage treatment subsidy and preferential tax treatment, the profitability of waste-to-energy projects is guaranteed. With reference to China Everbright International Limited (257.HK), a green and renewable energy enterprise, listed in Hong Kong, the EBITDA margin of its environmental energy segment in 2011 was 38%. Projects currently being acquired and pending development by the Company mainly concentrate in cities and areas that enjoy high demand for garbage treatment. As such, the Company is expected to enjoy relatively higher garbage treatment fees, stable electricity prices, more timely payment by the governments and thus higher profitability.

Accordingly, the Board believes that the waste-to-energy industry possesses optimistic prospect and it is now the best time to enter the industry with first mover advantage and thereby become the leader in the industry. With the investments and framework agreements already entered into, the Group will enter into the waste-to-energy business from a high starting point and capture the opportunities from the swift growth of the industry, which will enable the shaping of the Company into the leading flagship in the solid waste industry in China.

BEHL will provide solid experience in development of environmental protection business for the Company to adopt

BEHL has accumulated extensive first-hand experiences from its track record of operating in the utilities and environmental protection sector, and has expressed to the Company that it intends to invest in the Company to establish an environmental protection and solid waste treatment platform, improve the financial performance of the Company and explore diversified value-added business.

First of all, as an utilities investment and financing platform under the State-owned Assets Supervision and Administration Commission (the "**SASAC**") of Beijing, BEHL is equipped with extensive industry experience in the utilities sector, covering city gas, water supply, sewage treatment and other businesses. As a subsector in the utilities space, solid waste treatment shares a lot of similarities with city gas, water supply and sewage treatment, hence BEHL is able to leverage its rich industry knowledge, extensive relationship network and high-quality employee team that are already in place to support the Company's development in the waste-to-energy industry.

Secondly, BEHL already owns solid waste treatment business. Founded on 16 August 2007, Beijing Enterprises Holdings Environment Technology Co. Ltd ("**BEHET**"), a wholly-owned subsidiary of BEHL and a key component of BEHL's utilities platform, is focused on investment, construction and operational management of the solid waste treatment projects. BEHET has accumulated rich industry experience and a high-quality employee team and possesses Environmental Management System Certificate, Quality Management System Certificate and Environmental Pollution Control Facilities Operation Qualification Certificate（環境污染治理設施運營資質證書）.

Thirdly, several senior management members of BEHL have actually been sitting on the Company's board or been part of its key management team long before the Proposed Transactions. For example, Mr. E Meng, Chairman of the Company, is also an executive director and Executive Vice President of BEHL. Mr. Zhang Honghai, an executive director of the Company, is also the Vice Chairman and Chief Executive Officer of BEHL. Ms. Sha Ning, an executive director and a vice president of the Company, is also a manager of the finance department and assistant to president of BEHL. Such arrangements will enable Mr. E, Mr. Zhang and Ms. Sha to transfer their past managerial experiences in environmental protection industry into the strategic planning and daily operations of the Company and help facilitate the deployment of internal resources within BEHL.

Last but not least, BEHL has a strong track record of entering into the water treatment industry and establishing a scaled water treatment business platform, which will provide direct reference to the Company in relation to its entry into the waste-to-energy industry.

Through similar capital injection into a listed company in March 2008, BEHL acquired 75% equity interests in Shang Hua Holdings Limited (371.HK) which thereafter changed the name to Beijing Enterprises Water Group Limited ("**Beijing Enterprises Water Group**"). In August of the same year, Beijing Enterprises Water Group acquired ZKC Environmental Group Co. Ltd., a leading enterprise in the industry, and marked the official entry into the water utility industry in the PRC. The daily treatment capacity was approximately 850,000 tonnes at that time. Afterwards, Beijing Enterprises Water Group experienced rapid growth and successfully expanded its scale in merely four years through development of new projects and acquisitions, turning itself into a leading player in the water utilities industry in the PRC. As at the first half of 2012, Beijing Enterprises Water Group possessed a total of 144 water plants with an aggregate capacity of 9.51 million tonnes, of which 6.44 million tonnes of daily treatment capacity were under operation and 3.07 million tonnes of daily treatment capacity under construction. The compound annual growth rate of its water treatment capacity over the past three and a half year was 71%, ranking the top in the industry. BEHL's strategy of scaled operation and strong capital support were of crucial significance to the success of Beijing Enterprises Water Group. BEHL will also implement its relevant experience to support the Company's entry into the waste-to-energy industry and create value for the Shareholders.

With specific waste-to-energy projects identified, the Company requires intensive capital to enter into this industry; the Proposed Transactions provides strong capital support to the Company's business transformation

Despite a large number of participants, the waste-to-energy industry in China is highly fragmented in absence of a dominant leader with operations across the country. The following table set out the major listed companies that involved in solid waste treatment business:

Company name	Place of listing and Stock Code	Number of Projects	Waste treatment capacity (Tonne/day)	2013E P/E ratio
Everbright International	Hong Kong Stock Exchange (257)	16	19,250 (Including 11,100 from projects under construction and preparation)	12.8x
Shenzhen Energy	Shenzhen Stock Exchange (000027)	7	12,250 (Including 9,800 from projects under construction and preparation)	10.3x

Company name	Place of listing and Stock Code	Number of Projects	Waste treatment capacity (Tonne/day)	2013E P/E ratio
Nanhai Development	Shanghai Stock Exchange (600323)	3	3,400 (Including 1,500 from projects under construction and preparation)	15.6x
China Power New Energy Development	Hong Kong Stock Exchange (735)	2	3,250	15.7x
Sound Environmental	Shenzhen Stock Exchange (000826)	4	2,700 (Including 2,700 from projects under construction and preparation)	19.5x

Source: Company Filings, Capital IQ

Note: The ranking only takes into account the data of the listed companies as of the first half of 2012. 20l3E P/E ratio is based on the market data as at the Latest Practicable Date.

The Company aims to become the leading waste-to-energy player in China and has identified specific waste-to-energy projects. Through the acquisition of and investment into the Proposed Green Energy Project, the Proposed Haidian Project and the Proposed Shanxi Project, a business transformation in mega scale will be achieved. In particular, upon completion of the acquisition of the Green Energy Holding, which currently has a total treatment capacity of 18,000 tonnes per day and ranks number one (together with its current controlling shareholder Hangzhou Jinjiang Group) in terms of waste treatment capacity in China according to《Chinese Environmental Protection Enterprises Ranking 2011》published by All-China Federation of Industry & Commerce and China Environment Chamber of Commerce in February 2012, the Company will immediately become one of the few largest waste-to-energy players in the PRC.

The Proposed Transactions will provide strong capital support for the above identified projects and their future development and expansion, such as technical innovation, equipment maintenance and upgrade, and investment into new waste-to-energy power plants. The Proposed Transactions will also enable the Company to achieve economies of scale and build and strengthen its competitive advantages by lowering purchase cost through bulk equipment procurement, improving operational efficiency through promoting knowledge sharing among plants and reducing market development costs through leveraging a more reputable brand. Moreover, the Proposed Transactions will allow the Company to continue increasing its market share by capturing industry consolidation opportunities in the coming years.

Amidst the current challenging economic environment, the strong capital support from BEHL represents a rare opportunity for the business transformation of the Company. The Directors are of the view that the Proposed Transactions is the best way to help the Company achieve its business transformation and be well positioned and equipped to enter into the waste-to-energy industry and to further capture attractive growth opportunities in the future. Accordingly, the Proposed Transactions are beneficial to the Company and the Shareholders.

Upon completion, the Group is expected to become the sole pure play that dedicates to waste-to-energy business amongst its listed peers in the PRC, possessing both scale and scarcity

Upon completion of the acquisition of the above three projects, the Group will have a waste treatment capacity of 22,600 tonnes per day and is expected to be one of the few largest waste-to-energy companies in China, surpassing China Everbright International which is currently the largest listed waste-to-energy company in China with a total waste processing capacity of 19,250 tonnes per day as of end of June 2012. In addition, since the other major listed Chinese waste-to-energy companies, including China Everbright International, China Power New Energy, Shenzhen Energy, Sound Environment, and Nanhai Development, all have a significant amount of revenue contribution from other business segments than waste-to-energy business, the Group will also become the sole pure play that focuses on garbage power-generation business amongst its listed comparable companies in China, demonstrating both scale advantage and scarcity value.

Apart from the Proposed Green Energy Project, the Proposed Haidian Project and the Proposed Shanxi Project, the Group is also actively exploring other new business opportunities through organic growth and strategic acquisitions to swiftly capture market share in the waste-to-energy sector in the PRC, and to become the largest and the most valuable waste-to-energy player in the PRC, creating value for the Shareholders.

Meanwhile, the Board is also aware of the uncertainties around the Company's entry into the waste-to-energy industry, including but not limited to, the Company's dependence on the PRC government's policies and regulatory framework supporting renewable energy development, the Company's dependence on the availability of power grids with adequate transmission capacity for its sales of electricity, uncertainties for the Company to achieve projected utilization of the facilities it operates, the Company's reliance on technologies and techniques that are subject to continuous changes and the Company's ability to comply with various laws and regulations in the PRC relating to the development, construction and operation of power projects in a timely manner.

The Proposed Transactions represent unprecedented substantial support from BEHL, the controlling shareholder of the Group. The capital support and refinancing capability of BEHL and BEGCL provide solid guarantee for the sustainable development of the Group. The Group will capture this rare opportunity to improve the current operational and financial performance significantly, thereby creating value for the Shareholders.

The Directors have also considered a number of financing options such as bank borrowing. However, in light of the current economic environment, it was considered not plausible for the Group to apply/arrange for bank loans with terms and amount (in the context of the amount equivalent to the net proceeds receivable from the issue of the Subscription Shares, the Firm Bonds and the Standby Bonds) which are meaningful to the Group. In addition, even if the additional bank loans were made available, it was considered that the financial position of the Group will be adversely affected through incurring additional finance charges particularly under the situation of increase in the interest rates during the tenure of the bank loans.

The Director have also considered the devotion of extra costs and efforts in order to procure underwriters to carry out rights issues or open offers on a fully underwritten basis and, in view of the recent financial and operational performance of the Company it is uncertain whether the Company will be able to procure such underwriter(s) (other than BEHL). In addition, due to the minimum public float requirement for the Company, it is not realistic for BEHL to subscribe new Shares of the Company through rights issues or open offers in an amount equivalent to the net proceeds from the Proposed Transactions in a rights issue or open offer without lowering the public float to below 25%. Furthermore, the Standby Bonds arrangement, which accounts for a substantial portion of the net proceeds from the Proposed Transactions (approximately 86%), was to ensure that such Bonds are issued only when there is a high probability that an investment by the Company will go ahead, as one of the pre-conditions to be satisfied before any Standby Bonds can be subscribed is the fulfillment or waiving of all condition precedents for the completion of the relevant project (as further detailed in this section of the circular headed "The Subscription Agreement — The Standby Request"). As a result, the subscription of the Standby Bonds to its full amount will be done through a gradual process during which total assets of the Company will also increase as the various waste-to-energy projects become materialised. Hence, the Company's gearing ratio is not expected to increase immediately upon completion of the Proposed Transactions. Given that the Proposed Transactions would enable the Company to raise such a significant amount of capital of approximately HK$3,500 million (taking account of the Standby Bonds) at such a low cost, and coupled with the Directors' belief that the Group would be able to leverage on the background and expertise of BEHL in exploring business development and investment opportunities, the Board is of the view that the Proposed Transactions are fair and reasonable as a whole even if there is a dilution effect on the interests of the public shareholders.

The Directors are fully aware of the fact that the Company's share price has gone through fluctuations since the announcement of the Proposed Transactions on 16 September 2011, as influenced by both broad market conditions and company specific factors. The Directors are of the view that the subscription price and the initial conversion price is fair and reasonable to the Company and the Independent Shareholders as a whole for the following reasons.

First of all, the Company's fair value did not change in a meaningful way as compared to September 2011. The Company's existing IT business, especially the system integration segment, continued to operate under intensive industry competition and suppression by "pricecut" bids and increasing material and salary costs. As a result, such business continued to shrink and operate at loss. For the six months ended 30 June 2012, the Company recorded a loss of HK$28.07 million. Equity attributable to shareholders of the Company further decreased by HK$22.20 million to HK$697.09 million as at 30 June 2012, as compared with 31 December 2011.

Secondly, even though there might have been changes in the market expectation of the Company's outlook after the Company announced the Proposed Transactions and related waste-to-energy projects, the Company may not be able to execute these investment opportunities in a timely and desirable manner without the proceeds from the Proposed Transactions. Therefore, the Directors consider that the current price fluctuation is more speculative in nature rather than reflecting changes in the Company's value. Since the announcement of the framework agreement with respect to the Proposed Green Energy Project on 18 September 2012, the Company's share price increased by 24.2% from HK$1.320 to HK$1.640 on 5 October 2012 reaching its 52-week high, while the Hang Seng Index was up by 2.0% during the same period. Since then, the Company's share price has undergone a downward adjustment of 8.5% up to the Latest Practicable Date, while the Hang Seng Index continued its uptrend by a further increase of 7.7% during the same period.

Last but not least, the Directors are of the view that it is hard to conclude whether there has or has not been a fundamental change to the market sentiment resulted from the recent macroeconomic policies. Since the announcement of third round of quantitative easing ("QE3") by the Federal Reserve on 13 September 2012, the Dow Jones Industrial Average Index has decreased by 1.4% and the S&P 500 Index has decreased by 0.9% up to the Latest Practicable Date. During the same period, the Hang Seng Index has increased by 12.8%. The Directors also noticed that during the entire period of the second round of quantitative easing which started from 3 November 2010 and ended on 30 June 2011, the Hang Seng Index decreased by 7.2%. Given the mixed market reactions to QE3 to date, it is difficult to conclude that there has been a fundamental change to the market sentiment, since monetary policies are expected to have longer-term impact hence uncertainties in market performance still lie ahead, and that the stock market itself is of volatile nature.

Given the above, the Directors are of the view that the Subscription Price and the Initial Conversion Price is still fair and reasonable to the Company and the Independent Shareholders as a whole.

In the event that the Proposed Transactions were not approved by the Independent Shareholders, and the Group were not able to seek any other acceptable financing methods, this may affect the Group's ability in seeking other potential investment opportunities to diversify its existing business portfolio and in broadening its source of income and this may affect the Company's goal in improving the overall financial performance of the Group and in enhancing value to its Shareholders. Based on the above and, more importantly, the fact that the Subscription Price represents a premium to the net asset value of the Company as at 31 December 2011 and the closing price per Share on the Last Trading Date, the Directors consider the Proposed Transactions to represent a straightforward and cost-effective means for financing for the Group and are fair and reasonable and on normal commercial terms and the entering into of the Proposed Transactions is in the interests of the Group and the Shareholders as a whole.

FUTURE INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP

Upon Completion, the Company will become a non wholly-owned indirect subsidiary of BEHL and the results of the Group will be consolidated to the financial statements of BEHL. The Subscriber intends to maintain the listing status of the Company on the Stock Exchange following the Completion.

The Subscriber intends that the Group will continue its existing business and undertake and explore other new business opportunities as further described in the section headed "Reasons for and Benefits of Entering into the Subscription Agreement" in the "Letter from the Board". The Subscriber has no intention or any concrete plans to inject any other assets into the Group or dispose of any of the Group's assets. Save as disclosed in the section headed "Reasons for and Benefits of Entering into the Subscription Agreement" in the "Letter from the Board" of this circular, the Subscriber also has no intention to introduce any major changes to the business of the Group, including any redeployment of the fixed assets of the Group. The implementation of any future injection/disposal of assets of the Group will be subject to the relevant provisions of the Listing Rules. The Subscriber, BEHL and any of their concert parties have no intention or any plans to make any change whatsoever to the continued employment of the employees of the Company and of its subsidiaries.

FUND RAISING ACTIVITIES FOR THE PAST 12 MONTHS

The Company has not conducted any equity fund raising exercises in connection with any issue of equity securities in the 12 months immediately preceding the date of the Announcement.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$1,000,000,000 divided into 1,000,000,000 Shares, of which 677,460,150 Shares have been issued and fully paid or credited as fully paid. In order to fulfill condition precedent (a)(ii) referred to in the paragraph headed "Conditions precedent" above, and to provide the Group with flexibility in future expansion and growth by means of issuing new Shares and fund raising activities as the Directors may consider appropriate from time to time, the Directors propose to increase the authorised share capital of the Company to HK$5,000,000,000 divided into 5,000,000,000 Shares by the creation of an additional 4,000,000,000 unissued Shares, which will rank pari passu with all existing Shares. The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM and no Shareholders are required to abstain from voting on such resolution. Save for the Shares that will be or may be issued under the Subscription Agreement, the Directors do not have any present intention to issue any part of the authorised share capital proposed to be increased.

LISTING RULES IMPLICATIONS

BEHL is a substantial shareholder of the Company and the Subscriber is a wholly-owned subsidiary of BEHL. As at the Latest Practicable Date, BEHL is interested in 290,459,000 Shares (representing approximately 42.87% of the issued share capital of the Company), BEHL is therefore a connected person of the Company. The Subscriber is an associate of BEHL and is therefore also a connected person of the Company under the Listing Rules and as such, the Proposed Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules. In light of the above, the Subscription Agreement would be subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

Pursuant to Rule 14.82 of the Listing Rules which stipulates that if the assets of a listed issuer consist wholly or substantially of cash or short-dated securities, it will not be regarded as suitable for listing and trading in its securities will be suspended. Pursuant to Rule 14.84 of the Listing Rules, the listed issuer may apply to the Stock Exchange to lift the suspension once it has a business suitable for listing. The Stock Exchange will treat its application for lifting the suspension as if it were an application for listing from a new applicant. The Stock Exchange reserves the right to cancel the listing if such suspension continues for more than twelve months or in any other case where it considers it necessary.

The Company would advise that upon Completion, the Company may or may not become a "cash company" as stipulated under Rule 14.82 of the Listing Rules. Shareholders and potential investors of the Company should note that Completion of the Subscription Agreement is subject to, among other things, the granting of the listing of and permission to deal in the Subscription Shares and the Conversion Shares by the Listing Committee of Stock Exchange and therefore, Completion may or may not take place. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares in view of the "cash company" issue and the possibility that Completion may or may not take place.

WHITEWASH WAIVER

Immediately following the allotment and issue of the Subscription Shares to the Subscriber on Completion, the Subscriber, BEHL and parties acting in concert with any of them will be interested in 472,060,000 Shares, representing approximately 55.25% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. In the absence of the Whitewash Waiver, the Subscriber would incur an obligation pursuant to Rule 26 of the Takeovers Code to make a mandatory offer to the Shareholders to acquire all the Shares other than those held by the Subscriber, BEHL and parties acting in concert with them. An application has been made to the Executive for the Whitewash Waiver. The Whitewash Waiver if granted, will be subject to, among other things, the approval of the Independent Shareholders taken by way of a poll at the EGM. As a result of the issuance and allotment of the Subscription Shares, the shareholding interests of the Subscriber and BEHL in the Company will exceed 50% and they may increase their holding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

The EGM will be held to consider and, if thought fit, passing the resolutions to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver. The resolutions in respect of the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver will be taken by way of a poll. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription Agreement will not become unconditional and will be terminated.

As at the Latest Practicable Date, the Company had 51,420,000 share options outstanding under the share option scheme adopted by the Company on 31 May 2011. Save for such options, the Company does not have any outstanding options, warrants, derivatives and other securities convertible or exchangeable into Shares or any other derivatives as at the Latest Practicable Date.

GENERAL

A notice convening the EGM to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 11 January 2013 at 3:30 p.m. to consider and, if thought fit, to approve, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver, the proposed increase in authorised share capital is set out on pages III-1 and III-2 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 25, Three Pacific Place, 1 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

The EGM will be convened for:

(i) the Independent Shareholders to consider and, if thought fit, to approve as ordinary resolutions the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver; and

(ii) the Shareholders to consider and, if thought fit, to approve as ordinary resolutions the proposed increase in the authorised share capital of the Company.

Pursuant to Rules 13.39(4) and 13.39(5) of the Listing Rules and Rule 2.9 of the Takeovers Code, the resolutions proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company on the results of the EGM.

The Subscriber, BEHL and parties acting in concert with any of them and their respective associates (including Mr. E Meng, Mr. Zhang Honghai and the holding companies of BEHL) and those parties who are involved in, or interested in, the Subscription Agreement will abstain from voting on the resolutions approving the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver, at the EGM.

Save and except for Mr. E Meng and Mr. Zhang Honghai, who are also directors of BEHL and are together interested in 4,601,000 Shares and who have abstained from voting on the resolutions in relation to the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver, none of the Directors has a material interest in the Subscription Agreement and the transaction contemplated thereunder or was required to abstain from voting on the Board resolutions for considering and approving the same.

An application will be made by the Company for the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares.

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver. Guangdong Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The appointment of Guangdong Securities has been approved by the Independent Board Committee.

Your attention is drawn to (i) the letter from the Independent Board Committee which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolutions to approve the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver; and (ii) the letter from Guangdong Securities which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver.

Having taken into consideration the factors discussed above, the executive Directors consider that the terms of the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Subscription Shares, the Firm Bonds, the Standby Bonds and the Whitewash Waiver, are fair and reasonable and the entering into of the Subscription Agreement, the issue of the Subscription Shares, the Firm Bonds and the Standby Bonds and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole, and recommend the Independent Shareholders to vote in favour of the forgoing matters at the EGM. The Board also considers that the proposed increase in the authorised share capital of the Company are in the interests of the Company and the Shareholders as a whole, and recommends the Shareholders to vote in favour of the resolutions relating to the foregoing matter at the EGM.

You are advised to read carefully the letter from the Independent Board Committee on pages 49 and 50 of this circular. The Independent Board Committee, having taken into account the advice of Guangdong Securities, the text of which is set out on pages 51 to 75 of this circular, considers that the terms of the Subscription Agreement and the transactions contemplated thereunder, including the Whitewash Waiver, are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Subscription Agreement including the transactions contemplated thereunder, including the Whitewash Waiver, at the EGM.

ADDITIONAL INFORMATION

This circular is being distributed to the Shareholders. This circular does not constitute an offer or invitation to subscribe for or purchase any securities mentioned herein nor is it calculated to invite any such offer or invitation.

Your attention is also drawn to the information set out in the appendices to this circular.

By order of the Board
Beijing Development (Hong Kong) Limited
Wang Yong
Executive Director

北京發展(香港)有限公司
BEIJING DEVELOPMENT (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability under Companies Ordinance)
(Stock Code: 154)

21 December 2012

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular dated 21 December 2012 (the "**Circular**") to the shareholders of the Company of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver, details of which are set out in the "Letter from the Board" contained in the Circular. Guangdong Securities has been appointed to advise the Independent Shareholders and us in this regard.

Details of the advice and the principal factors and reasons Guangdong Securities has taken into consideration in giving such advice, are set out in the "Letter from Guangdong Securities" in the Circular. Your attention is also drawn to the "Letter from the Board" in the Circular and the additional information set out in the appendices thereto.

Having taken into account the terms of the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver and the advice of Guangdong Securities, we are of the opinion that the terms of the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver are fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned and in the interests of the Company and the Shareholders as a whole. We, therefore, recommend that you vote in favour of the resolutions to be proposed at the EGM to approve Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Independent Board Committee

Dr. Jin Lizuo	**Dr. Huan Guocang**	**Dr. Wang Jianping**

Independent non-executive Directors

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Proposed Transactions and the Whitewash Waiver for the purpose of inclusion in this circular.

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

21 December 2012

To: The independent board committee and the independent shareholders of Beijing Development (Hong Kong) Limited

Dear Sirs,

**PROPOSED SUBSCRIPTION OF NEW SHARES AND BONDS
CONNECTED TRANSACTIONS
APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Proposed Transactions and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 21 December 2012 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced that on 15 September 2011, the Company, the Subscriber and BEHL (as guarantor) entered into the Subscription Agreement which superseded the MOU dated 11 September 2011. Pursuant to the Subscription Agreement, (i) the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 163,000,000 new Shares at the subscription price of HK$1.23 per new Share; (ii) the Company conditionally agreed to issue and the Subscriber conditionally agreed to purchase the Firm Bonds in the aggregate principal amount of HK$1,300,110,000; and (iii) the Company conditionally agreed to grant the call option to the Subscriber to subscribe for the convertible bonds in the aggregate principal amount of HK$1,999,980,000 (the "**Option Bonds**"). Under the Subscription Agreement, BEHL also unconditionally and irrevocably guaranteed the performance and discharge by the Subscriber of all its obligations under the Subscription Agreement in favour of the Company.

On 25 October 2011, it was further announced that the Company had entered into the First Supplemental Agreement, pursuant to which the Company, the Subscriber and BEHL have agreed to, among other things: (i) revise the Share consideration for new Shares from HK$200,490,000 to HK$200,010,000 and the number of new Shares from 163,000,000 new Shares to 177,000,000 new Shares; (ii) revise the aggregate principal amount of the Firm Bonds from HK$1,300,110,000 to HK$300,580,000 and the initial conversion price of the Firm Bonds from HK$1.23 to HK$1.13; and (iii) replace and substitute the Option Bonds with the Standby Bonds, such that the terms and conditions of the Option Bonds (including the definition of Option Bonds itself) shall apply to the Standby Bonds provided that the aggregate principal amount of the Standby Bonds shall be HK$3,000,150,000 (instead of HK$1,999,980,000) with the Initial Conversion Price being HK$1.13 and through the Review Meetings (as defined in the latter section of this letter) and pursuant to the terms of the First Supplemental Agreement, the Subscriber may notify the Company in writing that it will subscribe for such amount of the Standby Bonds as the Subscriber may consider appropriate and approve at the Review Meetings.

On 29 March 2012, it was further announced that the Company had entered into the Second Supplemental Agreement, pursuant to which the Company, the Subscriber and BEHL have agreed to revise the Long Stop Date to 31 December 2012.

On 12 December 2012, the Company announced that it had further entered into the Third Supplemental Agreement pursuant to which the Company, the Subscriber and BEHL have agreed to further revise the terms of the Subscription Agreement (as amended by the First Supplemental Agreement and the Second Supplemental Agreement) to, among other things, replace the terms of the Review Meetings in its entirety with the parties agreeing that the Company, subject to satisfaction of certain pre-conditions to giving notice, shall have the discretion to notify the Subscriber at any time during the term of the Bonds to require the Subscriber to subscribe for such amount of the Standby Bonds as the Company may, from time to time, consider appropriate. It was further announced that pursuant to the Third Supplemental Agreement, the Company, the Subscriber and BEHL have agreed to revise the Long Stop Date to 31 March 2013.

Following the entering into of the Third Supplemental Agreement, the principal terms of the Proposed Transactions are that (i) the Company had conditionally agreed to issue and the Subscriber had conditionally agreed to subscribe for 177,000,000 new Shares at the subscription price of HK$1.13 per new Share; (ii) the Company had conditionally agreed to issue and the Subscriber had conditionally agreed to purchase the Firm Bonds in the aggregate principal amount of HK$300,580,000 at the initial conversion price of the Firm Bonds of HK$1.13; and (iii) subject to the Company's satisfaction of certain pre-conditions to giving notice, the Company shall have the discretion to notify the Subscriber at any time during the term of the Bonds to require the Subscriber to subscribe for such amount of the Standby Bonds of an aggregate principal amount of HK$3,000,150,000 at the initial conversion price of the Standby Bonds of HK$1.13, as the Company may, from time to time, consider appropriate.

BEHL is a controlling shareholder of the Company (as defined in the Listing Rules) and the Subscriber is a wholly-owned subsidiary of BEHL. BEHL is therefore a connected person of the Company under the Listing Rules. Since the Subscriber is an associate of BEHL, the Subscriber is also a connected person of the Company under the Listing Rules. Accordingly, the Proposed Transactions constitute connected transactions for the Company under Chapter 14A of the Listing Rules, and will be subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Immediately following the allotment and issue of the Subscription Shares to the Subscriber on Completion, the Subscriber, BEHL and parties acting in concert with any of them will be interested in 472,060,000 Shares, representing approximately 55.25% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. In the absence of the Whitewash Waiver, the Subscriber will be obligated pursuant to Rule 26 of the Takeovers Code to make a mandatory offer to the Shareholders to acquire for all the Shares other than those held by the Subscriber, BEHL and parties acting in concert with any of them. In this regard, the Subscriber has made an application to the Executive for the Whitewash Waiver and such grant will be subject to, among other things, the approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM where voting on the relevant resolution(s) shall be taken by way of poll.

An Independent Board Committee comprising Dr. Jin Lizuo, Dr. Huan Guocang and Dr. Wang Jianping (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscription Agreement is in the interests of the Company and the Shareholders as a whole; (iii) whether the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote on the relevant resolutions to approve the Subscription Agreement and the transactions contemplated thereunder, and the Whitewash Waiver at the EGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in all these respects, and such appointment has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the despatch of the Circular, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, which to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Subscriber, BEHL or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Transactions as well as the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

THE SUBSCRIPTION AGREEMENT

In arriving at our opinion in respect of the Subscription Agreement, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for the Subscription Agreement

Information on the Group

The Company is incorporated in Hong Kong as an investment holding company. The principal activity of the Group's subsidiaries is the provision of information technology (IT) related services, including: (i) system integration; (ii) construction of information networks and sale of related equipment; (iii) IT technical support and consultation services; and (iv) development and sale of software. Tabularised below is a summary of the financial performance of the Group as extracted from the interim report of the Company for the six months ended 30 June 2012 (the "**2012 Interim Report**") and the annual report of the Company for the year ended 31 December 2011 (the "**2011 Annual Report**"):

Consolidated Income Statement	**For the six months ended 30 June 2012** *HK$'000* (unaudited)	**For the year ended 31 December 2011** *HK$'000* (audited)	**For the year ended 31 December 2010** *HK$'000* (audited)
Revenue	50,933	185,184	211,639
Gross profit	7,741	26,198	34,887
Profit/(loss) for the period/year	(28,067)	48,938	(27,763)

From the above table, we noted that the Group's revenue decreased by approximately 12.50% from approximately HK$211.64 million for the year ended 31 December 2010 to approximately HK$185.18 million for the year ended 31 December 2011. According to the 2011 Annual Report, such decrease was mainly caused by the increase in competition in system integration contracts. Despite the decrease in revenue, the Group recorded profit of approximately HK$48.94 million for the year ended 31 December 2011 as compared to a loss of approximately HK$27.76 million for the year ended 31 December 2010. As confirmed by the Directors, such profit was mainly contributed to the gain of approximately HK$122.04 million on disposal of a jointly-controlled entity of the Group. As a matter of fact, the Group had been loss making from 2008 to 2010 and has not been paying dividends to the Shareholders since 2008.

Information on the Subscriber and BEHL

With reference to the Board Letter, the Subscriber is an investment holding company incorporated in the British Virgin Islands with limited liability and is directly and wholly-owned by BEHL. BEHL is held as to approximately 36.15% by Beijing Enterprises Group (BVI) Company Limited ("**BEBVI**") which in turn is wholly-owned by Beijing Enterprises Group Company Limited ("**BEGCL**"), a company established in the PRC and is wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administrative Commission of People's Government of Beijing Municipality(北京市人民政府國有資產監督管理委員會).

With reference to the Board Letter, the annual report of BEHL for the year ended 31 December 2011 as well as the web-site of the Stock Exchange (http://www.hkex.com.hk) (as the case may be), BEHL is a conglomerate listed in Hong Kong with market capitalisation of over HK$57.7 billion as at the Latest Practicable Date. The BEHL's group of companies is principally engaged in natural gas operations, brewery operations, sewage and water treatment operations, and toll road operations in the PRC. For the year ended 31 December 2011, BEHL recorded audited consolidated revenue of approximately HK$30.47 billion, representing an increase of approximately 10.35% as compared to the prior year.

Future intentions of the Subscriber regarding the Group

As stated in the Board Letter, the Subscriber intends that the Group will continue its existing business and undertake and explore other new business opportunities as further described under the section headed "Reasons for and benefits of entering into the Subscription Agreement" of the Board Letter. The Subscriber has no intention or any concrete plans to inject any other assets into the Group or dispose of any of the

Group's assets. Save as disclosed under the section headed "Reasons for and benefits of entering into the Subscription Agreement" of the Board Letter, the Subscriber also has no intention to introduce any major changes to the business of the Group, including any redeployment of the fixed assets of the Group. The implementation of any future injection/disposal of assets of the Group will be subject to the relevant provisions of the Listing Rules. The Subscriber, BEHL and parties acting in concert with any of them have no intention or any plans to make any change whatsoever to the continued employment or the employees of the Company and its subsidiaries.

Other fund raising methods available to the Group

Regarding other fund raising methods available to the Group, we have enquired into the Directors and were advised that the Directors have considered a number of financing options, namely debt and equity financing, besides the Proposed Transactions. For debt financing, in light of the current economic environment and the government policies in curbing monetary supply, it was considered not plausible for the Group to apply/ arrange for bank loans, with terms being comparable to the relatively low annual interest rate of the Bonds and amount being equivalent to the net proceeds receivable from the Proposed Transactions, which are meaningful to the Group, having taken into account of the intended use of proceeds from the Proposed Transactions. In addition, even if the additional bank loans were made available, it was considered that the financial position of the Group will be adversely affected through incurring additional finance charges particularly under situation of increase in interest rates during the tenure of the bank loans.

As for equity financing, the Directors advised us that they have also considered the devotion of extra costs and efforts in order to procure underwriters (other than BEHL) to carry out rights issues or open offers on a fully underwritten basis and, in view of the recent financial and operational performance of the Company (i.e. (i) the Group had been loss making from 2008 to 2010; (ii) the Group's profit of approximately HK$48.94 million for the year ended 31 December 2011 was mainly contributed to the gain of approximately HK$122.04 million on disposal of a jointly-controlled entity of the Group; and (iii) the Group has not been paying dividends to the Shareholders since 2008), it is uncertain as to whether the Company will be able to procure such underwriter(s) at a low cost. Moreover, due to the minimum public float requirement of the Company, the Directors, having also taken into account the size of market capitalisation of the Company, consider that it is unrealistic for BEHL to subscribe for new Shares in an amount equivalent to the net proceeds from the Proposed Transactions through rights issues or open offers without lowering the public float to below 25%. With the above being the case, the Company had not approached any financial institutions for or procured any parties as underwriter to carry out rights issues or open offers.

Use of proceeds and reasons for the entering into of the Subscription Agreement

With reference to the Board Letter, BEHL has expressed to the Company that it intends to invest in the Company to establish an environmental protection and solid waste treatment platform, improve the financial performance of the Company and explore diversified value-added business. The Company announced on 15 September 2011 that it would issue new Shares and convertible bonds to BEHL, the proceeds of which would be used for investment in environmental protection and solid waste treatment business. Subsequently, the Company has announced three transactions in relation to the investment and acquisition of waste-to-energy business, the Proposed Green Energy Project, the Proposed Haidian Project and the Proposed Shanxi Project (all as defined in the Board Letter). The Company intends to use the net proceeds from the Proposed Transactions for the following purposes and projects:

- Financing of the Proposed Green Energy Project (estimated capital needs of HK$2.49 billion), the Proposed Haidian Project (estimated total capital commitment of HK$1.15 billion) and the Proposed Shanxi Project (estimated total investment costs of HK$1.24 billion); and

- In addition, as the Company continues to explore investment opportunities, it intends to allocate a maximum amount of US$100 million (equivalent to approximately HK$778 million) for the financing of potential waste-to-energy projects of the Group which may emerge and be executed through signing of definitive agreements prior to a definitive agreement can be signed for the Proposed Green Energy Project or the Proposed Shanxi Project (the "**Potential Projects**").

Leveraging on BEHL's extensive experience and leading position in utilities businesses, the Company is in the process of identifying other potential waste-to-energy projects since it first announced its intention to enter into the waste-to-energy industry. In addition to the three specific projects mentioned above, it is important for the Company to maintain funding flexibility in project planning and bidding. With sufficient funds on hand, it will help the Company expedite the process of winning new waste-to-energy projects and entering into binding contracts, which usually requires no less than 20% of the total investment to be in the form of share capital according to an industry guidance (《關於印發推進城市污水、垃圾處理產業化發展意見的通知》) jointly promulgated by the State Planning Commission and the Ministry of Construction and the Ministry of Environmental Protection in 2002.

The deployment of funds by the Potential Projects, as with the Proposed Green Energy Project and the Proposed Shanxi Project, is subject to the notification pre-conditions which must be satisfied by the Company including the entering into of a definitive agreement in relation to any of such projects within one calendar year from the Completion Date. Furthermore, the parties have agreed that the Company shall adopt a mixed-use approach in utilising the net proceeds from the Proposed Transactions on the Proposed Green Energy Project, the Proposed Shanxi Project and the Potential Projects which have yet to enter into any formal binding agreement, such that should, for example the Company fail to enter into a formal binding agreement for the Proposed Shanxi Project within one year from the date of Completion, the net proceeds from the Proposed Transactions which would otherwise be used for funding the Proposed Shanxi Project would be allocated for use by the Proposed Green Energy Project in such amount as may be required for funding the entire costs of such project with reference to the approximate proposed total investment costs as stated previously. Any net proceeds from the Proposed Transactions that remain unutilised by either of the Proposed Green Energy Project or the Proposed Shanxi Project will be utilised by the Potential Projects with reference to the maximum amount of US$100 million (equivalent to approximately HK$788 million) as stated previously. The Company intends to finance the excess in the capital needs for the proposed projects with both internal resources of the Group such as cash on hand, and external sources such as bank loans in the future. With the completion of the proposed projects, especially the Proposed Green Energy Project, the Company is expected to generate positive cash flow from operations and gain better debt financing capability.

With reference to the Board Letter, based on precedent projects in the waste-to-energy industry (for avoidance of doubt, those precedent projects are not conducted by the Company), there are usually substantial capital needs in the early stage of a project before the construction of waste-to-energy facilities commences, such as for removal of existing facilities on the site, securing land use right and procurement of major equipment. Once construction commences, on-going capital expenditures continue to incur throughout the construction period which is typically 18 to 24 months. Therefore, the Company estimates that approximately 60% to 80% of the net proceeds from the Proposed Transactions will be used within 12 months upon signing of definitive agreements for the Proposed Green Energy Project and the Proposed Shanxi Project, for purposes such as demolition of existing facilities on the construction sites, securing of land use rights, down payments for procurement of major equipment and construction materials and labor costs.

On the other hand, the Directors believe that the Proposed Transactions represent substantial support from BEHL. The capital support and refinancing capability of BEHL and BEGCL provide solid guarantee for the sustainable development of the Group. The Group will also capture this opportunity to improve the current operational and financial performance of the Company significantly, thereby creating value of the Shareholders.

Specifically, we have discussed with and the Directors also put forth the following reasons for and possible benefits of entering into of the Subscription Agreement in the Board Letter:

- There is an imminent need to improve the profitability and growth prospects of the Company's existing businesses.

- Steady and strong cash flows and high growth rate are characteristic of the waste-to-energy industry which represents a very attractive investment opportunity.

- BEHL will provide solid experience in development of environment protection business for the Company to adopt.

- With specific waste-to-energy projects identified, the Company requires intensive capital to enter into this industry; the Proposed Transactions provide strong capital support to the Company's business transformation.

- Upon Completion, the Group is expected to become the sole pure player that dedicates to waste-to-energy business amongst its listed peers in the PRC, possessing both scale and scarcity.

Shareholders may refer to the section headed "Reasons for and benefits of entering into the Subscription Agreement" of the Board Letter for relevant elaboration of the above reasons and possible benefits of entering into of the Subscription Agreement.

Having taken into consideration (i) the loss making position of the Group from 2008 to 2010 and the first half of 2012 and that the Group recorded profit in 2011 primarily due to an one-off disposal gain; (ii) the background and the existing business of BEHL; (iii) the weaknesses of the other fund raising methods available to the Group in comparison with the Proposed Transactions which would enable the Company to raise a significant amount of capital at a low cost; and (iv) the above reasons for and possible benefits of the entering into of the Subscription Agreement as presented by the Directors, we consider that the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

(2) Principal terms of the Subscription Agreement

On 15 September 2011, the Company, the Subscriber and BEHL (as guarantor) entered into the Subscription Agreement which superseded the MOU dated 11 September 2011. Pursuant to the Subscription Agreement, (i) the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 163,000,000 new Shares at the subscription price of HK$1.23 per new Share; (ii) the Company conditionally agreed to issue and the Subscriber conditionally agreed to purchase the Firm Bonds in an aggregate principal amount of HK$1,300,110,000; and (iii) the Company conditionally agreed to grant the call option to the Subscriber to require the Company to issue the Option Bonds in an aggregate principal amount of HK$1,999,980,000.

On 25 October 2011, it was further announced that the Company had entered into the First Supplemental Agreement, pursuant to which the Company, the Subscriber and BEHL have agreed to, among other things: (i) revise the Share consideration for new Shares from HK$200,490,000 to HK$200,010,000 and the number of new Shares from 163,000,000 new Shares to 177,000,000 new Shares; (ii) revise the aggregate principal amount of the Firm Bonds from HK$1,300,110,000 to HK$300,580,000 and the initial conversion price of the Firm Bonds from HK$1.23 to HK$1.13; and (iii) replace and substitute the Option Bonds with the Standby Bonds, such that the terms and conditions of the Option Bonds (including the definition of Option Bonds itself) shall apply to the Standby Bonds provided that the aggregate principal amount of the Standby Bonds shall be HK$3,000,150,000 (instead of HK$1,999,980,000) with the Initial Conversion Price being HK$1.13 and through the Review Meetings and pursuant to the terms of the First Supplemental Agreement, the Subscriber may notify the Company in writing that it will subscribe for such amount of the Standby Bonds as the Subscriber may consider appropriate and approve at the Review Meetings (the "**Standby Request**").

On 29 March 2012, it was further announced that the Company had entered into the Second Supplemental Agreement, pursuant to which the Company, the Subscriber and BEHL have agreed to revise the Long Stop Date to 31 December 2012.

On 12 December 2012, the Company had entered into the Third Supplemental Agreement pursuant to which the Company, the Subscriber and BEHL have agreed to further revise the terms of the Subscription Agreement (as amended by the First Supplemental Agreement and the Second Supplemental Agreement) to, among other things, replace the terms of the Review Meetings in its entirety with the parties agreeing that the Company shall have the discretion to notify the Subscriber at any time during the term of the Bonds to require the Subscriber to subscribe for such amount of the Standby Bonds as the Company may, from time to time, consider appropriate.

The Directors are of the view that the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Below is a summary of the principal terms of the Share Subscription (as defined below), the CB Subscription (as defined below) and the Standby Request. For details, please refer to the Board Letter under the section headed "The Subscription Agreement".

The Share Subscription

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 177,000,000 new Shares at the Subscription Price of HK$1.13 per new Share, representing a total consideration of HK$200,010,000 (the "**Share Subscription**").

The Subscription Shares represent approximately 26.13% of the existing issued share capital and approximately 20.71% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. The Subscription Shares when allotted and issued shall rank *pari passu* with all other Shares in issue in the share capital of the Company.

The CB Subscription

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for, the Firm Bonds in an aggregate principal amount of HK$300,580,000 at the Initial Conversion Price of HK$1.13 per Conversion Share (the "**CB Subscription**"). The Firm Bonds shall bear interest from the Completion Date at the rate of 1% per annum and will mature on the fifth anniversary of the date of its issue.

Upon exercise in full of the conversion rights attaching to the Firm Bonds (any such exercise will be conducted in compliance with the relevant requirements of the Takeovers Code), an aggregate of 260,000,000 Conversion Shares would fall to be allotted and issued by the Company at the Initial Conversion Price, which represents (i) approximately 39.26% of the existing issued share capital of the Company; (ii) approximately 31.13% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares; and (iii) approximately 23.74% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Conversion Shares upon full exercise of the Firm Bonds.

The Standby Request

Pursuant to the Subscription Agreement, the Company has agreed to that the Subscriber may require the Company to issue the Standby Bonds with an aggregate amount of HK$3,000,150,000 at the Initial Conversion Price of HK$1.13 per Conversion Share at any time during the five-year period commencing on the Completion Date (which may be extended by agreement between the Subscriber and the Company). The Standby Bonds shall bear interest from date of its issue at the rate of 1% per annum and will mature on the fifth anniversary of the date of issue of the Firm Bonds. Pursuant to the First Supplemental Agreement, subject to Completion and compliance with the Listing Rules, the Company shall, for every month during the five-year period following the Completion Date and so long as any Standby Bonds remain unissued, convene a meeting between representatives of the Company and the Subscriber to review the Company's requirement for funds in view of any acquisition and investment opportunity or business plan which may have been identified by the Company (the "**Review Meeting(s)**"). The Company and the Subscriber will at the Review Meeting consider and discuss any such acquisition and investment opportunity or business plan, at which the Subscriber may, having regard to the requirements of the Listing Rules including the requirements of Rule 14.82 of the Listing Rules, notify the Company in writing that it will subscribe for such amount of the Standby Bonds as the Subscriber may consider appropriate and approve at the Review Meeting.

On 12 December 2012, the Company had entered into the Third Supplemental Agreement pursuant to which the Company, the Subscriber and BEHL have agreed to revise the terms of the Subscription Agreement (as amended by the First Supplemental Agreement and the Second Supplemental Agreement) to, among other things, replace the terms of the Review Meetings in its entirety with the parties agreeing that the Company shall, subject to satisfaction of certain pre-conditions as detailed under the sub-section headed "The Standby Request" of the Board Letter to giving notice, have the discretion to notify the Subscriber at any time during the term of the Bonds to require the Subscriber to subscribe for such amount of the Standby Bonds as the Company may, from time to time, consider appropriate.

Upon exercise in full of the conversion rights attaching to the Standby Bonds (any such exercise will be conducted in compliance with the relevant requirements of the Takeovers Code), an aggregate of 2,655,000,000 Conversion Shares would fall to be allotted and issued by the Company at the Initial Conversion Price, which represents (i) approximately 391.91% of the existing issued share capital of the Company; (ii) approximately 310.72% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares; (iii) approximately 236.96% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Conversion Shares upon full exercise of the Firm Bonds; and (iv) approximately 70.32% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Conversion Shares upon full exercise of the Bonds. The Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with the other Shares in issue as at the date of issue of the Conversion Shares.

We have enquired into the Directors of the need and purpose of the issue of the Standby Bonds. In this regard, the Directors advised us that the Company has decided to make a strategic transition into the environmental protection and solid waste treatment industry, especially in the waste-to-energy area, and aims to become an industry leader through investments in and acquisitions of waste-to-energy projects. The terms and characteristics of the Standby Bonds, which provides strong financing support for the Company to achieve its goals, are designed in accordance with the Company's strategic planning and the features of the waste-to-energy investments.

Firstly, the Company has adopted prudent investment procedures. The management team proactively searches for suitable investment opportunities across the entire country and conducts thorough due diligence on potential targets before any investment decision is made. The Company expects to constantly explore new Potential Projects other than the Proposed Green Energy Project and the Proposed Shanxi Project in the coming years and will have capital needs from time to time depending on the progress of project searching and decision making. Such investment processes take time and the deployment of proceeds will occur gradually over time as needed by specific projects, details of which are set forth under the section headed "Use of proceeds" of the Board Letter.

Secondly, the Company's current asset base and cash flow is of limited scale. In anticipation of substantial capital expenditure over the coming year, the Company may not be able to obtain debt or equity financing, based on its financial performance, in a timely manner and at a reasonable cost to fund its growth. BEHL, the controlling shareholder of the Company, is committed to fully supporting the development of the Company to enhance its financial performance and increase Shareholders' return by providing sizable and low-cost funding.

Lastly, the arrangement of the Standby Bonds is to ensure that such bonds are issued only when there is high probability that an investment by the Company will go ahead, as one of the pre-conditions to be satisfied before any Standby Bonds can be subscribed is the fulfillment or waiving of all conditions precedent for the completion of the relevant project. As a result, the subscription of the Standby Bonds to its full amount will be done through a gradual process during which the total assets of the Company will also increase as the various waste-to-energy projects become materialised. Hence, the Company's gearing ratio is not expected to increase immediately upon completion of the Proposed Transactions.

In view of the above, the characteristics of the Standby Bonds can fulfill the Company's capital needs and provide sufficient financial resources and flexibility for the Company to secure and execute high quality investment opportunities to materialise its growth strategy. Therefore, we concur with the Directors that the issue of the Standby Bonds is fair and reasonable to the Company and the Independent Shareholders as a whole.

The Issue Price

The Subscription Price and the Initial Conversion Price of HK$1.13 (altogether, the "**Issue Price**") represents:

(a) a discount of approximately 24.67% to the closing price of HK$1.500 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 3.42% to the closing price of HK$1.170 per Share as quoted on the Stock Exchange on 24 October 2011, being the last trading day of the Shares on the Stock Exchange prior to the publication of the First Supplemental Announcement (the "**Supplemental Last Trading Date**");

(c) a discount of approximately 6.61% to the closing price of HK$1.210 per Share as quoted on the Stock Exchange on the Last Trading Date;

(d) a discount of approximately 8.43% to the average closing price of HK$1.234 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date and a discount of approximately 0.53% to the average closing price of HK$1.136 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Supplemental Last Trading Date;

(e) a discount of approximately 9.67% to the average closing price of HK$1.251 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date and a discount of approximately 1.31%

to the average closing price of HK$1.145 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Supplemental Last Trading Date;

(f) a premium of approximately 6.40% over the net asset value of the Company of approximately HK$1.062 per Share as at 31 December 2011, being the date to which the latest audited financial statements of the Company were made up; and

(g) a premium of approximately 9.82% over the net asset value of the Company of approximately HK$1.029 per Share as at 30 June 2012, being the date to which the latest unaudited financial statements of the Company were made up.

The Directors confirmed that the Issue Price was determined with reference to the prevailing market price of the Shares at the time of such issue (i.e. before the Supplemental Last Trading Date), after taking into account the financial position of the Company including the net asset value per Share of approximately HK$0.895 as at 30 June 2011, and was negotiated on an arm's length basis between the Company and the Subscriber. Despite the recent Share price increase as driven by the optimistic market expectation of the Company's outlook (for details, please refer to the below sub-section headed "Review on historical price of the Shares"), the Directors confirmed that the Company's fundamental has not changed in a meaningful way as compared to one year ago when the Company entered into the Subscription Agreement. Except for the one-off after-tax gain contributed to the disposal of a jointly-controlled entity of the Group, the business structure, asset quality and profitability of the Company has not improved materially. As a matter of fact, the Company's existing IT business continued to operate under intensive industry competition and suppression by "pricecut" bids and increasing material and salary costs. Due to this reason, such business continued to shrink and operate at loss.

Having reviewed the unaudited consolidated management accounts of the Company for the nine months ended 30 September 2012, the 2012 Interim Report and the 2011 Annual Report, and performed our due diligence work (including discussion with the management of the Company and obtaining relevant supporting documents) (such as breakdown of financial figures, list of major suppliers/ customers, material contracts, etc.) and confirmations from the Company) with regard to material changes to the financial and trading position or outlook of the Group since the date its latest audited financial statements were made up, i.e. 31 December 2011, in compliance with the Takeovers Code, we concur with the Directors that save for those items as highlighted under the section headed "Material Changes" in Appendix II to the

Circular, the Company's fundamental has not changed in a meaningful way as compared to one year ago and the Company's business structure, asset quality and profitability has not improved materially.

In order to further assess the fairness and reasonableness of the Issue Price, we further set out the following informative analyses:

Review on historical price of the Shares

The following table sets out the highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each month during the periods commencing from 1 January 2011 up to and including the Last Trading Date (the "**Pre-Announcement Period**", being the complete calendar year preceding the Last Trading Date) and from 16 September 2011 up to and including the Latest Practicable Date (the "**Post-Announcement Period**", being the period after publication of the Announcement):

Month	**Highest closing price** *(HK$)*	**Lowest closing price** *(HK$)*	**Average daily closing price** *(HK$)*	**No. of trading days in each month**
Pre-Announcement Period				
2011				
January	1.540	1.400	1.461	21
February	1.440	1.330	1.381	18
March	1.330	1.220	1.288	23
April	1.400	1.280	1.337	18
May	1.370	1.170	1.255	20
June	1.300	1.120	1.210	21
July	1.330	1.250	1.291	20
August	1.300	1.160	1.240	23
September (up to and including the Last Trading Date) *(Note)*	1.280	1.210	1.244	7

Month	Highest closing price *(HK$)*	Lowest closing price *(HK$)*	Average daily closing price *(HK$)*	No. of trading days in each month
Post-Announcement period				
2011				
September (from 16 September to 30 September 2011)	1.300	1.180	1.248	10
October	1.200	1.120	1.153	20
November	1.340	1.140	1.238	22
December	1.340	1.180	1.245	20
2012				
January	1.270	1.220	1.246	18
February	1.610	1.220	1.439	21
March	1.550	1.400	1.478	22
April	1.360	1.250	1.290	18
May	1.350	1.230	1.280	22
June	1.330	1.220	1.272	21
July	1.280	1.210	1.256	21
August	1.240	1.130	1.183	23
September	1.610	1.160	1.347	20
October	1.640	1.370	1.506	20
November	1.570	1.440	1.479	22
December (up to and including the Latest Practicable Date)	1.560	1.500	1.542	13

Source: the Stock Exchange web-site (www.hkex.com.hk)

Note:

Trading in the Shares was suspended from 12 September 2011 to 15 September 2011 (both days inclusive) pending the release of the Announcement.

As depicted by the above table, the Issue Price is within the ranges, being (i) from HK$1.12 to HK$1.54, of the closing prices of the Shares during the Pre-Announcement Period; and (ii) from HK$1.12 to HK$1.64, of the closing prices of the Shares during the Post-Announcement Period. We noticed that the price ranges of the closing prices of the Shares during the Pre-Announcement Period and the Post-Announcement Period were largely the same. The open market price of the

Shares followed an overall downward moving trend from January 2011 to October 2011, but bounced back thereafter and reached the highest of HK$1.610 per Share in February 2012. From April 2012 onwards, the closing prices of the Shares dropped persistently up to mid September 2012. On 17 September 2012, the Company made an announcement regarding the Proposed Green Energy Project. From then onwards up to the Latest Practicable Date, the open market price of the Shares had remained at a relatively high level.

Moreover, we noted that the closing price of the Shares had increased from HK$1.21 per Share on the Last Trading Date to the highest of HK$1.30 per Share for three consecutive trading days up to 21 September 2011 although the Hang Seng Index plummeted in general from 19,866.63 points to 18,824.17 points during the same said period. Such price surge after the release of the Announcement represents, in our opinion, a positive response from the market to the Subscription Agreement and reflects the market perception on the potential benefits of the Subscription Agreement to the Company upon Completion.

We noted that the Issue Price (i) is at the low-end of the range of the closing prices of the Shares during both of the Pre-Announcement Period and the Post-Announcement Period; and (ii) represents a discount to the closing prices of the Shares during most of the time of both of the Pre-Announcement Period and the Post-Announcement Period. Nevertheless, judging from the relatively substantial fluctuations of the Share prices during the said periods, we are of the view that the historical Share price fluctuations are more speculative in nature rather than reflecting changes in the Company's value. As compared to the aforesaid uncertainty on the causes of the Share price performance, we noted that from the 2011 financial year up to the six months ended 30 June 2012, the Group had changed from profit making to loss making and its total net asset value had shrunk from 31 December 2011 to 30 June 2012.

Having taken into account of the apparent weakening financial performance of the Group as compared to the uncertainty on the causes of the Share price performance, and that (i) the Subscription Agreement is expected to create significant potential benefits to the Group; (ii) the Issue Price represents premiums over the net asset values of the Company per Share as at 31 December 2011 and 30 June 2012; and (iii) the Issue Price is at least within the range of the closing prices of the Shares during both of the Pre-Announcement Period and the Post-Announcement Period, we are of the view that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

Adjustment to the Initial Conversion Price

Under the terms of the Bonds, the Initial Conversion Price is subject to adjustment upon occurrence of certain prescribed events (the "**Adjustments**"), for example consolidation or subdivision of Shares, capitalisation of profits or reserves, extraordinary distributions, rights issue of Shares or options over Shares, details of which are set forth under the sub-section headed "Principal terms of the Bonds" of the Board Letter. With respect to the Adjustments, we have studied the terms of the convertible bonds/notes issued by listed companies in Hong Kong in the past half year period (based on the respective announcements published on the Stock Exchange's web-site (http://www.hkex.com.hk) and we noted that similar conversion price adjustment mechanism are often included in the terms of those convertible bonds/notes. In light of that the Adjustments are rather normal and customary of their kind, we consider that they are fair and reasonable so far as the Independent Shareholders are concerned.

Interest rate of the Bonds

The Bonds shall bear interest from the Completion Date at the rate of 1% per annum payable in arrears on the last day of every six months from the Completion Date. The first interest payment date shall fall on the day that is six months immediately following the Completion Date.

As advised by the Directors, the Group did not have any bank borrowings as at the Latest Practicable Date. From our research, we noticed that currently, the Reminbi five-year benchmark deposit and loan rate of financial institutions is 6.4%; whereas The Hongkong and Shanghai Banking Corporation Limited's current HK$ best lending rate is 5% per annum. As such, the interest rate of the Bonds of 1% per annum is below each of the aforesaid rates.

Given the above, we are of the view that the interest rate of the Bonds is fair and reasonable so far as the Independent Shareholders are concerned.

Having considered and analysed the aforesaid terms of the Subscription Agreement, we are of the view that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Dilution effect on the shareholding interests of the existing public Shareholders

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon issue and allotment of the Subscription Shares; (iii) upon issue and allotment of the Subscription Shares and full conversion of the Firm Bonds; (iv) upon issue and allotment of the Subscription Shares and conversion of the Bonds; and (v) upon issue and allotment of the Subscription Shares and conversion of the Bonds to the extent that the minimum public float of 25% is maintained:

Shareholders	As at the Latest Practicable Date		Upon issue and allotment of the Subscription Shares		Upon issue and allotment of the Subscription Shares and full conversion of the Firm Bonds		Upon issue and allotment of the Subscription Shares and full conversion of the Bonds		Upon issue and allotment of the Subscription Shares and upon conversion of the Bonds to the extent that the minimum public float of 25% is maintained	
	Number of Shares	*Approximate shareholding %*	*Number of Shares*	*Approximate shareholding %*	*Number of Shares*	*Approximate shareholding %*	*Number of Shares*	*Approximate shareholding %*	*Number of Shares*	*Approximate shareholding %*
The Subscriber and BEHL *(Note (1))*	290,459,000	42.87	467,459,000	54.71	733,459,000	65.46	3,388,459,000	89.75	1,101,012,430	73.99
The Directors *(Note (4))*										
– Mr. E Meng	601,000	0.09	601,000	0.07	601,000	0.05	601,000	0.02	601,000	0.04
– Mr. Zhang Honghai	4,000,000	0.59	4,000,000	0.47	4,000,000	0.36	4,000,000	0.11	4,000,000	0.27
The Subscriber and parties acting in concert with it	295,060,000	43.55	472,060,000	55.25	738,060,000	65.87	3,393,060,000	89.87	1,105,613,430	74.30
The Directors										
– Mr. Yan Qing	4,000	0.00	4,000	0.00	4,000	0.00	4,000	0.00	4,000	0.00
– Mr. Ng Kong Fat, Brian	10,392,755	1.53	10,392,755	1.22	10,392,755	0.93	10,392,755	0.28	10,392,755	0.70
Other public Shareholders	372,003,395	54.91	372,003,395	43.54	372,003,395	33.20	372,003,395	9.85	372,003,395	25.00
Total	677,460,150	100	854,460,150	100	1,120,460,150	100	3,775,460,150	100	1,488,013,580	100

Notes:

(1) The interest disclosed includes the 275,675,000 Shares owned by the Subscriber, a wholly-owned subsidiary of BEHL, Accordingly, BEHL is deemed to be interested in the Shares owned by the Subscriber. BEHL directly owns 14,784,000 Shares. BEBVI and BEGCL are immediate holding company and the ultimate holding company of BEHL, respectively. Accordingly, each of BEBVI and BEGCL is deemed to be interested in the Shares owned by each of BEHL and the Subscriber.

(2) It is a term of the Bonds that the holder(s) of the Bonds shall not exercise any of the conversion rights attaching to the Bonds, if following such exercise, the Company's minimum public float cannot be maintained.

(3) The shareholding figures above may not add up to 100 due to rounding to 2 decimal places.

(4) Mr. E Meng and Mr. Zhang Honghai are also directors of BEHL and are together interested in 4,601,000 Shares and 13,540,000 share options of the Company.

As demonstrated by the above table, the shareholding interests of the existing public Shareholders will be reduced from approximately 54.91% to:

(i) approximately 43.54% upon issue and allotment of the Subscription Shares;

(ii) approximately 33.20% immediately upon issue and allotment of the Subscription Shares and full conversion of the Firm Bonds; and

(iii) approximately 9.85% immediately upon issue and allotment of the Subscription Shares and full conversion of the Bonds.

We noted that the shareholding interests of the existing public Shareholders is subject to dilution of the aforementioned extents as a result of the Share Subscription as well as the possible exercise in full of the Firm Bonds and/or the Standby Bonds. Nevertheless, as balanced by (i) the loss making position of the Group from 2008 to 2010 and that the Company has not been paying dividends to the Shareholders since 2008; (ii) and given the background and existing business of BEHL, BEHL may act as a strategic investor of the Group to strengthen its capability for executing its business strategy; (iii) the Proposed Transactions would enable the Company to raise a significant amount of capital at a relatively low cost (in the context of the absence of underwriting commission which would be charged under rights issue/ open offer exercise and the relatively low annual interest rate of the Bonds); (iv) right after publication of the Announcement, the Share price increased in spite of the then relatively stagnant general stock market condition, which may represent a positive response from the market to the Subscription Agreement; and (v) the terms of the Subscription Agreement, including the terms of the Share Subscription and the CB Subscription, being fair and reasonable so far as the Independent Shareholders are concerned, we consider the possible dilution effect on the shareholding interests of the existing public Shareholders to be justifiable.

In addition, in light of that it is a term of the Bonds that holder(s) of the Bonds shall not exercise any of the conversion rights attaching to the Bonds, if following such exercise, the Company's minimum public float cannot be maintained, we are of the view that the shareholding interests of the public Shareholders would be safeguarded given the aforesaid restriction. Furthermore, any exercise of the conversion rights attaching to the Bonds will be conducted in compliance with the relevant requirements of the Takeovers Code.

(4) Financial effects of the Proposed Transactions

*Effect on net assets value (“**NAV**”)*

As referred to in the 2012 Interim Report, the unaudited consolidated NAV of the Group was approximately HK$708.71 million as at 30 June 2012. As confirmed by the Directors, the NAV would rise due to the issue of the Subscription Shares. As for the issue of the Bonds, although the net proceeds deriving therefrom would increase the Group's cash and cash equivalents before the Group utilises the said proceeds for its future investments or business opportunities, given that the Bonds when being actually booked into the financial statements of the Group will consist of an equity portion and a liability portion which would require assessment and valuation by a professional valuer in accordance with the Hong Kong Financial Reporting Standards, the Company is unable to assess its impacts on the Group until reliable estimations of the Bonds' values can be made at the date of their issue (i.e. at the Completion Date for the Firm Bonds and when the Company calls for subscription of the Standby Bonds for the Standby Bonds).

Effect on earnings

As the Firm Bonds bear an interest of 1% per annum, the Directors expected the CB Subscription would reduce the earnings of the Group due to the interests incurred for the Firm Bonds. However, in view of that the Proposed Transactions may strengthen the Company's strategic capability for executing its business strategy, the Directors are optimistic on the overall future earnings of the Group upon Completion. Furthermore, as aforementioned, the relevant accounting entries for the issue of the Bonds have not yet been determined and as a result, its impacts on the earnings of the Group could not be estimated at this early stage.

Effect on gearing

The gearing level of the Group (calculated as total liabilities divided by total assets) was approximately 27.1% as at 30 June 2012. The Directors expected that the consolidated NAV and the total assets of the Group would rise due to the issue of the Subscription Shares whereas the Group's total liabilities would remain unchanged. With these being the case, the Share Subscription would reduce the Group's gearing level. Furthermore, as aforementioned, the relevant accounting entries for the issue of the Bonds have not yet been determined and as a result, its impacts on the gearing level of the Group could not be estimated at this early stage.

Effect on liquidity

The Directors confirmed that the net proceeds from the Share Subscription and the CB Subscription would increase the Group's cash and cash equivalents before the Group utilises the said proceeds for its future investments or business opportunities. In the event that the Standby Bonds are issued in the future, the Group's liquidity position will be further strengthened.

We have discussed with the Directors with regard to the aforementioned analyses and are of the view that they were made on reasonable basis. Nonetheless, it should be noted that those analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Transactions.

Since our recommendation with regard to the Proposed Transactions is not based on the possible financial effects of the Proposed Transactions, the unknown financial impact of the issue of the Bonds would not affect our analysis.

THE WHITEWASH WAIVER

Immediately following the allotment and issue of the Subscription Shares to the Subscriber on Completion, the Subscriber, BEHL and parties acting in concert with any of them will be interested in 472,060,000 Shares, representing approximately 55.25% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. In the absence of the Whitewash Waiver, the Subscriber will be obligated pursuant to Rule 26 of the Takeovers Code to make a mandatory offer to the Shareholders to acquire for all the Shares other than those held by the Subscriber, BEHL and parties acting in concert with any of them. In this regard, the Subscriber has made an application to the Executive for the Whitewash Waiver and such grant will be subject to, among other things, the approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM where voting on the relevant resolution(s) shall be taken by way of poll.

It is a condition precedent to the Subscription Agreement that the Whitewash Waiver is granted. If the Whitewash Waiver is not granted or if any of the conditions of the Subscription Agreement is not fulfilled or waived (as the case may be), the Subscription Agreement will not proceed to Completion.

Given the aforementioned possible benefits of the Subscription Agreement and the transactions contemplated thereunder to the Company and the terms of the Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the Completion, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Subscription Agreement.

Shareholders should note that upon completion of the Share Subscription, the Subscriber, BEHL and parties acting in concert with any of them will hold more than 50% of the enlarged issued share capital of the Company. In the event that the Subscriber, BEHL and their respective concert parties' shareholding interests in the Company exceed 50% upon completion of the Share Subscription, and the Whitewash Waiver is granted, the Subscriber, BEHL and parties acting in concert with any of them may increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Proposed Transactions, although not being conducted in the ordinary and usual course of business of the Company, are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder. We also recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to approve the Subscription Agreement and the transactions contemplated thereunder at the EGM.

Taking into consideration the reasons and benefits of the Proposed Transactions and that Completion is conditional upon granting of the Whitewash Waiver, we consider that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as whole. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) in relation to the Whitewash Waiver at the EGM. We also recommend the Independent Shareholders to vote in favour of the resolution(s) to approve the Whitewash Waiver at the EGM.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. SUMMARY OF THE FINANCIAL INFORMATION

The following is a summary of the consolidated results and financial information of the Group for the three years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, details of which were extracted from the annual reports of the Company for each of the years ended 31 December 2009, 2010 and 2011 and the interim report of the Company for the six months ended 30 June 2012:

Results

	Six months ended 30 June	**Year ended 31 December**		
	2012	**2011**	**2010**	**2009**
	(Unaudited)	(Audited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	50,933	185,184	211,639	225,376
Cost of sales	(43,192)	(158,986)	(176,752)	(230,010)
Gross profit/(loss)	7,741	26,198	34,887	(4,634)
Gain on disposal of a jointly-controlled entity	—	122,041	—	—
Other income and gain, net	14,596	26,226	13,444	8,537
Selling and distribution costs	(3,708)	(9,639)	(9,326)	(7,821)
Administrative expenses	(31,244)	(89,452)	(58,325)	(63,848)
Other expenses, net	(499)	(13,363)	6,059	(64,388)
Finance costs	(3,257)	(4,087)	(6,223)	—
Share of profits and losses of:				
Jointly-controlled entities	(7,433)	112	1,560	1,033
Associates	(4,200)	(520)	(8,252)	(16,718)
Impairment of an investment in an associate	—	—	—	(18,703)
PROFIT/(LOSS) BEFORE TAX	(28,004)	57,516	(26,176)	(166,542)
Income tax	(63)	(8,578)	(1,587)	(10,312)
PROFIT/(LOSS) FOR THE PERIOD/YEAR	(28,067)	48,938	(27,763)	(176,854)

	Six months ended 30 June	Year ended 31 December		
	2012	2011	2010	2009
	(Unaudited)	(Audited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Attributable to:				
Shareholders of the Company	(20,840)	54,846	(23,460)	(158,418)
Non-controlling interests	(7,227)	(5,908)	(4,303)	(18,436)
	(28,067)	48,938	(27,763)	(176,854)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY				
— Basic and diluted (HK cents)	(3.08)	8.10	(3.46)	(23.38)

Assets, Liabilities and Non-controlling Interests

	30 June	31 December		
	2012	2011	2010	2009
	(Unaudited)	(Audited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	971,734	1,041,467	925,390	933,164
Total liabilities	(263,028)	(303,328)	(281,222)	(283,295)
Net assets	708,706	738,139	644,168	649,869
Equity attributable to:				
Shareholders of the Company	697,087	719,293	619,228	622,770
Non-controlling interests	11,619	18,846	24,940	27,099
	708,706	738,139	644,168	649,869

Notes:

(1) The financial statements of the Group for the three years ended 31 December 2009, 2010 and 2011 were audited by Ernst & Young. No qualified opinion had been issued by Ernst & Young in respect of the financial statements of the Group for the years ended 31 December 2010 and 2011. Qualified opinion was issued by Ernst & Young in respect of the financial statements of the Group for the year ended 31 December 2009, which is extracted as below:

Basis for Qualified Opinion

As further explained in note 19(b) to the financial statements, the Group did not equity account for any operating results of China Information Technology Development Limited ("CITD", a 29.18% indirectly-owned associate of the Company) for the year ended 31 December 2008 in accordance with Hong Kong Accounting Standard 28 *Investments in Associates* as no relevant and reliable financial information of CITD had been made available to the Group. In the absence of appropriate financial information relating to CITD for the year ended 31 December 2008, there were no other satisfactory audit procedures that we could adopt to quantify the financial impact and our report dated 30 March 2009 in respect of the financial statements for the year ended 31 December 2008 was qualified in respect thereof.

In respect to the above, our opinion on the current year's financial statements is qualified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures that are relevant to the operating results of CITD.

Qualified Opinion on Corresponding Figures

In our opinion, except for the possible effects on the corresponding figures of the matter described in the "Basis for qualified opinion" section above, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

(2) Saved for the below, there were no items which are exceptional because of size, nature or incidence for the three financial years ended 31 December 2011 and for the six months ended 30 June 2012:

— During the year ended 31 December 2009, the Group recognised impairment loss of HK$ 58,625,000 against the goodwill arising on the acquisition of a subsidiary in prior years as the senior management of the Group is of the opinion that the recoverable amount of the relevant cash generating unit is less than its respective carrying amount with reference to the business valuation; and

— During the year ended 31 December 2011, the Group recognised a gain on disposal of a jointly-controlled entity amounted to HK$122,041,000 in respect of the disposal of its 43% equity interest in BMAC during that year.

(3) There were no dividends declared or paid for the three years ended 31 December 2009, 2010 and 2011.

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The following information is extracted from the audited financial statements of the Group as set out in the annual report of the Company for the year ended 31 December 2011:

Consolidated Income Statement
Year ended 31 December 2011

		2011	2010
	Notes	*HK$'000*	*HK$'000*
REVENUE	*5*	185,184	211,639
Cost of sales		(158,986)	(176,752)
Gross profit		26,198	34,887
Gain on disposal of a jointly-controlled entity	*18(c)*	122,041	—
Other income, net	*5*	26,226	13,444
Selling and distribution costs		(9,639)	(9,326)
Administrative expenses		(89,452)	(58,325)
Other expenses, net		(13,363)	6,059
Finance costs	*6*	(4,087)	(6,223)
Share of profits and losses of:			
Jointly-controlled entities	*18(a)*	112	1,560
Associates	*19(a)*	(520)	(8,252)
PROFIT/(LOSS) BEFORE TAX	*7*	57,516	(26,176)
Income tax	*10*	(8,578)	(1,587)
PROFIT/(LOSS) FOR THE YEAR		48,938	(27,763)
Attributable to:			
Shareholders of the Company	*11*	54,846	(23,460)
Non-controlling interests		(5,908)	(4,303)
		48,938	(27,763)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*12*		
— Basic and diluted (HK cents)		8.10	(3.46)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	48,938	(27,763)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange fluctuation reserve:		
Translation of foreign operations	20,628	17,332
Release upon disposal of a jointly-controlled entity	(4,119)	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR	16,509	17,332
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	65,447	(10,431)
Attributable to:		
Shareholders of the Company	71,541	(8,393)
Non-controlling interests	(6,094)	(2,038)
	65,447	(10,431)

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property and equipment	13	9,718	9,423
Investment properties	14	45,837	44,771
Goodwill	15	—	10,000
Other intangible assets	16	2,496	5,109
Investments in jointly-controlled entities	18	12,093	14,565
Investments in associates	19	19,034	21,037
Trade receivables	23	15,613	29,875
Deferred tax assets	20	—	1,672
Total non-current assets		104,791	136,452
CURRENT ASSETS			
Inventories	21	14,702	4,610
Amounts due from contract customers	22	909	2,742
Trade receivables	23	85,106	131,486
Prepayments, deposits and other receivables	24	117,751	29,864
Income tax recoverable		—	527
Pledged deposits	25	1,173	119
Cash and cash equivalents	25	717,035	619,590
Total current assets		936,676	788,938
CURRENT LIABILITIES			
Trade and bills payables	26	118,081	135,430
Amounts due to contract customers	22	9,788	8,185
Other payables and accruals	27	108,256	87,251
Income tax payables		6,762	23
Total current liabilities		242,887	230,889
NET CURRENT ASSETS		693,789	558,049
TOTAL ASSETS LESS CURRENT LIABILITIES		798,580	694,501

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Trade payables	26	13,526	15,039
Deferred income	28	46,915	35,294
Total non-current liabilities		60,441	50,333
Net assets		738,139	644,168
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	29	677,460	677,460
Reserves	31(a)(i)	41,833	(58,232)
		719,293	619,228
Non-controlling interests		18,846	24,940
Total equity		738,139	644,168

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to shareholders of the Company										
		Issued capital	Share premium account	Capital redemption reserve	Share option reserve	Capital reserve	Exchange fluctuation reserve	PRC reserve funds	Accu-mulated losses	Total	Non-controlling interests	Total equity
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(note 31(a)(ii))	*(note 31(a)(iii))*			*(note 31(a)(iv))*				
At 1 January 2010		677,460	170,319	9,721	71,069	850	45,705	41,455	(393,809)	622,770	27,099	649,869
Loss for the year		–	–	–	–	–	–	–	(23,460)	(23,460)	(4,303)	(27,763)
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	15,067	–	–	15,067	2,265	17,332
Total comprehensive income/(loss) for the year		–	–	–	–	–	15,067	–	(23,460)	(8,393)	(2,038)	(10,431)
Acquisition of the non-controlling interest of a subsidiary		–	–	–	–	121	–	–	–	121	(121)	–
Transfer of share option reserve upon the forfeiture of share options	*30(c)*	–	–	–	(7,055)	–	–	–	7,055	–	–	–
Transfer to PRC reserve funds		–	–	–	–	–	–	262	(262)	–	–	–
Share of reserves of an associate		–	–	–	–	4,730	–	–	–	4,730	–	4,730
At 31 December 2010 and 1 January 2011		677,460	170,319*	9,721*	64,014*	5,701*	60,772*	41,717*	(410,476)*	619,228	24,940	644,168
Profit/(loss) for the year		–	–	–	–	–	–	–	54,846	54,846	(5,908)	48,938
Other comprehensive income/(loss) for the year:												
Exchange fluctuation reserves:												
Translation of foreign operations		–	–	–	–	–	20,814	–	–	20,814	(186)	20,628
Release upon disposal of a jointly-controlled entity		–	–	–	–	–	(4,119)	–	–	(4,119)	–	(4,119)
Total comprehensive income/(loss) for the year		–	–	–	–	–	16,695	–	54,846	71,541	(6,094)	65,447
Equity-settled share option arrangement	*30(a)*	–	–	–	27,882	–	–	–	–	27,882	–	27,882
Transfer of share option reserve upon the forfeiture/lapse of share options	*30(c),(d)*	–	–	–	(64,014)	–	–	–	64,014	–	–	–
Transfer to PRC reserve funds		–	–	–	–	–	–	21	(21)	–	–	–
Share of reserves of an associate		–	–	–	–	642	–	–	–	642	–	642
At 31 December 2011		677,460	170,319*	9,721*	27,882*	6,343*	77,467*	41,738*	(291,637)*	719,293	18,846	738,139

* These reserve accounts comprise the consolidated reserves of HK$41,833,000 (2010: negative consolidated reserves of HK$58,232,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		57,516	(26,176)
Adjustments for:			
Gain on disposal of a jointly-controlled entity	*18(c)*	(122,041)	—
Share of profits and losses of jointly-controlled entities	*18(a)*	(112)	(1,560)
Share of profits and losses of associates	*19(a)*	520	8,252
Bank interest income	*5*	(7,037)	(6,152)
Imputed interest on interest-free trade receivables with extended credit periods	*5*	(14,676)	(1,446)
Imputed interest on interest-free trade payables with extended credit periods	*6*	4,087	6,223
Fair value loss on investment properties	*7*	1,144	538
Write-down of inventories to net realisable value	*7*	327	1,286
Loss on disposal of items of property and equipment, net	*7*	11	59
Depreciation	*7*	2,974	2,815
Amortisation of other intangible assets	*7*	2,820	2,656
Impairment of goodwill	*7*	10,000	—
Impairment of an amount due from an associate	*7*	31	30
Impairment/(reversal of impairment) of trade receivables, net	*7*	876	(6,687)
Impairment of other receivables	*7*	834	—
Equity-settled share option expense	*7*	27,882	—

	Notes	2011 HK$'000	2010 HK$'000
		(34,844)	(20,162)
Decrease/(increase) in inventories		(10,191)	2,126
Decrease in amounts due from contract customers		1,968	4,366
Decrease/(increase) in trade receivables		82,410	(31,037)
Decrease/(increase) in prepayments, deposits and other receivables		(3,587)	28,975
Decrease in trade and bills payables		(30,380)	(11,216)
Increase/(decrease) in amounts due to contract customers		1,199	(1,653)
Increase/(decrease) in other payables and accruals		17,440	(4,669)
Increase in deferred income		9,878	—
Cash generated from/(used in) operations		33,893	(33,270)
Interest received		7,037	6,152
Dividend received from a jointly-controlled entity		2,469	—
Mainland China corporate income tax refunded		468	804
Net cash flows from/(used in) operating activities		43,867	(26,314)

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment	13	(2,826)	(1,447)
Proceeds from disposal of items of property and equipment		8	81
Purchases of other intangible assets	16	(46)	(2,475)
Proceeds from disposal of a jointly-controlled entity	24(b)	35,477	—
Increase in an amount due from an associate		(31)	(30)
Decrease/(increase) in time deposits with maturity of more than three months when acquired		129,464	(63,496)
Decrease/(increase) in pledged deposits		(1,048)	4,528
Net cash flows from/(used in) investing activities		160,998	(62,839)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		204,865	(89,153)
Cash and cash equivalents at beginning of year		392,564	471,332
Effect of foreign exchange rate changes, net		10,833	10,385
CASH AND CASH EQUIVALENTS AT END OF YEAR		608,262	392,564
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	25	370,608	236,800
Time deposits	25	347,600	382,909
Less: Pledged deposits	25	(1,173)	(119)

	Notes	2011 HK$'000	2010 HK$'000
Cash and cash equivalents as stated in the consolidated statement of financial position		717,035	619,590
Less: Time deposits with maturity of more than three months when acquired		(108,773)	(227,026)
Cash and cash equivalents as stated in the consolidated statement of cash flows		608,262	392,564

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property and equipment	13	1,179	711
Other intangible assets	16	1,469	1,844
Investments in subsidiaries	17	228,189	214,987
Total non-current assets		230,837	217,542
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	35,971	33,191
Cash and cash equivalents	25	424,633	389,539
Total current assets		460,604	422,730
CURRENT LIABILITIES			
Other payables and accruals	27	12,297	8,837
NET CURRENT ASSETS		448,307	413,893
Net assets		679,144	631,435
EQUITY			
Issued capital	29	677,460	677,460
Reserves	31(b)	1,684	(46,025)
Total equity		679,144	631,435

Notes to Financial Statements

31 December 2011

1. Corporate Information

Beijing Development (Hong Kong) Limited (the "Company") is a limited liability company incorporated in Hong Kong and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the provision of information technology ("IT") related services, which included: (i) system integration; (ii) the construction of information networks and sale of related equipment; (iii) the provision of IT technical support and consultation services; and (iv) the development and sale of software.

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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is 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 the income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or accumulated losses, as appropriate.

2.2 Changes in Accounting Policy and Disclosures

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

HKFRS 1 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*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
HK (IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK (IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised) and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) Improvements to HKFRSs 2010

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

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

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

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

- HKAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

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

2.3 Issued but not yet Effective HKFRSs

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities* [4]
HKFRS 9	*Financial Instruments* [6]
HKFRS 10	*Consolidated Financial Instruments* [4]
HKFRS 11	*Joint Arrangements* [4]
HKFRS 12	*Disclosure of Interests in Other Entities* [4]
HKFRS 13	*Fair Value Measurement* [4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income* [3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets* [2]
HKAS 19 (2011)	*Employee Benefits* [4]
HKAS 27 (2011)	*Separate Financial Statements* [4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities* [5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

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

HKFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g., securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Group expects to adopt the amendments from 1 July 2011 and comparative disclosures are not required for any period beginning before that date.

HKFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013.

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirely. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-lnt 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-lnt 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-lnt 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*. HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-lnt 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. The Group expects to adopt the amendments from 1 January 2014.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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 accumulated impairment losses.

Joint ventures

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 and 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, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

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

(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'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. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Associates

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

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Related parties

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

(a) the party is a person or a close member of that person's family and that person;

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

 (ii) has significant influence over the Group; or

 (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

 (i) the entity and the Group are members of the same group;

 (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

 (iii) the entity and the Group are joint ventures of the same third party;

 (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

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

Business combinations and goodwill

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 Group elects whether if measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 the income statement.

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 will be recognised in accordance with HKAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 identifiable net 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 the income statement 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.

Property and equipment and depreciation

Property and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property 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 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 and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	12.5% to 50%

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

Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period 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.

Operating leases

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, net of any incentives received from the lessor, are charged to the income statement on the straight-line basis over the lease terms.

Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised on the straight-line basis over their estimated useful economic lives and the principal annual rates used for this purpose are as follows:

Management information systems	10%
Licences	20%
Computer software	10% to 20%
Golf club membership	20%

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, goodwill, deferred tax assets, financial assets, inventories and amounts due from contract customers), 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 "Other expenses, net" in the period in which it arises.

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 periods. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are all classified as loans and receivables, which are recognised initially at fair value plus transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables, and amounts due from a jointly-controlled entity and an associate.

Subsequent measurement

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

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 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.

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

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

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

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 "Other expenses, net" in 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, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it 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 all classified as loans and borrowings, which are recognised initially at fair value plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

Subsequent measurement

After initial recognition, 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 amortisation process.

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

System integration contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed overheads.

Revenue from fixed price system integration contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Software development contracts

Contract revenue comprises the agreed contract amount. Contract costs comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from fixed price software development contracts is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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.

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:

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and 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 taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

(b) from system integration contracts, on the percentage of completion basis, as further explained in the accounting policy for "System integration contracts" above;

(c) from maintenance contracts, on a time proportion basis over the contract terms;

(d) from the software development, on the percentage of completion basis, as further explained in the accounting policy for "Software development contracts" above;

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

(f) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair values are determined by external valuers using the Black-Scholes-Merton option pricing model, further details of which are given in note 30 to the financial statements.

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

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

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

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

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

Pension schemes

Certain companies within the Group have participated in a number of defined contribution retirement benefit schemes required by the respective governments of the places in which they operate for their employees. Contributions are made based on a certain percentage of the covered payroll and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the schemes.

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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas and Mainland China subsidiaries, jointly-controlled entities and associates 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 exchange fluctuation reserve 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 and Mainland China 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 and Mainland China subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

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

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Useful lives and residual values of property and equipment and intangible assets (other than goodwill)

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15 to the financial statements.

Impairment of property and equipment and intangible assets (other than goodwill)

The carrying amounts of items of property and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount of an item of property and equipment is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Provision against obsolete and slow-moving inventories

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation by the end of each reporting period.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

Provision for impairment of trade receivables and other receivables

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

Percentage of completion of system integration and software development contracts

The Group recognises revenue according to the percentage of completion of the individual contract of system integration and software development. The Group's management estimates the percentage of completion of system integration and software development contracts based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activities undertaken in system integration and software development contracts, the date at which an activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each system integration and software development contract as the contract progresses.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas jurisdictions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Operating lease commitments — Group as lessor

The Group had entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retained all the significant risks and rewards of ownership of these properties which were leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determined whether a property qualified as an investment property, and had developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considered whether a property generated cash flows largely independently of the other assets held by the Group. Some properties comprised a portion that was held to earn rentals or for capital appreciation and another portion that was held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an significant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement was made on an individual property basis to determine whether ancillary services were so significant that a property did not qualify as an investment property.

4. Operating Segment Information

Over 90% of the Group's revenue, expenses and assets are generated from the provision of IT related services in Mainland China. The management of the Group makes decisions about resources allocation and assesses performance of the Group based on the operating results from these business activities. Accordingly, the directors are of the opinion that IT related services in Mainland China is a single reportable operating segment of the Group.

An analysis of the Group's revenues from external customers for each group of similar products and services is disclosed in note 5 to the financial statements.

The Group's revenue from external customers is derived solely from its operations in the People's Republic of China ("PRC"), and all non-current assets (other than financial assets) of the Group are located in the PRC.

During the year, the Group had transactions with a single external customer (2010: one) which contributed over 10% of the Group's total revenue. The revenue generated from the sales to this customer for the year amounted to HK$44,903,000 (2010: HK$56,230,000).

5. Revenue and Other Income, Net

Revenue, which is also the Group's turnover, represents (1) the aggregate of the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for returns and trade discounts; (2) the value of services rendered, net of business tax; and (3) gross rental income received and receivable from investment properties during the year.

An analysis of the Group's revenue and other income, net is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Revenue		
Sale of IT related products	123,994	139,973
Maintenance contracts	27,662	29,236
Software development contracts	17,137	18,534
System integration contracts	16,391	23,552
Gross rental income	—	344
	185,184	211,639
Other income, net		
Bank interest income	7,037	6,152
Imputed interest on interest-free trade receivables with extended credit periods	14,676	1,446
Government grants released*	2,468	—
Others	2,045	5,846
	26,226	13,444

* Various government grants have been received by the Group from a government authority in Mainland China in respect of the fitness card system business carried out by Beijing Fitness Card Co., Ltd. ("Beijing Fitness Card"), a 85% owned subsidiary of the Group. The government grants have been recognised in the consolidated income statement to match the related expenses that they are intended to compensate or over the expected useful lives of the relevant assets by equal annual instalments. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

6. Finance Costs

Finance costs of the Group for the years ended 31 December 2011 and 2010 represented imputed interest on interest-free trade payables with extended credit periods.

7. Profit/(Loss) Before Tax

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

		Group	
		2011	**2010**
	Notes	*HK$'000*	*HK$'000*
Cost of inventories sold		106,949	117,251
Cost of services provided		48,259	54,289
Write-down of inventories to net realisable value[@]		327	1,286
Depreciation	*13*	2,974	2,815
Minimum lease payments under operating leases of land and buildings		9,001	7,165
Amortisation of other intangible assets[@]	*16*	2,820	2,656
Fair value loss on investment properties[#]	*14*	1,144	538
Impairment of goodwill[#]	*15*	10,000	—
Impairment of an amount due from an associate[#]	*19(d)*	31	30
Impairment/(reversal of impairment) of trade receivables, net[#]	*23(b)*	876	(6,687)
Impairment of other receivables[#]	*24(c)*	834	—
Loss on disposal of items of property and equipment, net[#]		11	59
Auditors' remuneration		2,200	2,200
Employee benefit expense (including directors' remuneration — note 8):			
Wages and salaries		39,641	36,516
Equity-settled share option expense	*30(a)*	27,882	—
Pension scheme contributions		4,336	3,309
		71,859	39,825
Rental income on investment properties		—	(344)
Less: Direct operating expenses		631	1,270
		631	926
Foreign exchange differences, net		864	1,390

@ These items are included in "Cost of sales" in the consolidated income statement.

\# These items are included in "Other expenses, net" in the consolidated income statement.

8. Directors' Remuneration

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

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Fees	960	952
Other emoluments:		
Salaries, allowances and benefits in kind	1,042	1,509
Equity-settled share option expense	19,228	—
Pension scheme contributions	82	157
	20,352	1,666
	21,312	2,618

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised immediately in the income statement for the year, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

An analysis of directors' remuneration for the year is as follows:

Group

	Fees	**Salaries, allowances and benefits in kind**	**Equity-settled share option expense**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2011					
Executive directors					
Mr. E Meng	100	—	4,003	—	4,103
Mr. Zhang Honghai	100	—	4,003	—	4,103
Mr. Wang Yong	100	1,042	4,003	81	5,226
Mr. Yan Qing	100	—	2,779	—	2,879
Ms. Sha Ning	100	—	—	—	100
Mr. Ng Kong Fat, Brian	100	—	3,252	1	3,353
	600	1,042	18,040	82	19,764

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Independent non-executive directors					
Dr. Jin Lizuo	120	—	396	—	516
Dr. Huan Guocang	120	—	396	—	516
Dr. Wang Jianping	120	—	396	—	516
	360	—	1,188	—	1,548
Total	960	1,042	19,228	82	21,312

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010					
Executive directors					
Mr. E Meng	100	—	—	—	100
Mr. Zhang Honghai	100	—	—	—	100
Mr. Wang Yong	100	659	—	72	831
Mr. Yan Qing	100	428	—	43	571
Ms. Sha Ning#	33	—	—	—	33
Mr. Ng Kong Fat, Brian	100	—	—	1	101
Mr. Cao Wei*	59	422	—	41	522
	592	1,509	—	157	2,258
Independent non-executive directors					
Dr. Jin Lizuo	120	—	—	—	120
Dr. Huan Guocang	120	—	—	—	120
Dr. Wang Jianping	120	—	—	—	120
	360	—	—	—	360
Total	952	1,509	—	157	2,618

Ms. Sha Ning was appointed as an executive director of the Company on 31 August 2010.

* Mr. Cao Wei resigned as an executive director of the Company on 3 August 2010.

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

9. Five Highest Paid Employees

The five highest paid employees during the year included four (2010: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2010: three) non-director, highest paid employee for the year are as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,078	2,126
Equity-settled share option expense	2,610	—
Pension scheme contributions	12	139
	3,700	2,265

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

	Group	
	2011	**2010**
Nil — HK$1,000,000	—	2
HK$1,000,001 — HK$1,500,000	—	1
HK$3,500,001 — HK$4,000,000	1	—
	1	3

During the year, share options were granted to the non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised immediately in the income statement for the year, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

10. Income Tax

No provision for Hong Kong profits tax has been made for the year ended 31 December 2011 as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group 2011	Group 2010
	HK$'000	*HK$'000*
Current — Mainland China		
Charge for the year	6,762	62
Underprovision in prior years	61	68
Deferred *(note 20)*	1,755	1,457
Total tax charge for the year	8,578	1,587

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax at the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
2011								
Profit/(loss) before tax	(49,130)		106,670		(24)		57,516	
Tax at the statutory tax rate	(8,106)	16.5	26,668	25.0	(4)	17.0	18,558	32.3
Lower tax rate for specific provinces or enacted by local authority	—	—	128	0.1	—	—	128	0.2
Effect of rate difference on the gain on disposal of a jointly-controlled entity	—	—	(9,725)	(9.1)	—	—	(9,725)	(16.9)
Profits and losses attributable to jointly-controlled entities	—	—	(28)	—	—	—	(28)	—
Profits and losses attributable to associates	95	(0.2)	(14)	—	—	—	81	0.1
Income not subject to tax	(107)	0.2	(14,302)	(13.4)	—	—	(14,409)	(25.1)
Expenses not deductible for tax	8,118	(16.5)	1,436	1.3	4	(17.0)	9,558	16.6
Tax losses utilised from previous period	—	—	(419)	(0.4)	—	—	(419)	(0.7)
Tax losses not recognised	—	—	5,710	5.3	—	—	5,710	9.9
Adjustments in respect of current tax of previous periods	—	—	61	0.1	—	—	61	0.1
Others	—	—	(937)	(0.9)	—	—	(937)	(1.6)
Tax charge at the Group's effective rate	—	—	8,578	8.0	—	—	8,578	14.9

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
2010								
Loss before tax	(19,241)		(6,917)		(18)		(26,176)	
Tax at the statutory tax rate	(3,175)	16.5	(1,729)	25.0	(3)	18.0	(4,907)	18.7
Profits and losses attributable to jointly-controlled entities	—	—	(390)	5.6	—	—	(390)	1.5
Profits and losses attributable to associates	1,372	(7.1)	(17)	0.2	—	—	1,355	(5.2)
Income not subject to tax	(89)	0.4	(206)	3.0	—	—	(295)	1.1
Expenses not deductible for tax	2,754	(14.3)	1,666	(24.0)	3	(18.0)	4,423	(16.9)
Tax losses utilised from previous period	(883)	4.6	(201)	2.9	—	—	(1,084)	4.2
Tax losses not recognised	21	(0.1)	2,464	(35.6)	—	—	2,485	(9.5)
Tax charge at the Group's effective rate	—	—	1,587	(22.9)	—	—	1,587	(6.1)

11. Profit/(Loss) for the Year Attributable to Shareholders of the Company

The consolidated profit/(loss) attributable to shareholders of the Company for the year ended 31 December 2011 includes a profit of HK$5,128,000 (2010: HK$617,000) which has been dealt within the financial statements of the Company.

A reconciliation of the above amount to the Company's profit for the year is as follows:

	Notes	2011 HK$'000	2010 HK$'000
Amount of consolidated profit for the year attributable to shareholders of the Company dealt with in the financial statements of the Company		5,128	617
Impairment of unlisted shares or investment in subsidiaries recognised during the year in the income statement	*17(b)*	(89,451)	—
Reversal of impairment of amounts due from subsidiaries recognised during the year in the income statement	*17(c)*	104,150	22
The Company's profit for the year	*31(b)*	19,827	639

12. Earnings/(Loss) per Share Attributable to Shareholders of the Company

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to shareholders of the Company and the weighted average of 677,460,150 (2010: 677,460,150) ordinary shares in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2011 and 2010 as the share options of the Company outstanding during these years have an anti-dilutive effect on the respective basic earnings/(loss) per share amounts for these years.

13. Property and Equipment

Group

	Leasehold improve-ments HK$'000	Furniture fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2011				
At 31 December 2010 and 1 January 2011:				
Cost	2,482	25,212	7,092	34,786
Accumulated depreciation	(2,404)	(18,562)	(4,397)	(25,363)
Net carrying amount	78	6,650	2,695	9,423
Net carrying amount:				
At 1 January 2011	78	6,650	2,695	9,423
Additions	630	2,196	—	2,826
Depreciation provided during the year	(239)	(1,925)	(810)	(2,974)
Disposals	—	(19)	—	(19)
Exchange realignment	4	325	133	462
At 31 December 2011	473	7,227	2,018	9,718
At 31 December 2011:				
Cost	3,236	28,465	7,434	39,135
Accumulated depreciation	(2,763)	(21,238)	(5,416)	(29,417)
Net carrying amount	473	7,227	2,018	9,718
Year ended 31 December 2010				
At 1 January 2010:				
Cost	2,742	24,931	7,014	34,687
Accumulated depreciation	(2,531)	(17,751)	(3,846)	(24,128)
Net carrying amount	211	7,180	3,168	10,559
Net carrying amount:				
At 1 January 2010	211	7,180	3,168	10,559
Additions	2	948	497	1,447
Depreciation provided during the year	(142)	(1,658)	(1,015)	(2,815)
Disposals	(2)	(72)	(66)	(140)
Exchange realignment	9	252	111	372
At 31 December 2010	78	6,650	2,695	9,423

Company

	Leasehold improve-ments HK$'000	Furniture fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2011				
At 31 December 2010 and 1 January 2011:				
Cost	—	379	1,199	1,578
Accumulated depreciation	—	(205)	(662)	(867)
Net carrying amount	—	174	537	711
Net carrying amount:				
At 1 January 2011	—	174	537	711
Additions	630	158	—	788
Depreciation provided during the year	(157)	(101)	(94)	(352)
Exchange realignment	—	5	27	32
At 31 December 2011	473	236	470	1,179
At 31 December 2011:				
Cost	630	544	741	1,915
Accumulated depreciation	(157)	(308)	(271)	(736)
Net carrying amount	473	236	470	1,179
Year ended 31 December 2010				
At 1 January 2010:				
Cost	344	522	161	1,027
Accumulated depreciation	(344)	(369)	(93)	(806)
Net carrying amount	—	153	68	221
Net carrying amount:				
At 1 January 2010	—	153	68	221
Additions	2	88	497	587
Depreciation provided during the year	—	(68)	(30)	(98)
Disposals	(2)	(3)	—	(5)
Exchange realignment	—	4	2	6
At 31 December 2010	—	174	537	711

14. Investment Properties

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Carrying amount at 1 January	44,771	43,764
Fair value loss on revaluation	(1,144)	(538)
Exchange realignment	2,210	1,545
Carrying amount at 31 December	45,837	44,771

Details of the investment properties, which are held under medium term leases, are as follows:

Location	**Use**	**Attributable interest of the Group**
Part of the second floor and the entire third floor, A No. 1 Jian Guo Men Wai Avenue, Chao Yang District, Beijing, PRC	Office building	85.5%

As the investment properties are situated in a location under a proposed redevelopment plan of the Beijing Municipal Government, the investment properties may be subject to demolishment in the near future.

At 31 December 2011, the investment properties were revalued by 北京中立華資產評估有限責任公司, independent professionally qualified valuers registered in the PRC, in accordance with the relevant rules and regulations applicable to the demolishment.

During the prior year, the investment properties were leased to third parties under operating leases. The investment properties are vacant as at 31 December 2011.

15. Goodwill

The amount of the goodwill capitalised as an asset in the consolidated statement of financial position, arising on the acquisition of a subsidiary, is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
At 1 January:		
Cost	103,970	103,970
Accumulated impairment	(93,970)	(93,970)
Net carrying amount	10,000	10,000
Net carrying amount:		
At 1 January	10,000	10,000
Impairment during the year recognised in the income statement	(10,000)	—
At 31 December	—	10,000
At 31 December:		
Cost	103,970	103,970
Accumulated impairment	(103,970)	(93,970)
Net carrying amount	—	10,000

The Group's goodwill arose from the acquisition of Beijing Enterprises Teletron Information Technology Co., Ltd. ("BETIT"), a 72% owned subsidiary of the Group, which was defined as a single cash-generating unit (the "BETIT CGU").

The recoverable amount of the BETIT CGU has been determined by reference to a business valuation performed by the directors of the Company, based on a value in use calculation. The calculation used cash flow projections based on financial budgets covering a five-year period as approved by senior management. The discount rate applied to the cash flow projections is 15% (2010: 15%), which is before tax and reflects specific risk relating to the BETIT CGU. Budgeted gross margins are based on both the historical gross margin of the BETIT CGU and the expected market growth rate of 5% (2010: 8%). The values assigned to the key assumptions are consistent with external information sources.

An impairment provision of HK$10,000,000 (2010: Nil) was recognised in the consolidated income statement for the current year with respect to the goodwill attributable to the BETIT CGU, because there were less than expected contracts concluded and future growth rate is expected to decline as a result of increase in market competition.

16. Other Intangible Assets

Group

	Management information systems	Licences	Computer software	Golf club membership	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2011					
At 31 December 2010 and 1 January 2011:					
Cost	23,530	2,353	1,761	1,875	29,519
Accumulated amortization	(21,569)	(2,353)	(457)	(31)	(24,410)
Net carrying amount	1,961	—	1,304	1,844	5,109
Net carrying amount:					
At 1 January 2011	1,961	—	1,304	1,844	5,109
Additions	—	—	46	—	46
Amortisation provided during the year	(2,058)	—	(387)	(375)	(2,820)
Exchange realignment	97	—	64	—	161
At 31 December 2011	—	—	1,027	1,469	2,496
At 31 December 2011:					
Cost	24,691	2,469	1,894	1,875	30,929
Accumulated amortisation	(24,691)	(2,469)	(867)	(406)	(28,433)
Net carrying amount	—	—	1,027	1,469	2,496
Year ended 31 December 2010					
At 1 January 2010:					
Cost	22,727	2,273	1,122	—	26,122
Accumulated amortisation	(18,560)	(2,273)	(179)	—	(21,012)
Net carrying amount	4,167	—	943	—	5,110
Net carrying amount:					
At 1 January 2010	4,167	—	943	—	5,110
Additions	—	—	600	1,875	2,475
Amortisation provided during the year	(2,353)	—	(272)	(31)	(2,656)
Exchange realignment	147	—	33	—	180
At 31 December 2010	1,961	—	1,304	1,844	5,109

Company

	Golf club membership	
	2011	**2010**
	HK$'000	*HK$'000*
At 1 January:		
Cost	1,875	—
Accumulated amortisation	(31)	—
Net carrying amount	1,844	—
Net carrying amount:		
At 1 January	1,844	—
Additions	—	1,875
Amortisation provided during the year	(375)	(31)
At 31 December	1,469	1,844
At 31 December:		
Cost	1,875	1,875
Accumulated amortisation	(406)	(31)
Net carrying amount	1,469	1,844

17. Investments in Subsidiaries

		Company	
		2011	**2010**
	Notes	*HK$'000*	*HK$'000*
Unlisted shares or investments, at cost		235,413	235,413
Due from subsidiaries	*(a)*	415,473	416,970
		650,886	652,383
Accumulated impairment of unlisted shares or investments	*(b)*	(141,050)	(51,599)
Accumulated impairment of amounts due from subsidiaries	*(c)*	(281,647)	(385,797)
		(422,697)	(437,396)
		228,189	214,987

Notes:

(a) The amounts due from subsidiaries included in investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of directors, these advances are considered as quasi-equity loans to the subsidiaries.

(b) The movement in the provision for impairment of unlisted shares or investments in subsidiaries during the year is as follows:

	Company 2011 HK$'000	2010 HK$'000
At 1 January	51,599	51,599
Impairment during the year recognised in the income statement *(Note 11)*	89,451	—
At 31 December	141,050	51,599

An impairment provision of HK$89,451,000 (2010: Nil) was recognised in the consolidated income statement because there were less than expected contracts concluded and future growth rate is expected to decline as a result of increase in market competition.

(c) The movement in the provision for impairment of the amounts due from subsidiaries during the year is as follows:

	Company 2011 HK$'000	2010 HK$'000
At 1 January	385,797	385,819
Reversal of impairment during the year recognised in the income statement *(Note 11)*	(104,150)	(22)
At 31 December	281,647	385,797

(d) Particulars of the principal subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
BETIT#	PRC/Mainland China	RMB100,000,000	—	72	System integration and provision of IT technical support and consultation services
Beijing Enterprises Jetrich (Beijing) Limited#	PRC/Mainland China	US$2,450,000	—	72	Provision of total education solutions
Beijing Development Property Investment and Management Co., Ltd.*	PRC/Mainland China	US$4,000,000	—	85.5	Property investment
北京捷通瑞奇信息技術有限公司Ω	PRC/Mainland China	RMB5,000,000	—	63	System integration and provision of IT technical support services

Name	Place of registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
北控軟件有限公司 Ω	PRC/Mainland China	RMB50,000,000	—	68.4	Provision of management information system services
Beijing Enterprises UniCard Co., Ltd.Ω	PRC/Mainland China	HK$50,000,000	—	60	Operation of electronic payment cards
Beijing Fitness CardΩ	PRC/Mainland China	RMB10,000,000	—	85	Operation of electronic payment cards

Registered as wholly-owned enterprises under PRC law

Ω Registered as limited liability companies under PRC law

* Registered as a Sino-foreign joint venture under PRC law

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

18. Investments in Jointly-Controlled Entities

		Group 2011	2010
	Notes	*HK$'000*	*HK$'000*
Share of net assets	*(a)*	12,093	13,153
Due from a jointly-controlled entity	*(b)*	—	1,412
		12,093	14,565

Notes:

(a) The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	Group 2011 HK$'000	Group 2010 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	1,674	75,367
Current assets	21,468	1,244,805
Current liabilities	(10,353)	(1,347,826)
Non-controlling interests	(696)	(841)
Losses in excess of investment cost not absorbed by the Group	—	41,648
Net assets	12,093	13,153
Share of the jointly-controlled entities' results:		
Revenue	59,780	58,719
Other income	68	68,257
Total revenue	59,848	126,976
Total expenses	(67,844)	(126,090)
Income tax	(139)	(174)
Non-controlling interests	186	59
Profit/(loss) for the year	(7,949)	771
Loss in excess of investment cost not absorbed by the Group	8,061	789
Profit for the year shared by the Group	112	1,560

(b) The balance with the jointly-controlled entity was unsecured, interest-free and had no fixed terms of repayment.

(c) On 13 May 2011, Business Net Limited, a wholly-owned subsidiary of the Company, entered into a conditional equity transfer agreement (the "Disposal Agreement") with 北京控股集團有限公司 ("BEGCL"), a substantial shareholder of the Company, to dispose of its 43% equity interest in 北京市政交通一卡通有限公司 ("BMAC") for a total cash consideration of RMB96,380,000 (equivalent to HK$118,258,000). Further details of the disposal of BMAC are set out in the Company's circular dated 30 May 2011. The disposal was completed in October 2011 and a gain on disposal (before tax expenses) of HK$122,041,000 was recognised in the consolidated income statement.

(d) As at 31 December 2010, goodwill included in the investments in jointly-controlled entities of the Group amounted to HK$23,067,000, which arose from the acquisition of BMAC, and was fully impaired in prior years.

(e) Particulars of the jointly-controlled entity, which is indirectly held by the Company and registered/operates in the PRC, are as follows:

Name	Paid-up and registered capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
北京教育信息網服務中心有限公司	RMB12,000,000	36	50	36	Provision of information network services

19. Investments in Associates

	Notes	Group 2011 HK$'000	Group 2010 HK$'000
Share of net assets	*(a)*	19,034	21,037
Due from an associate	*(b)*	15,734	15,703
		34,768	36,740
Impairment of the amount due from an associate	*(d)*	(15,734)	(15,703)
		19,034	21,037

Notes:

(a) The following tables illustrate the summarised financial information of the Group's associates:

	Group 2011 HK$'000	Group 2010 HK$'000
Share of the associates' assets and liabilities:		
Non-current assets	3,004	10,294
Current assets	71,035	71,161
Current liabilities	(49,686)	(31,888)
Non-current liabilities	—	(23,422)
Non-controlling interests	(5,319)	(5,108)
Net assets	19,034	21,037
Share of the associates' results:		
Revenue	47,398	53,016
Loss for the year	(520)	(8,252)

(b) The balance with the associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the advance is considered as a quasi-equity loan to the associate. The Group's trade payable balances with associates are disclosed in note 26 to the financial statements.

(c) Goodwill included in the investments in associates of the Group amounting to HK$17,983,000, which arose from the acquisition of China Information Technology Development Limited ("CITD") and its subsidiaries, was fully impaired in prior years.

(d) The movement in the provision for impairment of the amount due from an associate during the year is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
At 1 January	15,703	15,673
Impairment during the year recognised in the income statement *(note 7)*	31	30
At 31 December	15,734	15,703

(e) Particulars of the principal associates, which are all indirectly held by the Company, are as follows:

Name	Nominal value of issued and paid-up capital/ registered capital	Place of registration/ incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
CITD*	HK$64,969,064	Cayman Islands/Hong Kong	29.18	Investment holding
Overseas Union Investments Limited	HK$10,000	Hong Kong	50	Investment holding
北京北控電信通智能科技有限公司	RMB10,000,000	PRC/Mainland China	25	Provision of system integration services

* Shares of CITD are listed on the Growth Enterprise Market of the Stock Exchange. The trading of the shares of CITD was suspended since 29 January 2009 and subsequent to the end of the reporting period, resumed on 19 March 2012.

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

20. Deferred Tax Assets

The components of deferred tax assets and the movements during the year are as follows:

Group

	Decelerated/ (accelerated) tax depreciation	Impairment of trade receivables	Impairment of other receivables	Impairment of investments in associates	Fair value adjustments of trade payables	Tax loss	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	13	1,136	114	112	(398)	2,046	3,023
Deferred tax charged to the income statement during the year *(note 10)*	7	(324)	(13)	(116)	229	(1,240)	(1,457)
Exchange realignment	—	40	4	4	(14)	72	106
At 31 December 2010 and 1 January 2011	20	852	105	—	(183)	878	1,672
Deferred tax charged to the income statement during the year *(note 10)*	(21)	(894)	(110)	—	192	(922)	(1,755)
Exchange realignment	1	42	5	—	(9)	44	83
At 31 December 2011	—	—	—	—	—	—	—

At 31 December 2011, the Group had tax losses arising in Hong Kong of approximately HK$132,528,000 (2010: HK$136,217,000) in aggregate that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of approximately HK$149,684,000 (2010: HK$123,371,000) as at 31 December 2011 that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

At 31 December 2011, 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 (2010: Nil). 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. The aggregate amount of temporary differences associated with investments in subsidiaries and jointly-controlled entities in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$710,000 (2010: HK$454,000) as at 31 December 2011.

21. Inventories

Inventories of the Group are materials and equipment held for trading.

22. Amounts Due from/to Contract Customers

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Amounts due from contract customers	909	2,742
Amounts due to contract customers	(9,788)	(8,185)
	(8,879)	(5,443)
Contract costs incurred plus recognised profits less recognised losses to date	39,676	18,497
Less: Progress billings	(48,555)	(23,940)
	(8,879)	(5,443)

At 31 December 2011, retentions held by customers for contract work included in trade receivables amounted to HK$22,148,000 (2010: HK$29,875,000).

23. Trade Receivables

		Group	
		2011	**2010**
	Notes	*HK$'000*	*HK$'000*
Trade receivables due from:			
Third parties		113,603	180,053
An associate	*(a)*	1,007	—
A non-controlling equity holder	*(a)*	6,600	—
		121,210	180,053
Impairment	*(b)*	(20,491)	(18,692)
	(c)	100,719	161,361
Portion classified as current assets		(85,106)	(131,486)
Non-current portion		15,613	29,875

Notes:

(a) The balances with an associate and a non-controlling equity holder is repayable on similar credit terms to those offered to the major customers of the Group.

(b) The movements in the provision for impairment of trade receivables during the year are as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
At 1 January	18,692	25,026
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 7)*	876	(6,687)
Amount written off as uncollectible	—	(530)
Exchange realignment	923	883
At 31 December	20,491	18,692

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

(c) Various companies of the Group have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one to three months, with an instalment period extended up to six years for major customers. An aged analysis of the trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the payment due date and net of impairment, is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Neither past due nor impaired	68,836	103,133
Past due but not impaired:		
Less than 3 months	18,777	53,335
4 to 6 months	39	2,549
7 to 12 months	10,564	1,645
Over 1 year	2,503	699
	31,883	58,228
	100,719	161,361
Portion classified as current assets	(85,106)	(131,486)
Non-current portion	15,613	29,875

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

24. Prepayments, Deposits and Other Receivables

		Group		Company	
		2011	**2010**	**2011**	**2010**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments		14,330	14,485	19	21
Deposits and other receivables		21,665	16,028	66	250
Loan to a subsidiary	*(a)*	—	—	7,407	7,059
Due from subsidiaries	*(a)*	—	—	26,627	24,096
Due from jointly-controlled entities	*(a)*	370	1,045	—	—
Due from non-controlling equity holders	*(a)*	4,341	3,644	1,852	1,765
Due from BEGCL	*(b)*	83,291	—	—	—
Due from a related company	*(a)*	190	—	—	—
		124,187	35,202	35,971	33,191
Impairment	*(c)*	(6,436)	(5,338)	—	—
		117,751	29,864	35,971	33,191

Notes:

(a) The balances with subsidiaries, jointly-controlled entities, non-controlling equity holders and a related company are unsecured, interest-free and have no fixed terms of repayment.

(b) The amount due from BEGCL represented the outstanding consideration receivable in connection with the Group's disposal of its 43% equity interest in BMAC. Pursuant to the Disposal Agreement, BEGCL is required to settle the aggregate consideration of RMB96,380,000 (equivalent to HK$118,258,000) by four cash instalments. As at 31 December 2011, the first instalment of RMB28,914,000 (equivalent to HK$35,477,000) has been settled by BEGCL and the remaining balance of RMB67,466,000 (equivalent to HK$83,291,000) is payable as to RMB28,914,000 (equivalent to HK$35,695,000), RMB19,276,000 (equivalent to HK$23,798,000) and RMB19,276,000 (equivalent to HK$23,798,000) by 31 December 2011, 30 June 2012 and 31 December 2012, respectively. Further details of the disposal of BMAC are set out in the Company's circular dated 30 May 2011 and note 18(c) to the financial statements.

(c) The movements in provision for impairment of other receivables during the year are as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	5,338	7,865	—	2,927
Impairment during the year recognised in the income statement, net *(note 7)*	834	—	—	—
Amount written off as uncollectible	—	(3,030)	—	(3,030)
Exchange realignment	264	503	—	103
At 31 December	6,436	5,338	—	—

25. Pledged Deposits and Cash and Cash Equivalents

		Group		Company	
		2011	**2010**	**2011**	**2010**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances other than time deposits	*(a)*	370,608	236,800	157,349	101,368
Time deposits	*(a)*	347,600	382,909	267,284	288,171
Less: Pledged deposits	*(b)*	(1,173)	(119)	—	—
Cash and cash equivalents		717,035	619,590	424,633	389,539

Notes:

(a) At 31 December 2011, the total cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$512,585,000 (2010: HK$394,642,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

(b) The Group's pledged deposits as at 31 December 2011 and 2010 served as tender deposits to secure certain system integration contracts of the Group.

26. Trade and Bills Payables

The trade and bills payables are non-interest-bearing and normally settled within 30 to 90 days, with credit periods extended up to six years offered by major suppliers.

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the payment due date, is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Not past due	84,448	101,126
Past due:		
Less than 3 months	9,509	41,291
4 to 6 months	1,049	362
7 to 12 months	217	284
Over 1 year	36,384	7,406
	131,607	150,469
Portion classified as current liabilities	(118,081)	(135,430)
Non-current portion	13,526	15,039
Comprising amounts payable to:		
Third parties	124,102	144,584
Associates	5,074	5,885
A related company	2,431	—
	131,607	150,469

The balances with associates and a related company have similar credit terms to those offered by the associates and the related company to their major customers.

27. Other Payables and Accruals

	Group		Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Receipt in advance	41,789	24,052	5,915	3,652
Other payables	37,048	29,406	949	855
Accruals	5,715	10,098	3,063	2,592
Due to a subsidiary	—	—	2,370	1,738
Due to a jointly-controlled entity	12	12	—	—
Due to associates	3,692	23,683	—	—
Due to a non-controlling equity holder	20,000	—	—	—
	108,256	87,251	12,297	8,837

The balances with a subsidiary, a jointly-controlled entity, the associates and a non-controlling equity holder are unsecured, interest-free and have no fixed terms of repayment.

Other payables are non-interest-bearing and have an average term of 3 to 6 months.

28. Deferred Income

Deferred income of the Group as at 31 December 2011 and 2010 represented government grants received from a government authority in Mainland China in respect of the fitness card system businesses carried out by Beijing Fitness Card. The government grants shall be applied to the development of the Group's fitness card system business and are recognised in accordance with the accounting policy for "Government grants" set out in note 2.4 to the financial statements.

29. Share Capital

Shares

	2011	**2010**
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$1 each	1,000,000	1,000,000
Issued and fully paid:		
677,460,150 ordinary shares of HK$1 each	677,460	677,460

There was no movement in the share capital of the Company during the years ended 31 December 2011 and 2010.

Share options

Details of the Company's share option scheme and the share options issued under the share option scheme are included in note 30 to the financial statements.

30. Share Option Scheme

On 31 May 2011, a new share option scheme (the "Scheme") is adopted by the shareholders at the annual general meeting of the Company and replaced the old share option scheme adopted by the Company on 18 June 2001. The purpose of the Scheme is (i) to attract and retain the best quality personnel for the development of the Company's business; (ii) to provide incentives or rewards to eligible participants; and (iii) to promote the long term financial success of the Company by aligning the interests of grantees to shareholders. Eligible participants of the Scheme include (i) any person employed by the Company or a subsidiary of the Company and any person who is an officer of director (whether executive or non-executive) of the Company or any subsidiary of the Company; (ii) any non-executive director and any independent non-executive director or officer of any member of the Group; and (iii) any consultant of any member of the Group. The Scheme became effective on 31 May 2011 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 10% of the number of ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the ordinary shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in a general meeting.

Share options granted to a director or chief executive 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 an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's ordinary shares at the date of 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 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, and commences on the date of acceptance of the share options or after a certain vesting period and ends on a date which is not later than 10 years from the date on which the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Stock Exchange on the date of offer of the share options; (ii) the average closing price of the Company's ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's ordinary shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The share options are non-transferrable and lapse when expire or the grantee ceases to be an employee of the Group.

The following table sets out the movements in the share options granted under the Scheme during the years ended 31 December 2011 and 2010:

		2011		**2010**	
	Notes	**Weighted average exercise price *(HK$ per share)***	**Number of share options**	**Weighted average exercise price *(HK$ per share)***	**Number of share options**
At 1 January		3.74	61,240,000	3.70	68,540,000
Granted during the year	*(a)*	1.25	51,420,000	—	—
Forfeited during the year	*(c)*	4.03	(900,000)	3.41	(7,300,000)
Lapsed during the year	*(d)*	3.73	(60,340,000)	—	—
At 31 December	*(e)*	1.25	51,420,000	3.74	61,240,000

Notes:

(a) The fair value of the share options granted during the year was estimated as at the date of grant, using the Black-Scholes-Merton option pricing model and taking into account the terms and conditions upon which the options were granted, at HK$27,882,000 (2010: Nil), which was fully recognised by the Group in the consolidated income statement as an equity-settled share option expense during the year ended 31 December 2011.

The Black-Scholes-Metron option pricing model is a generally accepted method of valuing share options, which takes into account the terms and conditions upon which the options were granted. The significant assumptions used in the calculation of the values of the share options were that (i) historical data for the expected life of the options, historical dividend yield and expected volatility are indicative of future trends; (ii) there will be no substantial fluctuation in the economic outlook and specific industry outlook that affects the continuity of the business of the Company and the price of the Company's ordinary shares; (iii) there will be no material change in the existing political, legal, technological, fiscal or economical condition which may significantly affect the continuity of the business of the Company; and (iv) the information provided by the Company to the valuers is true and accurate. The measurement date used in the valuation calculations was the date on which the share options were granted.

The fair value of a share option varies with different variables determined by certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of a share option. The following table lists the input to the model used:

Dividend yield (%)	—
Expected volatility (%)	53.91
Risk-free interest rate (%)	0.71 to 1.40
Expected life of share options (years)	3 to 5

The expected life of the share options is based on the assessment by the management and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the volatility for the last 520 days is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

No share option was granted during the year ended 31 December 2010.

(b) No share option was exercised during the years ended 31 December 2011 and 2010.

(c) 900,000 (2010: 7,300,000) share options were forfeited during the year upon the expiry of the three-month post-resignation exercisable period of an employee (2010: a director and an employee). Accordingly, the portion of share option reserves of HK$1,022,000 (2010: HK$7,055,000) was transferred to accumulated losses.

(d) 60,340,000 (2010: Nil) share options lapsed during the year upon the expiry of the old share option scheme on 17 June 2011. Accordingly, the portion of share option reserves of HK$62,992,000 (2010: Nil) was transferred to accumulated losses.

(e) At 31 December 2011, the Company had 51,420,000 (2010: 61,240,000) share options outstanding under the Scheme, which represented approximately 7.6% (2010: 9.0%) of the Company's ordinary shares in issue at that date.

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

		Number of share options outstanding	
Exercise period	**Exercise price HK$ per share**	**2011**	**2010**
30 October 2007 — 17 June 2011	4.03	—	50,480,000
1 May 2008 — 17 June 2011	3.17	—	2,860,000
11 August 2008 — 17 June 2011	2.07	—	7,900,000
21 June 2011 — 20 June 2021	1.25	51,420,000	—
		51,420,000	61,240,000

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 51,420,000 (2010: 61,240,000) additional ordinary shares of the Company and additional share capital of HK$51,420,000 (2010: HK$61,240,000) and share premium of HK$12,855,000 (2010: HK$167,614,000), before any issuance expenses and without taking into account of any transfer of share option reserve to the share premium account.

31. Reserves

(a) Group

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

(ii) The capital redemption reserve represents the par value of ordinary shares of the Company which had been repurchased and cancelled.

(iii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits/accumulated losses should the related share options expire or be forfeited.

(iv) PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries and associates. None of the Group's PRC reserve funds as at 31 December 2011 was distributable in the form of cash dividends (2010: Nil).

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010		170,319	9,721	71,069	(297,773)	(46,664)
Profit and total comprehensive income for the year	*11*	—	—	—	639	639
Transfer of share option reserve upon the forfeiture of share options	*30(c)*	—	—	(7,055)	7,055	—
At 31 December 2010 and 1 January 2011		170,319	9,721	64,014	(290,079)	(46,025)
Profit and total comprehensive income for the year	*11*	—	—	—	19,827	19,827
Equity-settled share option arrangements	*30(a)*	—	—	27,882	—	27,882
Transfer of share option reserve upon the forfeiture/lapse of share options	*30(c),(d)*	—	—	(64,014)	64,014	—
At 31 December 2011		170,319	9,721	27,882	(206,238)	1,684

32. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2011 (2010: Nil).

At 31 December 2011, contingent liabilities of the Company not provided for in the financial statements comprised guarantees of HK$222,222,000 (2010: HK$211,765,000) in aggregate given to banks in connection with the banking facilities granted to a subsidiary, which was utilised up to HK$108,355,000 (2010: HK$66,855,000) as at 31 December 2011.

33. Operating Lease Arrangements

The Group leases certain of its office properties under operating lease arrangements, with the leases negotiated for terms ranging from one to two years (2010: one to two years).

At 31 December 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	2,838	1,974	20	17
In the second to fifth years, inclusive	40	1,201	—	—
	2,878	3,175	20	17

34. Capital Commitments

At 31 December 2011, in addition to the operating lease commitments detailed in note 33 above, the Group had capital commitments, which are authorised, but not contracted for, as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Property	37,667	—
Equipment	18,804	17,946
Intangible assets	8,919	8,499
	65,390	26,445

In addition, the Group's share of the jointly-controlled entities' own capital commitments, which are not included in the above, is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Contracted, but not provided for	—	1,395
Authorised, but not contracted for	—	5,164
	—	6,559

35. Related Party Disclosures

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
With jointly-controlled entities:		
Sales of products to a jointly-controlled entity	738	294
Purchases of goods from a jointly-controlled entity	5,205	—
With associates:		
Purchases of goods from associates	16,519	6,663
Service fees paid to associates	1,019	3,926
Sub-contracting fee paid to an associate	4,709	1,559
Service income received from an associate	—	235
Acquisition of a golf club membership from an associate	—	1,875
With non-controlling equity holders:		
Service income received from a non-controlling equity holder	7,639	—
Sales of products to a non-controlling equity holder	10,225	—
With other related companies:		
Purchases of goods from a related company	893	—
Rental expenses paid to a related company	984	816

These transactions were conducted on terms and conditions mutually agreed between the parties.

(b) Other transactions with related parties

(i) During the year ended 31 December 2011, the Group disposed of its 43% equity interest in BMAC to BEGCL for a total cash consideration of RMB96,380,000 (equivalent to HK$118,258,000). Further details of the transaction are included in note 18(c) to the financial statements.

(ii) On 15 September 2011 and 25 October 2011, the Company, Beijing Enterprises Holdings Limited ("BEHL"), as guarantor, and a substantial shareholder of the Company, and Idata Finance Trading Limited (the "Subscriber"), a wholly-owned subsidiary of BEHL, entered into a subscription agreement and a supplemental agreement, respectively (collectively the "Subscription Agreements"), and pursuant to which (i) the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 177,000,000 new ordinary shares of the Company at a price of HK$1.13 per share; (ii) the Company conditionally agreed to issue and the Subscriber conditionally agreed to purchase convertible bonds of the Company with an aggregate principal of HK$300,580,000; and (iii) the Company conditionally agreed to issue standby convertible bonds with an aggregate principal of HK$3,000,150,000 to the Subscriber. Further details of the Subscription Agreements are set out in the Company's announcements dated 15 September 2011 and 25 October 2011.

At the date of approval of these financial statements, the Subscription Agreements has not yet been completed and is subject to, inter alia, approvals from the Stock Exchange and the independent shareholders of the Company.

(c) Outstanding balances with related parties:

(i) Details of the Group's amounts due from a jointly-controlled entity and an associate as at the end of the reporting period are disclosed in notes 18 and 19 to the financial statements, respectively.

(ii) Details of the Group's trade receivables and other receivables due from jointly-controlled entities, an associate, non-controlling equity holders, BEGCL and a related company as at the end of the reporting period are disclosed in notes 23 and 24 to the financial statements, respectively.

(iii) Details of the Group's trade and bills payables and other payables due to a jointly-controlled entity, the associates, a non-controlling equity holder and a related company as at the end of the reporting period are disclosed in notes 26 and 27 to the financial statements, respectively.

(d) Compensation of key management personnel of the Group:

	2011	**2010**
	HK$'000	*HK$'000*
Short term employee benefits	4,676	5,095
Post-employment benefits	315	438
Equity-settled share option expense	26,005	—
Total compensation paid to key management personnel	30,996	5,533

Further details of directors' emoluments are included in note 8 to the financial statements.

36. Financial Instruments by Category

All financial assets and liabilities of the Group and the Company as at 31 December 2011 and 2010 were loans and receivables and financial liabilities stated at amortised cost, respectively.

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and short term deposits. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each reporting period. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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.

(a) Interest rate risk

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	Within 1 year	**Effective interest rate**
	HK$'000	*%*
At 31 December 2011		
Floating rate:		
Pledged deposits	1,173	0.63
Bank balances	370,222	0.50
Fixed rate:		
Time deposits	346,427	1.53
At 31 December 2010		
Floating rate:		
Pledged deposits	119	0.12
Bank balances	236,681	0.30
Fixed rate:		
Time deposits	382,909	1.84

(b) Foreign currency risk

The Group's businesses are mainly located in Mainland China and the majority of its transactions are conducted 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 profit/(loss) before tax and of the Group's equity due to changes in fair value of monetary assets and liabilities.

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	*HK$'000*	*HK$'000*
2011			
If HK$ weakens against RMB	5	5,511	4,202
If HK$ strengthens against RMB	(5)	(5,511)	(4,202)

	Increase/ (decrease) in RMB rate	(Increase)/ decrease in loss before tax	Increase/ (decrease) in equity
	%	*HK$'000*	*HK$'000*
2010			
If HK$ weakens against RMB	5	(846)	3,764
If HK$ strengthens against RMB	(5)	846	(3,764)

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from jointly-controlled entities and associates and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 32 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

The carrying amount of trade receivables, other receivables and cash equivalents included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group places its cash deposits with major international banks in Hong Kong and state-owned banks in Mainland China. This investment policy limits the Group's exposure to the concentration of credit risk.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

(d) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of available bank facilities.

The liquidity risk of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and on its ability to obtain external financing to finance the working capital of the Group.

Financial liabilities of the Group and the Company included in current liabilities as at the end of the reporting period either had no fixed terms of repayment or were due for repayment within one year.

(e) Capital management

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

The Group's objective for managing capital is to maintain a strong capital base to support the development of its business. The Group recognises the impact on shareholder returns by the level of equity capital employed within the Group and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possibly with greater leverage.

An annual capital plan of the Group is prepared and approved by the board of directors with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. The Group manages its own capital within the context of the approved annual capital plan, which determines the level of risk-weighted asset growth and the optimal amount and mix of capital required to support the planned business growth. As part of the Group's capital management policy, capital generated by subsidiaries in excess of planned requirements will return to the Group, normally by way of dividends.

The Company is primarily a provider of equity capital to its subsidiaries. These investments are substantially funded by the Group's own capital issuance and profit retentions. The Group seeks to maintain a prudent balance between the composition of its capital and of its investments in subsidiaries.

The principal forms of capital are included in issued capital and reserves on the consolidated statement of financial position.

38. Event after the Reporting Period

On 14 February 2012, the Company entered into a property transfer agreement with 北京北控宏創科技有限公司, a wholly-owned subsidiary of BEHL pursuant to which the Company agreed to purchase a property situated in Mainland China at a cash consideration of RMB32,000,000 (equivalent to HK$39,507,000). The Group intends to acquire the property for investment purpose and at the same time, to use it as office premises to support the Group's current operations in Beijing which have room for further business expansion. Further details of the acquisition of property are set out in the Company's announcement dated 14 February 2012. At the date of approval of these financial statements, the transaction has not been completed and the Company had paid RMB25,600,000 (equivalent to HK$31,605,000) of the consideration.

39. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current year's presentation.

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2012.

3. UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The following information is extracted from the unaudited financial statements of the Group as set out in the interim report of the Company for the six months ended 30 June 2012:

Consolidated Income Statement
Six months ended 30 June 2012

		Six months ended 30 June	
		2012	**2011**
		(Unaudited)	**(Unaudited)**
	Notes	*HK$'000*	*HK$'000*
REVENUE	*4*	50,933	45,690
Cost of sales		(43,192)	(43,723)
Gross profit		7,741	1,967
Other income and gain, net	*4*	14,596	15,316
Selling and distribution costs		(3,708)	(5,308)
Administrative expenses		(31,244)	(56,338)
Other expenses, net		(499)	(335)
Finance costs	*5*	(3,257)	(4,428)
Share of profits and losses of:			
Jointly-controlled entities		(7,433)	(2,665)
Associates		(4,200)	(3,414)
LOSS BEFORE TAX	*6*	(28,004)	(55,205)
Income tax	*7*	(63)	(566)
LOSS FOR THE PERIOD		(28,067)	(55,771)
Attributable to:			
Shareholders of the Company		(20,840)	(50,311)
Non-controlling interests		(7,227)	(5,460)
		(28,067)	(55,771)
LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
— Basic and diluted (HK cents)	*8*	(3.08)	(7.43)

Consolidated Statement of Comprehensive Income
Six months ended 30 June 2012

	Six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
LOSS FOR THE PERIOD	(28,067)	(55,771)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange fluctuation reserve:		
Translation of foreign operations	(608)	12,077
Release upon deemed partial disposal of interests in an associate	(758)	—
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	(1,366)	12,077
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(29,433)	(43,694)
Attributable to:		
Shareholders of the Company	(22,206)	(40,720)
Non-controlling interests	(7,227)	(2,974)
	(29,433)	(43,694)

Consolidated Statement of Financial Position

30 June 2012

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
NON-CURRENT ASSETS			
Property and equipment		10,002	9,718
Investment properties		45,837	45,837
Intangible assets		2,113	2,496
Investments in jointly-controlled entities		4,240	12,093
Investments in associates		19,325	19,034
Trade receivables	10	8,477	15,613
Prepayment	15(b)(ii)	31,606	—
Total non-current assets		121,600	104,791
CURRENT ASSETS			
Inventories		23,606	14,702
Amounts due from contract customers		929	909
Trade receivables	10	75,752	85,106
Prepayments, deposits and other receivables		100,428	117,751
Pledged deposits		5,046	1,173
Cash and cash equivalents		644,373	717,035
Total current assets		850,134	936,676
CURRENT LIABILITIES			
Trade and bills payables	11	68,617	118,081
Amounts due to contract customers		14,898	9,788
Other payables and accruals		117,507	108,256
Income tax payable		6,631	6,762
Total current liabilities		207,653	242,887
NET CURRENT ASSETS		642,481	693,789

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		764,081	798,580
NON-CURRENT LIABILITIES			
Trade payables	11	8,927	13,526
Deferred income		46,448	46,915
Total non-current liabilities		55,375	60,441
Net assets		708,706	738,139
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	12	677,460	677,460
Reserves		19,627	41,833
		697,087	719,293
Non-controlling interests		11,619	18,846
Total equity		708,706	738,139

Consolidated Statement Of Changes In Equity

Six months ended 30 June 2012

	Attributable to shareholders of the Company										
	Issued capital (Unaudited) *HK$'000*	Share premium account (Unaudited) *HK$'000*	Capital redemption reserve (Unaudited) *HK$'000*	Share option reserve (Unaudited) *HK$'000*	Capital reserve (Unaudited) *HK$'000*	Exchange fluctuation reserve (Unaudited) *HK$'000*	PRC reserve funds (Unaudited) *HK$'000*	Accumulated losses (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*	Non-controlling interests (Unaudited) *HK$'000*	Total equity (Unaudited) *HK$'000*
At 1 January 2012	677,460	170,319	9,721	27,882	6,343	77,467	41,738	(291,637)	719,293	18,846	738,139
Loss for the period	—	—	—	—	—	—	—	(20,840)	(20,840)	(7,227)	(28,067)
Other comprehensive loss for the period:											
Exchange fluctuation reserve:											
Translation of foreign operations	—	—	—	—	—	(608)	—	—	(608)	—	(608)
Release upon deemed partial disposal of interests in an associate	—	—	—	—	—	(758)	—	—	(758)	—	(758)
Total comprehensive loss for the period	—	—	—	—	—	(1,366)	—	(20,840)	(22,206)	(7,227)	(29,433)
Transfer to PRC reserve funds	—	—	—	—	—	—	12	(12)	—	—	—
Deemed partial disposal of interests in an associate	—	—	—	—	(1,020)	—	(489)	1,509	—	—	—
At 30 June 2012	677,460	170,319*	9,721*	27,882*	5,323*	76,101*	41,261*	(310,980)*	697,087	11,619	708,706
At 1 January 2011	677,460	170,319	9,721	64,014	5,701	60,772	41,717	(410,476)	619,228	24,940	644,168
Loss for the period	—	—	—	—	—	—	—	(50,311)	(50,311)	(5,460)	(55,771)
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	—	—	—	—	—	9,591	—	—	9,591	2,486	12,077
Total comprehensive income/(loss) for the period	—	—	—	—	—	9,591	—	(50,311)	(40,720)	(2,974)	(43,694)
Equity-settled share option arrangements	—	—	—	27,882	—	—	—	—	27,882	—	27,882
Transfer of share option reserves upon the forfeiture/lapse of share options	—	—	—	(64,014)	—	—	—	64,014	—	—	—
Transfer to PRC reserve funds	—	—	—	—	—	—	21	(21)	—	—	—
Share of reserves of an associate	—	—	—	—	85	—	—	—	85	—	85
At 30 June 2011	677,460	170,319	9,721	27,882	5,786	70,363	41,738	(396,794)	606,475	21,966	628,441

* These reserve accounts comprise the consolidated reserves of HK$19,627,000 (31 December 2011: HK$41,833,000) in the consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows
Six months ended 30 June 2012

	Six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(71,228)	(20,375)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	(60,803)	9,281
NET DECREASE IN CASH AND CASH EQUIVALENTS	(132,031)	(11,094)
Cash and cash equivalents at beginning of period	608,262	392,564
Effect of foreign exchange rate changes, net	—	5,451
CASH AND CASH EQUIVALENTS AT END OF PERIOD	476,231	386,921
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances other than time deposits	233,175	229,018
Time deposits	416,244	379,639
Less: Pledged deposits	(5,046)	(2,097)
Cash and cash equivalents as stated in the consolidated statement of financial position	644,373	606,560
Less: Time deposits with maturity of more than three months when acquired	(168,142)	(219,639)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	476,231	386,921

Notes to Condensed Consolidated Financial Statements

1. Basis of Preparation

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2012 are prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

2. Accounting Policies

The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2011, except for the adoption of the following amendments to the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which are generally effective for the first time for the current period's financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the amended HKFRSs has had no significant financial effect on these interim financial statements and there have been no significant changes to the accounting policies applied in these interim financial statements.

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

Annual Improvements Projects	*Annual Improvements 2009 – 2011 Cycle*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Instruments*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]

HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)–Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]

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

The directors of the Company anticipate that the adoption of these new, revised and amended HKFRSs will have no material impact on the results and financial position of the Group.

3. Operating Segment Information

Over 90% of the Group's revenue, expenses and assets are generated from the provision of information technology ("IT") related services in Mainland China. The management of the Group makes decisions about resources allocation and assesses performance of the Group based on the operating results from these business activities. Accordingly, the directors are of the opinion that IT related services in Mainland China is a single reportable operating segment of the Group.

An analysis of the Group's revenues from external customers for each group of similar products and services is disclosed in note 4 to the financial statements.

The Group's revenue from external customers is derived solely from its operations in the People's Republic of China ("PRC"), and all non-current assets (other than financial assets) of the Group are located in the PRC.

During the six months ended 30 June 2012, the Group had transactions with three external customers (six months ended 30 June 2011: one) which contributed to over 10% of the Group's total revenue. The revenue generated from sales to each of these customers is set out below:

	Six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Customer A	8,962	*
Customer B	6,541	*
Customer C	6,690	5,614

* Less than 10% of the Group's total revenue.

4. Revenue and Other Income and Gain, Net

Revenue, which is also the Group's turnover, represents (1) the aggregate of the invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for returns and trade discounts; and (2) the value of services rendered, net of business tax, during the period.

An analysis of the Group's revenue and other income and gain, net, is as follows:

		Six months ended 30 June	
		2012	**2011**
		(Unaudited)	**(Unaudited)**
	Notes	*HK$'000*	*HK$'000*
Revenue			
Sale of IT related products		21,548	32,770
Maintenance contracts		8,829	4,347
Software development contracts		4,356	6,643
System integration contracts		16,200	1,930
		50,933	45,690
Other income, net			
Bank interest income		5,131	2,469
Imputed interest on interest-free trade receivables with extended credit periods		2,729	12,289
Government grants released	*(a)*	467	—
Others		412	558
		8,739	15,316
Gain			
Gain on deemed partial disposal of interests in an associate	*(b)*	5,857	—
		14,596	15,316

Notes:

(a) Government grants have been received by the Group from a government authority in Mainland China in respect of the fitness card system business carried out by Beijing Fitness Card Co., Ltd., a 85% owned subsidiary of the Group. The government grants have been recognised in the consolidated income statement to match the related expenses that they are intended to compensate or over the expected useful lives of the relevant assets by equal annual instalments. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

(b) The gain on deemed partial disposal of interests in an associate recognised during the period ended 30 June 2012 arose from the dilution of the Group's equity interest in CITD from approximately 29.18% to 25.29% upon the issuance of 1,000,000,000 new ordinary shares by CITD in June 2012.

5. Finance Costs

Finance costs of the Group for the six months ended 30 June 2012 and 2011 represented imputed interest on interest-free trade payables with extended credit periods.

6. Loss Before Tax

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

	Six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Depreciation	1,327	1,470
Amortisation of intangible assets @	383	1,579
Impairment of an amount due from an associate #	33	30
Reversal of impairment of trade receivables, net #	(40)	(1,429)
Equity-settled share option expense	—	27,882

@ *This item is included in "Cost of sales" in the consolidated income statement.*

These items are in cluded in "Other expenses, net" in the consolidated income statement.

7. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2012 as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Current – Mainland China		
Charge for the period	59	—
Underprovision in prior periods	4	59
Deferred	—	507
Total tax charge for the period	63	566

The share of tax attributable to associates amounting to HK$258,000 (six months ended 30 June 2011: HK$421,000) is included in "Share of profits and losses of associates" in the consolidated income statement.

8. Loss per Share Attributable to Shareholders of the Company

The calculation of the basic loss per share amounts is based on the loss for the period attributable to shareholders of the Company and the weighted average of 677,460,150 (six months ended 30 June 2011: 677,460,150) ordinary shares in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2012 and 2011 as the share options of the Company outstanding during these periods have an anti-dilutive effect on the respective basic loss per share amounts for these periods.

9. Interim Dividend

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

10. Trade Receivables

Various companies of the Group have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one to three months, with an instalment period extended up to five years for major customers. An aged analysis of the trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the payment due date and net of impairment, is as follows:

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Neither past due nor impaired	57,871	68,836
Past due but not impaired:		
Less than 3 months	3,388	18,777
4 to 6 months	7,599	39
7 to 12 months	2,032	10,564
Over 1 year	13,339	2,503
	26,358	31,883
	84,229	100,719
Portion classified as current assets	(75,752)	(85,106)
Non-current portion	8,477	15,613

11. Trade and Bills Payables

The trade and bills payables are non-interest-bearing and normally settled within 30 to 90 days, with credit period extended up to six years offered by major suppliers.

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on payment due date, is as follows:

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Not past due	38,970	84,448
Past due:		
Less than 3 months	3,555	9,509
4 to 6 months	6,868	1,049
7 to 12 months	8,190	217
Over 1 year	19,961	36,384
	77,544	131,607
Portion classified as current liabilities	(68,617)	(118,081)
Non-current portion	8,927	13,526

12. Share Capital

Shares

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$1 each	1,000,000	1,000,000
Issued and fully paid:		
677,460,150 ordinary shares of HK$1 each	677,460	677,460

There was no movement in the share capital of the Company during the six months ended 30 June 2012 and 2011.

Share options

Details of the Company's share option scheme (the "Scheme") and the share options issued under the Scheme are set out under the heading "Share Option Scheme" in the section of "General Information" on pages 24 and 25.

13. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2012 (31 December 2011: Nil).

14. Capital Commitments

At 30 June 2012, the Group had capital commitments as follows:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Contracted, but not provided for:		
Property	7,901	—
Authorised, but not contracted for:		
Property	—	37,667
Equipment	18,800	18,804
Intangible assets	8,919	8,919
	27,719	65,390
	35,620	65,390

In addition to the above commitments, the Group also entered into certain agreements in relation to the investment in renewable power generation project:

(a) On 30 May 2012, the Company entered into a framework agreement for investment and cooperation in Shanxi domestic garbage incineration-power generation project with 山西國際能源集團有限公司，北京北控環保工程技術有限公司 (a wholly-owned subsidiary of BEHL, a substantial shareholder of the Company) and 山西省環境保護基金有限公司. Further details of the transaction are set out in the Company's announcement dated 30 May 2012. At the date of approval of these interim financial statements, the concrete investment and cooperation arrangements shall be subject to further negotiations and the legal documents to be entered into by the relevant parties; and

(b) On 28 June 2012, Beijing Development Environmental Protection (Haidian) Limited ("BDEP Haidian"), a wholly-owned subsidiary of the Company, entered into an increase of capital contract (the "Increase of Capital Contract") with 北京市海澱區國有資本經營管理中心，北京中海投資管理公司，北京海融達投資建設有限公司and北京市海澱區國有資產投資經營有限公司 for injecting capital into 北京綠海能環保有限責任公司 (the "Joint Venture") for investing, constructing and operating renewable energy power generation projects in Beijing, the PRC. Pursuant to the Increase of Capital Contract, BDEP Haidian will (i) inject RMB256,000,000 (equivalent to approximately HK$314,000,000) to the Joint Venture as an additional registered capital of the Joint Venture; (ii) inject a maximum amount of RMB27,550,000 (equivalent to approximately HK$33,810,000) as an equity premium of the Joint Venture and (iii) make available shareholder's loans of a total aggregate amount of RMB644,000,000 (equivalent to approximately HK$790,000,000) to the Joint Venture. This transaction constitutes a very substantial acquisition of the Company and is subject to the shareholders' approval requirements under Chapter 14 of the Listing Rules. Further details of the transaction are set out in the Company's announcement dated 28 June 2012. At the date of approval of these interim financial statements, this transaction has not yet been completed and is subject to, inter alia, the shareholders' approval of the Company.

15. Related Party Disclosures

(a) In addition to the transactions detailed elsewhere in these interim financial statements, the Group had the following material transactions with related parties during the period:

	Six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
With a jointly-controlled entity:		
Sales of products to a jointly-controlled entity	—	415
Purchase of goods from a jointly-controlled entity	—	4,406
With an associate:		
Purchase of goods from an associate	3,428	10,491
Sub-contracting fee paid to an associate	—	3,157
With a non-controlling equity holder:		
Sales of products to a non-controlling equity holder	4,221	—
Service income received from a non-controlling equity holder	2,469	—
With other related companies:		
Purchase of goods from a related company *(note 15(b)(iii))*	1,483	—
Rental expenses paid to a related company	150	—

These transactions were conducted in terms and conditions mutually agreed between the parties.

(b) Other transactions with related parties:

(i) On 15 September 2011, 25 October 2011 and 29 March 2012, the Company, BEHL (as guarantor) and Idata Finance Trading Limited (the "Subscriber"), a wholly-owned subsidiary of BEHL, entered into a subscription agreement, a supplemental agreement and a further supplemental agreement, respectively (collectively, the "Subscription Agreements"), and pursuant to which (i) the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 177,000,000 new ordinary shares of the Company at a price of HK$1.13 per share; (ii) the Company conditionally agreed to issue and the Subscriber conditionally agreed to purchase convertible bonds of the Company with an aggregate principal of HK$300,580,000; and (iii) the Company conditionally agreed to issue and the Subscriber conditionally agreed to purchase standby convertible bonds with an aggregate principal of HK$3,000,150,000 to the Subscriber. The entering into of the Subscription Agreements constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Further details of the Subscription Agreements are set out in the Company's announcements dated 15 September 2011, 25 October 2011 and 29 March 2012. At the date of approval of these interim financial statements, the Subscription Agreements has not yet been completed and is subject to, inter alia, approvals from the Stock Exchange and the independent shareholders of the Company.

(ii) On 14 February 2012, the Company entered into a property transfer agreement with 北京北控宏創科技有限公司, a wholly-owned subsidiary of BEHL, pursuant to which the Company agreed to purchase a property situated in Mainland China at a cash consideration of RMB32,000,000 (equivalent to approximately HK$39,507,000). As at 30 June 2012, the Company had prepaid RMB25,600,000 (equivalent to approximately HK$31,606,000), which is classified as a non-current asset in the consolidated statement of financial position. The Group intends to acquire the property partially for investment purpose and partially as office premises to support the Group's current and future operations in Beijing. This transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements and is exempted from the independent shareholders' approval requirement under the Listing Rules. Further details of this transaction are set out in the Company's announcement dated 14 February 2012. At the date of approval of these interim financial statements, this transaction has not yet been completed.

(iii) On 30 March 2012, the Company entered into a framework agreement (the "Framework Agreement") with 北京市政交通一卡通有限公司 ("BMAC"), which is held as to 43% by 北京控股集團有限公司(a substantial shareholder of the Company), regarding the supplies of merchandise and related services of municipal administration and communications card, namely "一卡通", to the Group. The transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements and is exempted from the independent shareholders' approval requirement under the Listing Rules. Further details of the Framework Agreement are set out in the Company's announcement dated 30 March 2012. During the six months ended 30 June 2012, the Group purchased merchandise and related services in the amounts of HK$1,483,000 from BMAC. The directors considered that the purchases were made in accordance with the Framework Agreement.

(c) Outstanding balances, net of impairment, with related parties:

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Trade receivables from:		
An associate	—	1,007
A non-controlling equity holder	4,748	6,600
Other receivables from:		
A jointly-controlled entity	—	370
Non-controlling equity holders	2,369	2,369
A substantial shareholder	47,595	83,291
A related company	334	190
Prepayment to:		
A related company *(note 15(b)(ii))*	31,606	—
Trade payables to:		
Associates	4,394	5,074
A related company	—	2,431
Other payables to:		
A jointly-controlled entity	—	12
Associates	3,325	3,692
A non-controlling shareholder	20,000	20,000

The balances with related parties are unsecured and interest-free.

(d) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2012 (Unaudited) *HK$'000*	**2011 (Unaudited)** *HK$'000*
Short term employee benefits	2,117	2,460
Post-employment benefits	135	151
Equity-settled share option expense	—	26,004
Total compensation paid to key management personnel	2,252	28,615

16. Approval of the Condensed Consolidated Financial Statements

These condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 August 2012.

4. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 October 2012, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance (other than under normal trade bills) or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

The Directors have confirmed that they are not aware of any material change in the Group's indebtedness and contingent liabilities from 31 October 2012 to the Latest Practicable Date.

1. RESPONSIBILITY STATEMENTS

All the Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

		HK$
Shares		
Authorised		
1,000,000,000	Shares	1,000,000,000
Issued and fully paid or credited as fully paid:		
677,460,150	Shares in issue as at the Latest Practicable Date	677,460,150
177,000,000	Number of Subscription Shares to be issued	177,000,000
854,460,150	Shares	854,460,150

Since 31 December 2011 (being the date to which the latest published audited accounts of the Group were prepared) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

As at the Latest Practicable Date, the Company had 51,420,000 share options outstanding under the share option scheme adopted by the Company on 31 May 2011. Save for such options, the Company does not have any outstanding options, warrants, derivatives and other securities convertible or exchangeable into Shares or any other derivatives as at the Latest Practicable Date. The issued Shares are listed and traded on the main board of the Stock Exchange. No part of the issued share capital of the Company is listed on any other stock exchanges.

The Subscription Shares when allotted and issued shall rank pari passu in all respects with all other Shares in issue in the share capital of the Company including as regards to dividends, voting rights and return of capital.

There is no arrangement that any securities acquired in pursuance of the Proposed Transactions will be transferred, charged, or pledged to any other persons.

3. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company and their associates in the share capital, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in the Shares and/or underlying shares of the Company:

Name of Director	Number of Shares and/or underlying shares held, capacity and nature of interest: Directly beneficially owned	Through a controlled corporation	Total	Percentage of the Company's issued share capital
Mr. E Meng	601,000	—	601,000	0.09
Mr. Zhang Honghai	4,000,000	—	4,000,000	0.59
Mr. Yan Qing	4,000		4,000	—
Mr. Ng Kong Fat, Brian	1,600,000	8,792,755#	10,392,755	1.53
	6,205,000	8,792,755	14,997,755	2.21

\# The 8,792,755 Shares are held by Sunbird Holdings Limited, a company beneficially owned by Mr. Ng Kong Fat, Brian.

Long positions in share options of the Company:

Name of Director	Number of share options directly beneficially owned
Mr. E Meng	6,770,000
Mr. Zhang Honghai	6,770,000
Mr. Wang Yong	6,770,000
Mr. Yan Qing	4,700,000
Mr. Ng Kong Fat, Brian	5,500,000
Dr. Jin Lizuo	670,000
Dr. Huan Guocang	670,000
Dr. Wang Jianping	670,000
	32,520,000

These share options were granted on 21 June 2011 at an exercise price of HK$1.25 per Share. The share options may be exercised at any time commencing on 21 June 2011, and if not otherwise exercised, will lapse on

20 June 2021. The exercise price of these share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

Save as disclosed above, as at the Latest Practicable Date, there were no interest of the Directors or chief executives of the Company in the Shares and the underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (not being a Director of chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or, required to be entered in the register maintained by the Company pursuant to section 336 of the SFO, or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Long positions in the Shares and underlying shares of the Company:

		Number of ordinary Shares held, capacity and nature of interest			
Name	*Notes*	**Directly beneficially owned**	**Through controlled corporations**	**Total**	**Percentage of the Company's issued share capital**
The Subscriber		275,675,000	—	275,675,000	40.69
BEHL	*(a)*	14,784,000	275,675,000	290,459,000	42.87
Beijing Enterprises Group (BVI) Company Limited ("BEBVI")	*(b)*	—	290,459,000	290,459,000	42.87
Beijing Enterprises Group Company Limited ("BEGCL")	*(b)*	—	290,459,000	290,459,000	42.87

Notes:

(a) The interest disclosed includes the Shares owned by the Subscriber. the Subscriber is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the Shares owned by the Subscriber.

(b) The interests disclosed include the Shares owned by BEHL and the Subscriber. BEBVI and BEGCL are the immediate holding company and the ultimate holding company of BEHL, respectively. Accordingly, each of BEBVI and BEGCL is deemed to be interested in the Shares owned by each of BEHL and the Subscriber.

(c) Save for Mr. E Meng, who is also a director of BEHL and the Subscriber, and Mr. Zhang Honghai, who is also a director of BEHL and BEGCL, none of the other Directors are, as of the Latest Practicable Date, also serving as directors of any of the Subscriber, BEHL or BEGCL.

As at the Latest Practicable Date, save as disclosed above, so far as was known to the Directors, no other person (other than the Directors or chief executive of the Company) had, or was deemed or taken to have an interest or short position in the Shares or/and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under section 336 of the SFO and/or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

4. SHAREHOLDINGS AND DEALINGS

(a) As at the Latest Practicable Date, except as disclosed in the section headed "Change of the Shareholding Structure" in the "Letter from the Board" in this circular and under paragraph 3(b) of this Appendix above, the Subscriber, BEHL, and parties acting in concert with any of them did not own or control any other Shares, convertible securities, warrants, options or derivatives in respect of the Shares, nor, except as disclosed in the section headed "Dealings of the shares by the Subscriber and parties acting in concert with it and other miscellaneous matters" in the "Letter from the Board" in this circular, had the Subscriber, BEHL or parties acting in concert with any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives in respect of the Shares during the period commencing six months prior to the date of the Announcement and ending on the Latest Practicable Date. The shareholding of the Subscriber, BEHL or parties acting in concert with any of them in the Company immediately before and after completion of the Proposed Transactions is set out in the section headed "Change of the shareholding structure" in the "Letter from the Board" in this circular. As at the Latest Practicable Date, save as disclosed in the section headed "Change of the shareholding structure" in the "Letter from the Board" in this circular, neither the Company nor the Directors are interested in any shares, convertible securities, warrants, options or derivatives in respect of the shares of the Subscriber, BEHL or parties acting in concert with any of them, nor had the Company or the Directors dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the shares of the Subscriber, BEHL or parties acting in concert with any of them during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date.

(b) As at the Latest Practicable Date, save as disclosed in the section headed "Change of the shareholding structure" in the "Letter from the Board" in this circular, none of the directors of the Subscriber, BEHL or parties acting in concert with any of them was interested in any Shares, convertible securities, warrants, options or derivatives in respect of the Shares; nor had any such directors dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the Shares during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date.

(c) As at the Latest Practicable Date, save as disclosed under paragraph 3(a) of this Appendix above, none of the Directors was interested in any Shares, convertible securities, warrants, options or derivatives in respect of the Shares. None of such persons have dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Shares or any shares, convertible securities, warrants, options or derivatives of the shares of the Subscriber, BEHL or parties acting in concert with any of them during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date. None of the Directors are interested in any shares, convertible securities, warrants, options or derivatives in respect of the shares of the Subscriber, BEHL or parties acting in concert with any of them.

(d) Save for the Shares held by the Subscriber, BEHL or parties acting in concert with any of them as disclosed in section headed "Change of the shareholding structure" in the "Letter from the Board" in this circular and under paragraph 4(a) of this Appendix above, as at the Latest Practicable Date, none of the Subscriber, BEHL or parties acting in concert with any of them owned or controlled any other Shares, convertible securities, warrants, options or derivatives of the Shares; nor had any such persons dealt for value in any

Shares, convertible securities, warrants, options or derivatives of the Shares during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date.

(e) The Shares held by the Subscriber, BEHL or parties acting in concert with any of them are disclosed in section headed "Change of the shareholding structure" in the "Letter from the Board" in this circular and they have not dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Shares during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date. Save as disclosed in this paragraph 4(e), as at the Latest Practicable Date, there is no other person who, prior to the posting of this circular, has irrevocably committed himself/herself to accept or reject the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver. The Directors (save for Mr. E Meng and Mr. Zhang Honghai who are also directors of BEHL and are together interested in 4,601,000 Shares and who will abstain from voting on the ordinary resolutions regarding the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver at the EGM) intend, in respect of their own beneficial shareholdings, to vote in favour of the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver.

(f) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with (i) the Subscriber, its associates, BEHL or parties acting in concert with any of them; or (ii) the Company or any person who was an associate of the Company by virtue of class (1), (2), (3) or (4) of the definition of "associate" as defined under the Takeovers Code.

(g) Neither any pension fund of the Group nor a subsidiary of the Company nor any adviser of the Company as specified in class (2) of the definition of associate in the Takeovers Code, owned or controlled any Shares, convertible securities, warrants, options, or derivatives of the Shares as at the Latest Practicable Date.

(h) No Shares were managed on a discretionary basis by any fund managers connected with the Company.

(i) As at the Latest Practicable Date, no Shares, convertible securities, warrants, options or derivatives in respect of the Shares have been borrowed or lent by the Company and/or the Directors.

5. MARKET PRICE

(a) The table below shows the closing price of the Shares on the Stock Exchange on the (i) last Business Day of each of the calendar month during the period between March 2011 to August 2011, being six months preceding the date of the Announcement and during the period between September 2011 to November 2012 and ending on the Latest Practicable Date (ii) Last Trading Day; and (iii) Latest Practicable Date, respectively:

Month	Closing price per Share *HK$*
March 2011	1.33
April 2011	1.37
May 2011	1.22
June 2011	1.28
July 2011	1.29
August 2011	1.30
Last Trading Day	1.21
September 2011	1.20
October 2011	1.14
November 2011	1.14
December 2011	1.27
January 2012	1.22
February 2012	1.58
March 2012	1.40
April 2012	1.30
May 2012	1.34
June 2012	1.26
July 2012	1.21
August 2012	1.15
September 2012	1.50
October 2012	1.44
November 2012	1.57
Latest Practicable Date	1.50

(b) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months preceding the date of the Announcement, and ending on the Latest Practicable Date were HK$1.64 on 5 October 2012 and HK$1.12 on 10 June 2011, 16 June 2011, 4 October 2011, 18 October 2011 and 19 October 2011, respectively.

6. OTHER INTERESTS

As at the Latest Practicable Date:

(a) none of the Directors or the chief executive of the Company had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up;

(b) none of the Directors was given any benefit as compensation for loss of office or otherwise in connection with the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver;

(c) none of the Directors has entered into any agreement or arrangement with any other person which is conditional on or dependent upon the outcome of the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver or otherwise connected with the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver;

(d) there was no material contract entered into by the Subscriber, BEHL and parties acting in concert with any of them in which a Director had a material personal interest;

(e) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group; and

(f) none of the Subscriber, BEHL or any parties acting in concert with any of them had entered into any agreement, arrangement or understanding (including any compensation arrangement) with any of the Directors, recent Directors, Shareholders or recent Shareholders of the Company having any connection with or dependence upon the Subscription Agreement and the transactions contemplated thereunder including the Whitewash Waiver.

7. SERVICE CONTRACTS

As at the Latest Practicable Date:

(a) none of the Directors had entered or was proposing to enter into any service contract with the Company, or any member of the Group, which is not terminable by the Group within one year without payment of compensation (other than statutory compensation);

(b) there are no service contracts between the Directors and the Company or any of its subsidiaries or associated companies which (including both continuous and fixed term contracts) have been entered into or amended within six months before the date of the Announcement;

(c) there are no service contracts between any Director and the Company or any of its subsidiaries or associated companies which are continuous contracts with a notice period of 12 months or more; and

(d) there are no service contracts between any Director and the Company or any of its subsidiaries or associated companies which are fixed terms contracts with more than 12 months to run irrespective of the notice period.

8. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation, claim or arbitration which has a material effect on the operations of the Group and there was no litigation, claim or arbitration which would have a material effect the operations of the Group known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by the members of the Group after the date of two years immediately preceding the date of the Announcement, and up to the Latest Practicable Date, and are or may be material:

(a) the MOU;

(b) the Subscription Agreement;

(c) the First Supplemental Agreement;

(d) the Second Supplemental Agreement;

(e) the Third Supplemental Agreement;

(f) the conditional equity transfer agreement dated 13 May 2011 entered into between Business Net Limited (a wholly-owned subsidiary of the Company), as vendor, and BEGCL, as purchaser, in relation to the disposal of 43% equity interest in BMAC, details of which are disclosed in the announcement of the Company published on the even date;

(g) the property transfer agreement dated 14 February 2012 entered into between the Company, as purchaser, and Beijing Beikong Hongchuang Technology Co., Ltd.* (北京北控宏創科技有限公司), as vendor, in relation to the acquisition of a property, details of which are disclosed in the announcement of the Company published on the even date;

(h) the increase of capital contract, the joint venture contract and the articles of association dated 28 June 2012 entered into between Beijing Development Environmental Protection (Haidian) Limited, a wholly owned subsidiary of the Company, The Beijing Haidian District State-Owned Capital Management Centre* (北京市海淀區國有資本經營管理中心), Beijing Zhonghai Investment Management Co.* (北京中海投資管理公司), Beijing Hairongda Investment Construction Co., Ltd.* (北京海融達投資建設有限公司) and State-Owned Properties Investment & Management Co. of Haidian District, Beijing* (北京市海淀區國有資產投資經營有限公司) in relation to the injection of capital into Beijing Lvhaineng Environmental Protection Co., Ltd.* (北京綠海能環保有限責任公司), details of which are disclosed in the announcement of the Company published on the even date;

(i) the framework agreement for Investment and Cooperation in Shanxi Domestic Garbage Incineration-Power Generation Project dated 30 May 2012 entered into between the Company and 山西國際能源集團有限公司 (Shanxi International Energy Group Co. Ltd.*), 北京北控環保工程技術有限公司 (Beijing Enterprises Holdings Environment Technology Co. Ltd.*) and 山西省環境保護基金有限公司 (Shanxi Environmental Protection Fund Co. Ltd.*) to establish long-term strategic cooperation partnership, details of which are disclosed in the announcement of the Company published on the even date; and

(j) the framework agreement dated 17 September 2012 entered into between the Company and China Green Energy pursuant to which the Group agreed to acquire 100% equity interests in Green Energy Holding, a wholly-owned subsidiary of China Green Energy for a total consideration payable for the possible acquisition preliminary estimated to be ranged from US$530 million to US$535 million and shall be settled by issuing consideration shares and/ or convertible bonds of the Company, details of which are disclosed in the announcement of the Company published on the even date.

10. CONSENT AND QUALIFICATION

The following is the qualification of the professional adviser who has given opinion or advice which are contained or referred to in this circular:

Name	Qualification
Guangdong Securities Limited	a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

As at the Latest Practicable Date, Guangdong Securities did not have any direct or indirect shareholding in the share capital of any member of the Group, nor did it has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, save for the Shares held and dealt for the accounts of the non-discretionary clients by the brokerage division of Guangdong Securities, or has any interest, either directly or indirectly, in any assets which have been, since 31 December 2011, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Guangdong Securities has given and has not withdrawn its written letter of consent to the issue of this circular with the inclusion of its letter, opinion and advice and all references to its name in the form and context in which they are included.

The letter and advice given by Guangdong Securities is given as of the date of this circular for incorporation herein.

11. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the business of the Group, other than those business where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

12. MATERIAL CHANGES

The Directors confirm that, save and except for:

(i) the Group having recorded a decrease in "cash and cash equivalents" from approximately HK$717 million as at 31 December 2011 (audited) to approximately HK$644 million as at 30 September 2012;

(ii) during the 2012 financial year up to the Latest Practicable Date, the Group having entered into the following agreements which are considered by the Directors to be material:

- a property transfer agreement dated 14 February 2012 regarding the acquisition of a building located in Beijing, the PRC, details of which are disclosed in the announcement of the Company published on the even date;

- a framework agreement dated 30 May 2012 regarding the Proposed Shanxi Project, details of which are disclosed in the announcement of the Company published on the even date;

- an increase of capital contract dated 28 June 2012 and the relevant joint venture contract and article of association regarding the Proposed Haidian Project, details of which are disclosed in the announcement of the Company published on the even date; and

- a framework agreement dated 17 September 2012 regarding the Proposed Green Energy Project, details of which are disclosed in the announcement of the Company published on the even date;

the Company expects that the aforementioned material contracts will lead to significant change in the Group's financial condition as well as working capital and future financing requirements, and will present significant capital commitment for the Group;

(iii) during the 2012 financial year up to the Latest Practicable Date, the Group having faced increasing intensifying competition in the intellectualisation projects, especially in the rail transportation sector, and the Group has been making efforts to diversify into the environmental protection industry;

there have been no material changes in the financial or trading position or outlook of the Group since 31 December 2011, the date to which the latest audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

13. MISCELLANEOUS

(a) The registered office of the Company is situated at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(b) The registered office of the Subscriber is situated at the offices of TrustNet (British Virgin Islands) Limited, TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

(c) The registered office and correspondence address of BEHL, which is regarded as the principal member of the Subscriber's concert group, is at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(d) The office address of Morgan Stanley Asia Limited is Level 46 International Commerce Centre, 1 Austin Road West, Hong Kong.

(e) the office address of the Independent Financial Advisor is Units 2505-06, 25/F., Low Block of Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.

(f) The share registrar of the Company is Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(g) The company secretary of the Company is Mr. Wong Kwok Wai, Robin, who is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

(h) The authorised representatives of the Company are Mr. Ng Kong Fat, Brian and Mr. Wong Kwok Wai, Robin.

(i) As at the Latest Practicable Date, the board of directors of BEHL comprises Mr. Wang Dong, Mr. Zhang Honghai, Mr. Lin Fusheng, Mr. Li Fucheng, Mr. Zhou Si, Mr. Hou Zibo, Mr. Guo Pujin, Mr. Liu Kai, Mr. Lei Zhengang, Mr. E Meng, Mr. Jiang Xinhao and Mr. Tam Chun Fai as executive directors; Mr. Wu Jiesi, Mr. Robert A. Theleen, Mr. Lam Hoi Ham and Mr. Fu Tingmei as independent non-executive directors.

(j) As at the Latest Practicable Date, the board of directors of the Subscriber comprises Mr. Liu Kai and Mr. E Meng.

(k) This circular has been printed in English and Chinese, in the event of inconsistency, the English version shall prevail.

(l) As at the Latest Practicable Date, there is no agreement, arrangement or understanding to transfer, charge or pledge any voting rights over the Subscription Shares and/or the Conversion Shares.

(m) The address of Mr. E Meng is Flat F, 21/F, Tsui Kung Mansion, Taikoo Shing, Hong Kong. The address of Mr. Zhang Honghai is Flat B, 19/F, Tower 1, Starcrest, 9 Star Street, Wanchai, Hong Kong.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any Business Days at the principal place of business of the Company in Hong Kong at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and will also be available on the websites of the Company at www.bdhk.com.hk and the SFC at www.sfc.hk from the date of this circular up to and including the date of the EGM:

(a) the memorandum of association and articles of association of the Company;

(b) the memorandum of association and bye-laws of the Subscriber;

(c) the memorandum of association and articles of association of BEHL;

(d) the annual reports of the Group for the two years ended 31 December 2011 and the interim report for the six months ended 30 June 2012;

(e) the letter of consent referred to under the paragraph headed "Consent and Qualification" in this appendix;

(f) a copy of each material contract referred to in the paragraph headed "Material Contracts" in this appendix;

(g) this circular;

(h) the letter from the Board the text of which is set out on pages 6 to 48 of this circular;

(i) the letter from the Independent Board Committee the text of which is set out on pages 49 and 50 of this circular; and

(j) the letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 51 to 75 of this circular.

北京發展(香港)有限公司
BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under Companies Ordinance)
(Stock Code: 154)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Beijing Development (Hong Kong) Limited (the "**Company**") will be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 11 January 2013 at 3:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** the entry by the Company into the conditional subscription agreement dated 15 September 2011 (as amended by the supplemental agreement dated 25 October 2011 among the Company, Idata Finance Trading Limited (the "**Subscriber**") and Beijing Enterprises Holdings Limited ("**BEHL**"), the supplemental agreement dated 29 March 2012 among the Company, the Subscriber and BEHL and the supplemental agreement dated 12 December 2012 among the Company, the Subscriber and BEHL) (the "**Subscription Agreement**") with the Subscriber and BEHL (a copy of which together with the supplemental agreements relating thereto have been produced at the meeting and signed by the chairman of the meeting for identification purposes), the terms and conditions thereof and transactions contemplated thereunder, including (but not limited to) (a) the allotment and issue of 177,000,000 new shares of the Company (the "**Subscription Shares**") at a price of HK$1.13 per Subscription Share; (b) the issue of convertible bonds due 2018 in the aggregate principal amount of HK$300,580,000 (the "**Firm Bonds**") at the conversion price of the Firm Bonds of HK$1.13; (c) subject to the Company's satisfaction of certain pre-conditions to giving notice, the issue of standby convertible bonds, as may be issued by the Company upon the Company, at its discretion, notifying the Subscriber at any time during the term of the convertible bonds requiring the Subscriber to subscribe for such amount of standby convertible bonds in the aggregate principal amount of HK$3,000,150,000 (the "**Standby Bonds**") at the initial conversion price of the Standby Bonds of HK$1.13, as the Company may, from time to time, consider appropriate; and (d) the allotment and issue of shares of the Company upon exercise of the conversion rights attaching to the Firm Bonds and the Standby Bonds, in accordance with the terms of the Subscription Agreement to the Subscriber pursuant thereto, be and are hereby approved, ratified and confirmed and that the directors of the Company (the "**Directors**") be and are generally and unconditionally authorised to prepare and execute all documents and to do all things as they consider necessary, expedient and appropriate to effect and implement the Subscription Agreement and transactions contemplated thereunder or incidental thereto."

2. "**THAT** the waiver (the "**Whitewash Waiver**") granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any delegate of the Executive Director) pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation on the part of the Subscriber and any parties acting in concert with it, to make a mandatory general offer to shareholders of Company for all the issued shares of the Company not already owned or agreed to be acquired by them upon completion of the subscription of the Subscription Shares be and is hereby approved and that the Directors be and are generally and unconditionally authorised to prepare and execute all documents and to do all such other things as they consider necessary, expedient and appropriate to give effect to any matters relating to, or incidental to, the Whitewash Waiver."

3. "**THAT** conditional upon passing of resolutions numbered 1 and 2 above, the authorised share capital of the Company be increased from HK$1,000,000,000 to HK$5,000,000,000 divided into 5,000,000,000 shares of HK$1.00 each (the "**Shares**") by the creation of an additional 4,000,000,000 Shares and such Shares shall rank pari passu with all existing Shares and that the Directors be and are hereby generally and unconditionally authorised to prepare and execute all documents and to do all things as they consider necessary, expedient and appropriate to effect and implement the same."

By order of the Board of
Beijing Development (Hong Kong) Limited
Wong Kwok Wai, Robin
Company Secretary

Hong Kong, 21 December 2012

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint a proxy (or at most two proxies) to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.

2. To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before either the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the EGM or any adjournment thereof if the shareholder so desires.

3. The ordinary resolutions set out above will be determined by way of poll. Resolutions numbered 1 and 2 will be voted on by the independent shareholders of the Company and resolution numbered 3 will be voted on by all shareholders of the Company.

4. As at the date hereof, the executive Directors are Mr. E Meng, Mr. Zhang Honghai, Mr. Wang Yong, Mr. Yan Qing, Ms. Sha Ning and Mr. Ng Kong Fat, Brian, and the independent non-executive Directors are Dr. Jin Lizuo, Dr. Huan Guocang and Dr. Wang Jianping.