Stock Code: 8055

# 中国网络教育集团有限公司

# CHINA E-LEARNING GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

# annual report 2009

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors of China E-Learning Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") for the purpose of giving information with regard to China E-Learning Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this reportmisleading; and (3) all opinions expressed in this reporthave been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# CORPORATE INFORMATION

| | |
|---|---|
| **Board of Directors** | **Executive Directors**<br>Mr. Chen Hong *(Chairman)*<br>Ms. Wang Hui<br>Ms. Wei Jianya<br><br>**Independent Non-Executive Directors**<br>Dr. Wong Yun Kuen<br>Ms. Chan Hoi Ling<br>Dr. Huang Chung Hsing |
| **Company secretary** | Mr. Cheng Man For |
| **Authorized representatives** | Mr. Chen Hong<br>Mr. Cheng Man For |
| **Compliance officer** | Mr. Chen Hong |
| **Registered office** | Cricket Square<br>Hutchins Drive<br>P. O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands |
| **Head office and principal place of business** | Unit 3306, 33/F, West Tower,<br>Shun Tak Centre<br>168-200 Connaught Road Central,<br>Hong Kong |
| **Principal bankers** | Industrial and Commercial Bank of China<br>Shenzhen Development Bank<br>Standard Chartered Bank (Hong Kong) Limited<br>Bank of China (Hong Kong) Limited |
| **Principal share registrar and transfer office in the Cayman Islands** | Butterfield Fund Services (Cayman) Limited<br>Butterfield House<br>68 Fort Street<br>P.O. Box 705<br>Grand Cayman KY1-1107<br>Cayman Islands |
| **Branch share registrar and transfer office in Hong Kong** | Tricor Tengis Limited<br>26/F Tesbury Centre<br>28 Queen's Road East<br>Hong Kong |
| **Auditor** | Lo and Kwong C.P.A. Company Limited |
| **Legal advisers** | Conyers Dill & Pearman |
| **Stock Code** | 8055 |
| **Company website** | http://www.chinae-learning.com |

# CHAIRMAN'S STATEMENT

2009 was a challenging year for the Company. Impact of the global financial tsunami on the banking industry in China has adversely affected the performance of New Beida Business StudyNet Group Limited ("New Beida"), the Company's wholly-owned subsidiary acquired in 2008. Given the uncertainties in New Beida's existing operations, we have reassessed the recoverable amount of goodwill in relation to the acquisition of New Beida and of its other assets. As a result, the Group recorded impairment loss on goodwill and intangible assets of HK$326,115,000 and HK$33,060,000 respectively.

While New Beida's poor performance adversely impacted the Group's operations, we had continued to explore new business opportunities. During the year, the Group completed the acquisition of IIN Medical (BVI) Group Limited ("IIN Medical (BVI)") and its subsidiaries (collectively referred to as "IIN Medical Group"), a group engaged in the provision of distance education of Chinese medicine in China. Since the acquisition was completed on 23 April 2009, IIN Medical Group has contributed approximately HK$22,305,000 to the Group's revenue and profit of approximately HK$3,405,000 to the Group's results. I expect that IIN Medical Group will continue to contribute stable income as well as cash flows to the Group.

Going forward, the Group will continue to focus on developing new continuous education program in Chinese medicine. On the other hand, whilst the Group will continue to explore opportunities for our existing business, we will reorganise our business by discontinuing certain loss-making and risky projects in order to minimize the Group's exposure to financial as well as business risks. Furthermore, we are considering various alternatives to enlarge the Group's capital base, which include the proposal to issue new shares in order to provide additional funding to the Group.

Finally, I would like to take this opportunity to express my sincere gratitude to the members of the Board of Directors, management team and our employees for their dedication and contribution to the Group. I would also like to express my appreciation to our shareholders for their enduring support and confidence in the Group.

**Chen Hong**
*Chairman*

Hong Kong, 29 March 2010

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK$23,253,000 (2008: HK$26,692,000) representing a decrease of approximately 12.9% compared to the previous year. The decrease in turnover was mainly due to the combined effect of: 1) impact of the global financial tsunami on the banking industry in China which adversely affected the performance of New Beida, its turnover decreased from approximately HK$26,615,000 in 2008 to approximately HK$948,000 in 2009, and 2) the acquisition of IIN Medical Group on 23 April 2009, which contributed turnover of approximately HK$22,305,000 to the Group for the year ended 31 December 2009. Gross profit margin decreased to approximately 16.6% for the year ended 31 December 2009 from approximately 67.6% for the year ended 31 December 2008. The decrease in gross profit margin was primarily due to the substantial decrease in New Beida's turnover while its cost of sales, mainly comprised fixed overheads, remained at a level similar to that of 2008. The decrease was also attributable to the lower gross profit margin of IIN Medical Group, compared to that of New Beida in 2008.

Other income for the year under review increased from approximately HK$161,000 in 2008 to approximately HK$3,192,000. It was mainly attributable to the Company's gain on redemption of convertible loan notes on 5 October 2009 and rental income generated from New Beida during the year of approximately HK$1,982,000 and HK$975,000 respectively.

Although IIN Medical Group's operational results were incorporated into the Group's results for the year ended 31 December 2009, administrative expenses of the Group decreased from approximately HK$46,368,000 in 2008 to approximately HK$43,290,000 in 2009. It was mainly attributable to the decrease in share-based payment expenses from approximately HK$24,632,000 in 2008 to approximately HK$18,851,000 in 2009 and the measures taken by the management to reduce overheads and costs during the year under review.

Due to the poor performance of New Beida, the management reassessed the recoverable amount of goodwill associated with the acquisition of New Beida and of New Beida's other assets. The Group recorded impairment loss on goodwill and intangible assets of approximately HK$326,115,000 and HK$33,060,000 respectively during the year under review.

Finance costs increased from approximately HK$12,589,000 in 2008 to approximately HK$78,059,000 in 2009. Finance costs primarily consist of accretion of interest on the liability portion of convertible loan notes of approximately HK$35,220,000 (2008: HK$31,686,000) and fair value changes on the derivative portion of convertible loan notes of approximately HK$42,839,000 (2008: gain of HK$19,097,000)

As a result, the consolidated loss for the year increased from approximately HK$365,862,000 in 2008 to approximately HK$475,378,000 in 2009.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital structure, liquidity and financial resources

The Group financed its business operations mainly with cash revenue generated from operating activities and additional funds raised by issuance of new shares. As at 31 December 2009, the Group had current assets of approximately HK$52,698,000 (2008: HK$17,249,000), including bank balances and cash of approximately HK$37,218,000 (2008: HK$2,636,000). Total non-current assets of the Group amounted to approximately HK$41,858,000 (2008: HK$439,878,000), which comprised goodwill, other intangible assets, financial derivative in relation to the convertible loan notes, property, plant and equipment and owner-occupied leasehold interest in land. Total assets of the Group amounted to approximately HK$94,556,000 as at 31 December 2009 (2008: HK$457,127,000).

As at 31 December 2009, the Group did not have any outstanding bank borrowing. Total current liabilities of the Group amounted to approximately HK$25,413,000 (2008: HK$3,819,000), which mainly comprised the amounts due to directors, tax payable and trade and other payables. Total non-current liabilities of the Group amounted to approximately HK$305,449,000 (2008: HK$390,505,000), which comprised the convertible loan notes, financial derivative in relation to the convertible loan notes and other loan. Total liabilities of the Group amounted to approximately HK$330,862,000 (2008: HK$394,324,000). As at 31 December 2009, the Group had net liabilities of HK$236,306,000 (2008: net assets of HK$62,803,000). Gearing ratio of the Group, as expressed as the ratio of total liabilities to total assets, was approximately 3.50 as at 31 December 2009 (2008: 0.86).

### Share Capital

*Placing of shares*

On 3 August 2009, an aggregate of 190,000,000 ordinary shares were placed at HK$0.18 per share pursuant to a top-up placing and subscription agreement entered into on 20 July 2009. The net proceeds from the placement amounted to approximately HK$33.35 million.

On 5 August 2009, an aggregate of 90,000,000 ordinary shares were placed at HK$0.18 per share pursuant to a placing agreement entered into on 20 July 2009. The net proceeds from the placement amounted to approximately HK$15.8 million.

*Share consolidation*

On 17 December 2009, consolidation of every five ordinary shares of HK$0.10 each into one ordinary shares of HK$0.50 each became effective.

## Convertible Notes

Pursuant to the acquisition of 100% interest in New Beida and its subsidiaries during the year ended 31 December 2008, the Company issued convertible notes ("Convertible Notes 2008") as partial settlement of the acquisition consideration. The principal terms of the Convertible Notes 2008 are as follows:

| | |
|---|---|
| Date of issue: | 27 February 2008 |
| Aggregate principal amount: | HK$720,000,000 |
| Interest rate per annum: | The notes do not bear any interest |
| Conversion price applicable: | HK$0.20 per share (subsequently adjusted to HK$0.98 per share due to the above-mentioned placing of shares and share consolidation), subject to adjustments |
| Maturity date: | 36 months from the date of issue |

As at 31 December 2009, the aggregate outstanding principal amount of the Convertible Notes 2008 was HK$284,200,000 (2008: HK$438,000,000).

Set out below are details of conversion of the Convertible Notes 2008 during the year:

| **Date of Conversion** | **Principal Amount of the Convertible Notes** *HK$* | **Number of Ordinary Shares Issued** *(adjusted due to share consolidation)* |
|---|---:|---:|
| 10 June 2009 | 49,000,000 | 49,000,000 |
| 18 June 2009 | 44,000,000 | 44,000,000 |
| 29 June 2009 | 13,600,000 | 13,600,000 |
| 10 September 2009 | 13,600,000 | 13,600,000 |
| 16 October 2009 | 13,600,000 | 13,600,000 |

On 5 October 2009, Convertible Notes 2008 in the principal amount of HK$20 million were redeemed.

# MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to the acquisition of 100% interest in IIN Medical (BVI) Group, the Company issued convertible notes ("Convertible Notes 2009") as partial settlement of the acquisition consideration. The principal terms of the Convertible Notes 2009 are as follows:

| | |
|---|---|
| Date of issue: | 23 April 2009 |
| Aggregate principal amount: | HK$32,770,000 |
| Interest rate per annum: | The notes do not bear any interest |
| Conversion price applicable: | HK$0.32 per share (subsequently adjusted to HK$1.57 per share due to the above-mentioned placing of shares and share consolidation), subject to adjustments |
| Maturity date: | Principal amount of approximately HK$20,150,000 matured in 48 months from the date of issue and the remaining principal amount of approximately HK$12,620,000 matured in 24 months from the date of issue |

As at 31 December 2009, the aggregate outstanding principal amount of the Convertible Notes 2009 was HK$32,770,000.

## Foreign exchange exposure

All the Group's assets, liabilities and transactions are denominated in Renminbi or Hong Kong dollar. Foreign exchange risk arising from the normal course of operations is considered to be minimal. The Group has no foreign currency borrowings and has not used any financial instrument for hedging purposes.

## Contingent liabilities and charges on the Group's assets

There were no material contingent liabilities or charges on the Group's assets as at 31 December 2009.

## OPERATIONAL REVIEW

Impact of the global financial tsunami on the banking industry in China has adversely affected the performance of New Beida. As the projects co-operated with the China Banking Association were considered unsuccessful, New Beida has shifted its focus to providing training program to practitioners in other industries. Given the uncertainties in New Beida's existing operations, the management reassessed the recoverable amount of goodwill in relation to the acquisition of New Beida and of its other assets. As a result, the Group recorded impairment loss on goodwill and intangible assets of HK$326,115,000 and HK$33,060,000 respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

On 23 April 2009, the Group completed the acquisition of IIN Medical Group. Since then, IIN Medical Group have contributed approximately HK$22,305,000 to the Group's revenue and profit of approximately HK$3,405,000 to the Group's results.

The Joint Construction of Network Education College of Beijing University of Chinese Medicine Agreement (共建北京中醫藥大學網路教育學院協議書) ("Joint Construction Agreement") entered into between Beijing University of Chinese Medicine (北京中醫藥大學) and Hunan IIN Medical Network Technology Development Co., Ltd. ("Hunan IIN Medical"), a subsidiary of IIN Medical (BVI), on 29 July 2000 will expire on 1 August 2010. In accordance with the Joint Construction Agreement, Hunan IIN Medical is entitled to share 60% of the profits of Distance Education College of Beijing University of Chinese Medicine (北京中醫藥大學遠程教育學院) ("Distance Education College"). While the Group is in the process of negotiating with the counterparty to renew the Joint Construction Agreement, the Company's directors expect that the Joint Construction Agreement will be renewed with profit sharing percentage no less than 51% and other terms and conditions thereunder no less favourable than those under the Joint Construction Agreement.

### Employee information

As at 31 December 2009, the Group had a total of 56 employees (2008: 82 employees) (including executive directors). For the year under review, the total staff costs amounted to approximately HK$27,848,000 (2008: HK$32,985,000), representing a decrease of approximately 15.6% over the previous year. The decrease in staff costs was mainly attributable to the decrease in share-based payment expenses from approximately HK$24,632,000 in 2008 to approximately HK$18,851,000 in 2009.

The salaries and benefits of the Group's employees are kept at a market level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Staff benefits include contributions to mandatory provident fund and share options. Share options were granted to employees of the Group in the current year, details are set out in note 35 to the financial statements.

## PROSPECTS

Given the uncertainties in New Beida's existing operations, we will reorganise its business by discontinuing certain loss-making and risky projects in order to minimise the Group's exposure to financial as well as business risks. As we expect IIN Medical Group will continue to contribute stable income as well as cash flows to the Group, we will continue to focus on developing new continuous education program in Chinese medicine.

To improve the financial position of the Group, we are considering various alternatives to enlarge the Group's capital base, which include the proposal to issue new shares in order to provide additional funding to the Group. In the meantime, the Group will continue to look for opportunities for our existing business that may increase the shareholders' value of the Group and further reduce the business risk of the Group.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Chen Hong ("Mr. Chen")**, aged 41, was appointed as an Executive Director and Chairman of the Company on 1 April 2008; and the authorised representative and compliance officer of the Company on 22 September 2008, Mr. Chen holds a Master of Business Administration from Peking University, China. Mr. Chen has previously worked in several technology companies and investment companies in China as senior management, and had extensive experience in corporate management and investment. Mr. Chen is mainly responsible for the strategy formulation of the Company.

Save as disclosed herein, Mr. Chen did not hold any directorships in any listed public company in the last three years.

**Ms. Wang Hui ("Ms. Wang")**, aged 44, was appointed as an Executive Director on 10 July 2008. Ms. Wang holds a Master's degree in Finance and Investment from Renmin University of China and a Bachelor's degree in Design of Machine Manufacturing Equipment from Anhui University of Technology and Science. Ms. Wang has previously worked in an investment management company, a technology company and an online education training company as a member of the senior management. She has extensive experience in strategic planning, investment management and online education operation. Ms. Wang is the director of New Beida Business StudyNet Group Limited, a wholly-owned subsidiary of the Company.

Save as disclosed herein, Ms. Wang did not hold any directorships in any listed public company in the last three years.

**Ms. Wei Jianya ("Ms. Wei")**, aged 41, was appointed as an Executive Director on 22 September 2008. Ms. Wei holds a Bachelor's degree in commerce and financial accounting from Zhejiang Gongshang University (formerly known as Hangzhou University of Commerce). Ms. Wei is a Certified Public Accountant registered in the PRC and Chinese Certified Public Tax Consultant. She previously worked in PRC accounting firms and PRC listed companies and has extensive experience in financial management and investment advisory.

Save as disclosed herein, Ms. Wei did not hold any directorship in any listed public company in the last three years.

As at the Latest Practicable Date, the interests or short positions of the above executive Directors in the Shares or underlying shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") are disclosed under the paragraph headed "Directors and chief executive of the Company" of the section headed "Disclosure of interests" in this Appendix.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Wong Yun Kuen ("Dr. Wong")**, aged 52, was appointed as an Independent Non-Executive Director and a member of audit committee of the Company on 1 August 2007. Dr. Wong received his Ph.D. degree from Harvard University, and was a "Distinguished Visiting Scholar" in finance at the Wharton School of the University of Pennsylvania and a consultant at AIG Financial Products Corp. of USA. Dr. Wong has extensive experience in corporate finance, investment and derivative products. In addition, Dr. Wong was a consultant to a supercomputer firm on application software, and has participated in the development of e-commerce software and platforms. He is a member of Hong Kong Securities Institute.

Dr. Wong is also an executive director of UBA Investments Limited (Stock code: 768), and an independent non-executive director of Harmony Asset Limited (Stock code: 428), Grand Field Group Holdings Limited (Stock code: 115), Kaisun Energy Group Limited (Stock code: 8203), China Yunnan Tin Minerals Group Company Limited (Stock code: 263), Bauhaus International (Holdings) Limited (Stock code: 483), Golden Resorts Group Limited (Stock code: 1031), Superb Summit International Timber Company Limited (Stock code: 1228), Kong Sun Holdings Limited (Stock code: 295), Climax International Company Limited (Stock code: 439) and China Grand Forestry Green Resources Group Limited (Stock Code: 910). Dr. Wong was also a former independent non-executive director of Haywood Investment Limited (Stock Code: 905) from 8 June 1998 to 7 July 2005.

Save as disclosed herein, Dr. Wong does not hold any other position in the Company or any of its subsidiaries nor did he hold any directorships in any listed public company in the last three years. As at the Latest Practicable, Dr. Wong did not have, and was not deemed to have, any interest in any Shares or underlying shares of the Company within the meaning of Part XV of the SFO.

**Ms. Chan Hoi Ling ("Ms. Chan")**, aged 36, was appointed as an Independent Non-Executive Director and chairman of audit committee of the Company on 1 August 2007. Ms. Chan graduated from the University of South Australia with a Bachelor's degree in Accountancy. Ms. Chan has extensive experience in auditing and financial management. Ms. Chan is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Ms. Chan was also a former independent non-executive director of Climax International Company Limited (Stock Code: 439) from 26 June 2007 to 13 May 2008 and its former executive director from 13 May 2008 to 24 November 2009.

Save as disclosed herein, Ms. Chan does not hold any other position in the Company or any of its subsidiaries nor did she hold any directorships in any listed public company in the last three years. As at the Latest Practicable Date, Ms. Chan did not have, and was not deemed to have any interests in Shares or underlying shares of the Company within the meaning of Part XV of the SFO.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Dr. Huang Chung Hsing ("Dr. Huang")**, aged 56, was appointed as an Independent Non-Executive Director and a member of audit committee of the Company on 14 August 2008. Dr. Huang holds a Ph.D. degree in Management Science and Information Systems from the University of Texas at Austin, U.S.A. and a Bachelor's degree of Science in Electrical Engineering from National Taiwan University. Dr. Huang is the dean of School of Professional and Continuing Studies and the associate professor of Department of Business Administration of National Taiwan University. He is also the chairman of the Committee of Service Management of Chinese Management Association in Taiwan, the advisor of Supervising Committee of Joint Municipal Hospital of Taipei City and the associate researcher of Health Management Center of National Taiwan University Hospital in Taiwan. He has previously held senior positions in various universities and banks such as Beijing University in China and Bank of SinoPac. Dr. Huang has extensive experience in service operation management, business decision making and management of innovation.

Save as disclosed above, Dr. Huang does not hold any other position in the Company or any of its subsidiaries nor did he hold any directorship in any public listed company in the last three years. As at the Latest Practicable Date, Dr. Huang did not have, and was not deemed to have any interest in any Shares or underlying shares of the Company within the meaning of Part XV of the SFO.

# REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of China E-Learning Group Limited (the "Company") presents herewith the annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 20 to the financial statements.

## RESULTS AND DIVIDEND

The Group's results for the year ended 31 December 2009 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 25 to 92.

The Directors do not recommend payment of any final dividend in respect of the reporting year (2008: HK$Nil).

## SUMMARY FINANCIAL INFORMATION

The following is a summary of the audited consolidated results of the Group for each of the five years ended 31 December prepared on the basis set out in the note below:

| | **2009**<br>**HK$'000** | 2008<br>HK$'000 | 2007<br>HK$'000 | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|---|---|---|
| Turnover | **23,253** | 26,692 | 2,756 | 6,714 | 11,656 |
| Loss before tax | **475,636** | 364,403 | 2,373 | 515 | 4,056 |
| Net loss after tax | **475,378** | 365,862 | 2,373 | 515 | 4,056 |
| Total assets | **94,556** | 457,127 | 22,626 | 974 | 3,652 |
| Total liabilities | **330,862** | 394,324 | 1,077 | 2,234 | 13,123 |

## PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment are set out in note 19 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 20 to the financial statements.

# REPORT OF THE DIRECTORS

## SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options during the year are set out in notes 28 and 35 to the financial statements respectively.

## CONVERTIBLE LOAN NOTES

Details of movements in the Company's convertible loan notes during the year are set out in note 31 to the financial statements.

## RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 30 and note 29 to the financial statements respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company did not have any reserve available for cash distribution (2008: HK$Nil). In accordance with the laws of the Cayman Islands and the Company's Articles of Association, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

## PRE-EMPTIVE RIGHTS

There are no provisions of pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2009.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS AND SUPPLIERS

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

| | |
|---|---|
| **Sales** | |
| — the largest customer | 3.7% |
| — five largest customers | 6.5% |
| **Purchases** | |
| — the largest supplier | 0.7% |
| — five largest suppliers | 1.1% |

None of the Directors, their associates or shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

## DIRECTORS

The Directors of the Company during the financial year and at the date of this report were:

### Executive Directors

Mr. Chen Hong
Ms. Wang Hui
Ms. Wei Jianya
Ms. Liang Juan (resigned on 18 May 2009)
Mr. Li Xiangjun (resigned on 11 June 2009)

### Independent Non-Executive Directors

Dr. Wong Yun Kuen
Ms. Chan Hoi Ling
Dr. Huang Chung Hsing

The Company has received from each of the Independent Non-Executive Directors the annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all Independent Non-Executive Directors are independent to the Group in accordance with the terms of the guidelines as set out in Rule 5.09 of the GEM Listing Rules.

# REPORT OF THE DIRECTORS

In accordance with Article 87 of the Company's Articles of Association, Dr. Wong Yun Kuen and Ms. Chan Hoi Ling will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Mr. Chen Hong, Ms. Wang Hui and Ms. Wei Jianya have entered into service contracts with the Company for a term of three years. These service contracts may be terminated by either party giving not less than three months' notice to the other party.

All the Independent Non-Executive Directors have not been appointed for a specific term.

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

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the Directors and the five highest paid employees in the Group are set out in note 12 to the financial statements respectively.

## EMOLUMENT POLICY

The Group remunerates its employees, including its Directors, based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical cover as well as share option scheme. Details of share option scheme are set out in note 35 to the financial statements.

The determination of emoluments of the Directors of the Company had taken into consideration of their expertise and job specifications.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2009, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

### Long position in shares or underlying shares of the Company

| | | Number of shares or underlying shares held (adjusted due to share consolidation) | | | |
|---|---|---|---|---|---|
| Name of Directors | Capacity | Ordinary shares | Share options | Total | Percentage of issued share capital |
| Chen Hong | Beneficial owner | 38,785,600 | 3,800,000 | 42,585,600 | 9.01% |
| Wang Hui | Beneficial owner | — | 3,800,000 | 3,800,000 | 0.80% |
| Wei Jianya | Beneficial owner | — | 1,400,000 | 1,400,000 | 0.30% |

Save as disclosed above, as at 31 December 2009, none of the other Directors or chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

# REPORT OF THE DIRECTORS

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, so far as known to any Director or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

### Long position in shares or underlying shares of the Company

| Name of Shareholder | Capacity | Number of shares or underlying shares held (adjusted due to the placing of shares and share consolidation) | Percentage of issued share capital |
|---|---|---|---|
| Yang Dong Jun (Note 1) | Beneficial owner | 124,988,016 | 26.45% |
| Huang Qun (Note 2) | Beneficial owner | 64,539,526 | 13.66% |
| Gong Di Qing (Note 3) | Beneficial owner | 61,274,490 | 12.97% |
| Jia Zhe Jin (Note 4) | Beneficial owner | 36,938,775 | 7.82% |
| Atlantis Investment Management Ltd | Investment manager | 34,000,000 | 7.19% |

Notes:

1. Interests in 124,988,016 Shares or underlying Shares comprise interest in 22,947,200 Shares and interest in 102,040,816 underlying Shares representing the conversion rights attached to the convertible notes in the principal amount of HK$100,000,000.

2. Interests in 64,539,526 Shares or underlying Shares comprise interest in 23,723,200 Shares and interest in 40,816,326 underlying Shares representing the conversion rights attached to the convertible notes in the principal amount of HK$40,000,000.

3. Interests in 61,274,490 Shares or underlying Shares comprise interest in 50,000 Shares and interest in 61,224,490 underlying Shares representing the conversion rights attached to the convertible notes in the principal amount of HK$60,000,000.

4. Interests in 36,938,775 Shares or underlying Shares representing the conversion rights attached to the convertible notes in the principal amount of HK$36,200,000.

Save as disclosed above, as at 31 December 2009, the Directors were not aware of any other persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

## INTEREST IN COMPETING BUSINESS

During the year under review, neither the Directors nor the substantial shareholders of the Company and their respective associates had any interest in business that compete, either directly or indirectly, with the business of the Group.

## AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Lo and Kwong C.P.A. Company Limited as auditors of the Company.

On Behalf of the Board

**Chen Hong**
*Executive Director*

Hong Kong
29 March 2010

# CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining high standard of corporate governance and has applied the principles set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 to the GEM Listing Rules by making its best effort (i) to respect the rights of the shareholders and fully recognize the legitimate interests of the shareholders; (ii) to disclose information to shareholders in a timely manner and to increase the transparency of the Company; (iii) to enhance the risk management and internal control policies of the Company; and (iv) to maintain responsible decision making so as to safeguard the interests of the shareholders and the Company as a whole.

Save as the deviations as disclosed in this report, the Company has complied with all the code provisions on corporate governance practices as set out in the GEM Listing Rules.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2009.

## BOARD OF DIRECTORS AND BOARD MEETING

The Board of Directors, which currently comprises three Executive Directors, namely Mr. Chen Hong, Ms. Wang Hui and Ms. Wei Jianya and three Independent Non-Executive Directors, namely Dr. Wong Yun Kuen, Ms. Chan Hoi Ling and Dr. Huang Chung Hsing, is responsible for the overall management of the Group. It focuses on directing the corporate strategies and supervising the business and significant affairs of the Group while the duties of the daily operation management are delegated to the management of the Company.

Mr. Chen Hong and Ms. Wang Hui are the chairman and chief executive officer of the Company respectively and their roles are clearly segregated.

The Company has not complied with Code Provision A.4.1 of Appendix 15 of the GEM Listing Rules that requires that non-executive directors should be appointed for a specific term and subject to re-election. Currently, no service contracts have been entered into between the Independent Non-Executive Directors and the Company. Each of the Independent Non-Executive Directors is subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company. As such, the Company considers that sufficient measures have been taken to serve the purpose of this code provision.

# CORPORATE GOVERNANCE REPORT

The Board held 20 meetings during the year ended 31 December 2009 and the attendance of each Director at the board meetings are set out as follows:

| **Executive Directors:** | **Attendance** |
|---|---|
| Mr. Chen Hong | 20/20 |
| Ms. Wang Hui | 19/20 |
| Ms. Wei Jianya | 13/20 |
| Ms. Liang Juan (Note 1) | 3/4 |
| Mr. Li Xiangjun (Note 2) | 4/6 |
| **Independent Non-Executive Directors:** | |
| Dr. Wong Yun Kuen | 6/20 |
| Ms. Chan Hoi Ling | 7/20 |
| Dr. Huang Chung Hsing | 1/20 |

Notes:

(1) Resigned on 18 May 2009.
(2) Resigned on 11 June 2009.

## AUDIT COMMITTEE

The Company's audit committee was established on 26 November 2001 for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. The committee comprises three independent non-executive Directors, namely Ms. Chan Hoi Ling (the chairman of the committee), Dr. Wong Yun Kuen and Dr. Huang Chung Hsing.

In 2009, the audit committee held 4 meetings and details of the attendance of each member of the committee are set out as follows:

| **Committee Members** | **Attendance** |
|---|---|
| Ms. Chan Hoi Ling | 4/4 |
| Dr. Wong Yun Kuen | 4/4 |
| Dr. Huang Chung Hsing | 0/4 |

During the year, the audit committee, together with the external auditors, have reviewed the accounting policies and methods adopted by the Group and discussed with the management of the Company, inter alia, the matters relating to internal control and financial statements of the Company. Relevant recommendations have been made to the management.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

The remuneration committee was established on 23 March 2005 with major functions of (i) making recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management of the Group; and (ii) determining the remuneration packages of all Directors and senior management of the Group; and (iii) reviewing and approving the performance-based remuneration.

The remuneration committee of the Company is chaired by Mr. Chen Hong. Other members include Dr. Wong Yun Kuen and Ms. Chan Hoi Ling. The majority of the members of the remuneration committee are independent non-executive Directors.

During the year ended 31 December 2009, a meeting of the remuneration committee was held. All members of the remuneration committee, at the time being, attended the meeting. The Company's policy for the remuneration of Directors was discussed in the meeting and no changes on the policy were recommended by the remuneration committee.

## NOMINATION OF DIRECTORS

The Company has not set up a nomination committee, and Directors are nominated by existing member(s) of the Board. Board members, except the one who nominates the candidate, shall assess the candidate's suitability of becoming a board member with reference to the nominated candidate's qualification, working experience, past performance and requirements of the Company and relevant provisions in the GEM Listing Rules.

In the meeting held by the Board, it was resolved that all the existing Directors would be recommended to be retained by the Company. Furthermore, in accordance with Article 87 of the Company's Articles of Association, Dr. Wong Yun Kuen and Ms. Chan Hoi Ling, retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

## AUDITOR'S REMUNERATION

An audit fee of approximately HK$300,000 was charged to the Group's income statement for the year ended 31 December 2009.

## INTERNAL CONTROL

The Company has conducted a review, which covered the major control procedures in areas of financial and operations of the Company, on the internal control system of the Group and was satisfied with the effectiveness of the Group's internal control procedures.

## FINANCIAL STATEMENTS

The responsibilities of the Directors for preparing the financial statements and the auditor's reporting responsibilities on the financial statements are set out in the auditor's report contained in this annual report.

# INDEPENDENT AUDITOR'S REPORT

盧鄺會計師事務所有限公司
LO AND KWONG C.P.A. COMPANY LIMITED
AUDIT • TAX • BUSINESS ADVISORY

**TO THE SHAREHOLDERS OF**
**CHINA E-LEARNING GROUP LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements of China E-Learning Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 92, which comprise the consolidated and Company statement of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for disclaimer of opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However because of the matters described in the basis for disclaimer of opinion paragraph, we are not able to obtain appropriate audit evidence to provide a basis for an audit opinion.

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

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

# INDEPENDENT AUDITOR'S REPORT

## BASIS FOR DISCLAIMER OF OPINION

The Group incurred a loss for the year ended 31 December 2009 of approximately HK$475,378,000 and, as at 31 December 2009, the Group reported consolidated net liabilities of approximately HK$236,306,000. In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As detailed in note 2 to the financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity position. The financial statements have been prepared on a going concern basis, the validity of which depends upon the extension of the maturity date of other loan and outstanding convertible loan notes amount on maturity date. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we consider that this fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

## DISCLAIMER OF OPINION

Because of the significance of the fundamental uncertainty relating to the going concern basis, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**LO AND KWONG C.P.A. COMPANY LIMITED**
*Certified Public Accountants (Practising)*
**Lo Wah Wai**
*Practising Certificate Number: P02693*

Suites 216-218,
2/F Shui On Centre,
Nos 6-8 Harbour Road,
Wanchai, Hong Kong

Hong Kong
29 March 2010

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 8 | **23,253** | 26,692 |
| Cost of sales | | **(19,398)** | (8,659) |
| **Gross profit** | | **3,855** | 18,033 |
| Other income | 9 | **3,192** | 161 |
| Selling expenses | | **(2,159)** | (2,157) |
| Administrative expenses | | **(43,290)** | (46,368) |
| Impairment loss on goodwill | 16 | **(326,115)** | (321,483) |
| Impairment loss on other intangible assets | 17 | **(33,060)** | — |
| **Loss from operations** | | **(397,577)** | (351,814) |
| Finance costs, net | 10 | **(78,059)** | (12,589) |
| **Loss before tax** | 11 | **(475,636)** | (364,403) |
| Income tax credit (expense) | 13 | **258** | (1,459) |
| **Loss for the year** | | **(475,378)** | (365,862) |
| Dividend | 14 | **—** | — |
| **Loss for the year** | | **(475,378)** | (365,862) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(479,757)** | (365,862) |
| Non-controlling interests | | **4,379** | — |
| | | **(475,378)** | (365,862) |
| Loss per share | 15 | | |
| — Basic | | **(129.45 cents)** | (209.30 cents)<br>(restated) |
| — Diluted | | **N/A** | N/A |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| **Loss for the year** | **(475,378)** | (365,862) |
| Other comprehensive loss | | |
| Exchange difference arising on translation of foreign operations | **600** | 3,454 |
| Total comprehensive loss for the year | **(474,778)** | (362,408) |
| **Total comprehensive loss attributable to:** | | |
| Owners of the Company | **(479,157)** | (362,408) |
| Non-controlling interests | **4,379** | — |
| | **(474,778)** | (362,408) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **NON-CURRENT ASSETS** | | | |
| Goodwill | 16 | **31,506** | 326,115 |
| Other intangible assets | 17 | **265** | 36,907 |
| Owner-occupied leasehold interest in land | 18 | **1,039** | — |
| Property, plant and equipment | 19 | **8,732** | 6,751 |
| Financial derivative | 31 | **316** | 64,455 |
| Deposits | | **—** | 5,650 |
| | | **41,858** | 439,878 |
| **CURRENT ASSETS** | | | |
| Inventories | 21 | **132** | 25 |
| Trade and other receivables | 22 | **14,848** | 12,478 |
| Amount due from minority shareholder of a subsidiary | 23 | **460** | — |
| Owner-occupied leasehold interest in land | 18 | **40** | — |
| Tax recoverable | | **—** | 2,110 |
| Bank balances and cash | 24 | **37,218** | 2,636 |
| | | **52,698** | 17,249 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 25 | **25,045** | 3,568 |
| Tax payable | | **252** | — |
| Amounts due to directors | 26 | **116** | 251 |
| | | **25,413** | 3,819 |
| **NET CURRENT ASSETS** | | **27,285** | 13,430 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **69,143** | 453,308 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

| | Notes | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28 | **236,282** | 141,382 |
| Reserves | 29 | **(476,356)** | (78,579) |
| Non-controlling interests | | **3,768** | — |
| **TOTAL EQUITY** | | **(236,306)** | 62,803 |
| **NON-CURRENT LIABILITIES** | | | |
| Other loan | 30 | **49,435** | 49,435 |
| Financial derivative | 31 | **1,640** | — |
| Convertible loan notes | 31 | **254,374** | 341,070 |
| | | **305,449** | 390,505 |
| | | **69,143** | 453,308 |

The financial statements on pages 25 to 92 were approved and authorised for issue by the Board of Directors on 29 March 2010 and are signed on its behalf by:

**CHEN HONG**
*Director*

**WEI JIANYA**
*Director*

# STATEMENT OF FINANCIAL POSITION

At 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 19 | **8** | 7 |
| Investments in subsidiaries | 20 | **1** | 326,127 |
| Financial derivative | 31 | **316** | 64,455 |
| Deposits | | **—** | 5,650 |
| | | **325** | 396,239 |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | 22 | **1,139** | 931 |
| Amounts due from subsidiaries | 20 | **117,458** | 81,657 |
| Bank balances and cash | 24 | **23,000** | 18 |
| | | **141,597** | 82,606 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 25 | **1,002** | 776 |
| Amounts due to directors | 26 | **116** | 250 |
| Amounts due to subsidiaries | 20 | **82,326** | 80,098 |
| | | **83,444** | 81,124 |
| **NET CURRENT ASSETS** | | **58,153** | 1,482 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **58,478** | 397,721 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28 | **236,282** | 141,382 |
| Reserves | 29 | **(433,818)** | (84,731) |
| **TOTAL EQUITY** | | **(197,536)** | 56,651 |
| **NON-CURRENT LIABILITIES** | | | |
| Financial derivative | 31 | **1,640** | — |
| Convertible loan notes | 31 | **254,374** | 341,070 |
| | | **256,014** | 341,070 |
| | | **58,478** | 397,721 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

| | Notes | Share capital HK$'000 | Share premium HK$'000 | Share-based payment reserve HK$'000 | Capital reserve HK$'000 | Exchange reserve HK$'000 | Conversion note equity reserve HK$'000 | Accumulated losses HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2008 | | 25,364 | 41,562 | 5 | 24,415 | – | – | (69,797) | – | 21,549 |
| Loss for the year | | – | – | – | – | – | – | (365,862) | – | (365,862) |
| Other comprehensive loss | | – | – | – | – | 3,454 | – | – | – | 3,454 |
| Total comprehensive loss for the year | | – | – | – | – | 3,454 | – | (365,862) | – | (362,408) |
| Issue of shares by placement | 28 | 50,000 | 25,025 | – | – | – | – | – | – | 75,025 |
| Issue of shares by conversion of convertible loan notes | 28 | 66,000 | 66,000 | – | – | – | – | – | – | 132,000 |
| Share issue expenses | | – | (2,000) | – | – | – | – | – | – | (2,000) |
| Issue of shares by exercise of share options | 28 | 18 | 18 | (5) | – | – | – | – | – | 31 |
| Employee share option benefits | 35 | – | – | 24,632 | – | – | – | – | – | 24,632 |
| Equity component of convertible loan notes | 31 | – | – | – | – | – | 285,987 | – | – | 285,987 |
| Cancellation of convertible loan notes, at fair value | 31 | – | – | – | – | – | (59,580) | – | – | (59,580) |
| Conversion of convertible loan notes | 31 | – | – | – | – | – | (52,433) | – | – | (52,433) |
| **At 31 December 2008 and 1 January 2009** | | **141,382** | **130,605** | **24,632** | **24,415** | **3,454** | **173,974** | **(435,659)** | **–** | **62,803** |
| Loss for the year | | – | – | – | – | – | – | (479,757) | 4,379 | (475,378) |
| Other comprehensive loss | | – | – | – | – | 600 | – | – | – | 600 |
| Total comprehensive loss for the year | | – | – | – | – | 600 | – | (479,757) | 4,379 | (474,778) |
| Dividends paid to non-controlling interests of a subsidiary | | – | – | – | – | – | – | – | (4,379) | (4,379) |
| Acquisition of subsidiaries | 33 | – | – | – | – | – | – | – | 3,768 | 3,768 |
| Issue of new shares by top-up placing | 28 | 28,000 | 22,400 | – | – | – | – | – | – | 50,400 |
| Issue of shares by conversion of convertible loan notes | 28 | 66,900 | 77,320 | – | – | – | (53,145) | – | – | 91,075 |
| Redemption of convertible loan notes | 31 | – | – | – | – | – | (7,944) | – | – | (7,944) |
| Share issue expenses | 35 | – | (1,181) | – | – | – | – | – | – | (1,181) |
| Employee share option benefits | 35 | – | – | 18,851 | – | – | – | – | – | 18,851 |
| Equity component of convertible loan notes | 31 | – | – | – | – | – | 25,079 | – | – | 25,079 |
| Forfeited reserves of subsidiary* | | – | – | – | (24,415) | – | – | 24,415 | – | – |
| **At 31 December 2009** | | **236,282** | **229,144** | **43,483** | **–** | **4,054** | **137,964** | **(891,001)** | **3,768** | **(236,306)** |

* During the year, a subsidiary of the Group, named ProSticks BVI Limited, was deregistered and its capital reserve was transferred to accumulated losses.

# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before tax | | **(475,636)** | (364,403) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **1,618** | 981 |
| Interest income | | **(25)** | (149) |
| Amortisation of other intangible assets | | **4,572** | 3,404 |
| Amortisation of owner-occupied leasehold interest in land | | **45** | — |
| Share-based payment expense | | **18,851** | 24,632 |
| Fair value changes in financial derivative | | **42,839** | (19,097) |
| Interest expenses on financial liabilities measured at amortised cost | | **35,220** | 31,686 |
| Impairment loss on goodwill | | **326,115** | 321,483 |
| Impairment loss on other intangible assets | | **33,060** | — |
| Impairment loss on inventories | | **95** | 9 |
| Impairment loss on trade receivables | | **916** | — |
| Impairment loss on other receivables | | **757** | 468 |
| Provision for amount due from minority shareholder of a subsidiary | | **209** | — |
| Write-back of other receivables | | **(70)** | — |
| Loss on disposal of property, plant and equipment | | **124** | — |
| Gain on redemption of convertible loan notes | | **(1,982)** | — |
| Operating cash flows before movements in working capital | | **(13,292)** | (986) |
| Increase in inventories | | **(121)** | (34) |
| Decrease (increase) in trade and other receivables | | **8,649** | (4,880) |
| Increase in amount due from minority shareholder of a subsidiary | | **(669)** | — |
| Increase (decrease) in trade and other payables | | **3,394** | (839) |
| (Decrease) increase in amounts due to directors | | **(135)** | 171 |
| **CASH USED IN OPERATIONS** | | **(2,174)** | (6,568) |
| Income taxes paid | | **—** | (3,569) |
| Income taxes refunded | | **2,620** | — |
| **NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES** | | **446** | (10,137) |

# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(1,665)** | (1,622) |
| Proceed from sales of property, plant and equipment | | **250** | — |
| Interest received | | **25** | 149 |
| Acquisition of subsidiaries | 33 | **5,253** | (74,444) |
| Acquisition of non-controlling interests of a subsidiary | | **(284)** | — |
| Dividends paid to non-controlling interests of a subsidiary | | **(4,379)** | — |
| Decrease in deposit | | **5,650** | — |
| Deposit paid | | **—** | (5,650) |
| **NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES** | | **4,850** | (81,567) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from issue of placing shares | | **50,400** | 75,025 |
| Placing shares issue expenses | | **(1,181)** | (2,000) |
| Proceeds from exercise of share option | | **—** | 31 |
| Redemption of convertible loan notes | | **(20,000)** | — |
| **NET CASH GENERATED FROM FINANCING ACTIVITIES** | | **29,219** | 73,056 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **34,515** | (18,648) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **2,636** | 22,567 |
| Effect of foreign exchange rate changes, net | | **67** | (1,283) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash** | | **37,218** | 2,636 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 1. GENERAL

China E-Learning Group Limited (the "Company") is incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (Revised) of the Cayman Islands on 10 July 2001. The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in the annual report.

The financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries are HK$.

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 20 to the financial statements.

## 2. ADOPTION OF GOING CONCERN BASIS

The consolidated financial statements have been prepared on a going concern basis notwithstanding the Group had net liabilities of approximately HK$236,306,000 as at 31 December 2009.

In the opinion of the directors of the Company, the Group is able to maintain itself as a going concern in the coming year by taking into consideration the arrangements which include, but are not limited to, the following:

1. The directors of the Company will continue to reduce overheads and costs, and are exploring opportunities for existing business with an aim to attain profitable operations with positive cash flow;

2. The directors of the Company are considering various alternatives to enlarge the capital base of the Company in order to provide additional funding to the Group;

3. The directors of the Company will continue to scale down the non-profitable operations; and

4. On 29 July 2000, Hunan IIN Medical Network Technology Development Co., Ltd. (湖南國訊醫藥網絡科技開發有限公司) ("Hunan IIN Medical"), a wholly-owned subsidiary of the Company acquired during the year ended 31 December 2009, entered into Joint Construction of Network Education College of Beijing University of Chinese Medicine Agreement (共建北京中醫藥大學網絡教育學院協議書) ("Joint Construction Agreement") with Beijing University of Chinese Medicine (北京中醫藥大學) for operating Distance Education College of Beijing University of Chinese Medicine (北京中醫藥大學遠程教育學院) ("Distance Education College"). Under the Joint Construction Agreement, Hunan IIN Medical is entitled to share 60% of Distance Education College's net profit. For the year ended 31 December 2009, Distance Education College generated a revenue of approximately RMB30,265,000 (equivalent to approximately HK$34,307,000) and net profit of approximately RMB16,189,000 (equivalent to approximately HK$18,361,000). The Joint Construction Agreement will expire on 1 August 2010. The directors of the Company expect that the Joint Construction Agreement will be renewed with profit sharing percentage no less than 51% and other terms and conditions under the renewed agreement no less favourable than those under the existing agreement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 2. ADOPTION OF GOING CONCERN BASIS *(Continued)*

Based on the aforesaid measures, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

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

In the current year, the Group has applied the following new and revised Standards, Amendments to Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 and HKAS 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Share-based Payment — Vesting Conditions and Cancellations |
| HKFRS 7 (Amendments) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) — Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) — INT 13 | Customer Loyalty Programmes |
| HK(IFRIC) — INT 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) — INT 16 | Hedges of a Net Investment in a Foreign Operation |
| HKFRSs (Amendments) | Improvements to HKFRSs Issued in 2008, except for the amendments to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs Issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

The application of the above new and revised HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new and revised Standards, Amendments and Interpretations will have no material impact on the Group's results and financial position.

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

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[4] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HK (IFRIC) — Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[4] |
| HK (IFRIC) — Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK (IFRIC) — Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation

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

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

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

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

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the non-controlling interests' in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interests has a binding obligation and is able to make an additional investment to cover the losses.

### Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

### Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods and services, or for administrative purpose are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purpose, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the consolidated statement of comprehensive income. Any subsequent increases are credited to the consolidated statement of comprehensive income up to the amount previously charged and thereafter to property revaluation reserve.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at the end of each reporting date. The principal annual rates are as follows:

| | |
|---|---|
| Building | 5% or over the term of the leases |
| Leasehold improvements | 20% or over the term of the leases |
| Plant and equipment | 20% |
| Furniture, fixtures and office equipment | 20% |
| Motor vehicles | 20% |

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

### Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Intangible assets *(Continued)*

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

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### Inventories

Inventories are stated at lower of cost and net realisable value. Cost is calculated using first in first out method.

### Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value though profit or loss are recognised immediately in consolidated income statement.

#### Financial assets

The Group's financial assets are loans and receivable. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted is set out below.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### Financial assets *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from minority shareholder of a subsidiary and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments.

#### Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

# 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## Financial instruments *(Continued)*

### Financial liabilities and equity *(Continued)*

*Other financial liabilities*

Other financial liabilities including trade and other payables, amounts due to directors, financial derivative, convertible loan notes and other loan are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

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

### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in consolidated income statement. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

## Owner-occupied leasehold interest in land

Interests in leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Convertible loan notes

Convertible loan notes issued by the Company that contain the liability, conversion option and early redemption option are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

At the date of issue, both the liability and early redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in consolidated income statement.

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded conversion option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to retained profits. No gain or loss is recognised in consolidated income statement upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability, equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible loan notes using the effective interest method.

### Provisions

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment losses (other than goodwill — see the accounting policies in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

### Taxation

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of the 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 asset to be recovered.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manager in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in consolidated income statement, except when it relates to items that recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### 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:

Tuition revenue from educational programs is recognised on a time-proportion basis, using the straight-line method, over the duration of the relevant educational programs.

Revenue from sales of educational materials and products is recognised when the products are delivered and title has passed to customers.

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

### Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in consolidated income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to consolidated income statement on disposal of foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits

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

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the consolidated income statement as incurred. The assets of the scheme are held separately from those of the Group in an independent administered fund.

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision will be made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

#### (ii) Share-based payments

The Group operates equity-settled share-based compensation scheme ("Scheme") to remunerate its employees.

For share options granted under the Scheme, the fair value of the employees' services rendered in exchange for the grant of the options is recognised as an expense immediately and credited to the share-based payment reserve under equity. Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting periods. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the consolidated income statement, and a corresponding adjustment to the share-based payment reserve.

Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price over the nominal value of the shares is recorded by the Company in the share premium account. The equity amount is recognised in the share-based payment reserve until the option is exercised when it is transferred to the share premium account if the options lapse unexercised, the related share-based payment reserve is transferred directly to retained profits.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Related parties

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

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

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

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

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

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

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

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

### Operating leases

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rentals, if any, are charged to consolidated income statement in the accounting period in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

### Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Company assesses annually the residual value and the useful lives of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will affect the depreciation charges in the year in which the estimates change.

### Impairment loss on trade and other receivables

Management regularly reviews the recoverability and age of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts is recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

In determining whether impairment on trade and other receivables is required, the Company takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive of which discounted by using the original effective interest rate and its carrying value. If the financial conditions of customers of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Valuation of share options granted

The fair value of share options granted was calculated using the Black-Scholes valuation model which requires the management's estimates and assumptions on significant calculation inputs, including the estimated life of share options granted, the volatility of share price and expected dividend yield. Change in the subjective input assumptions could materially affect the fair value estimate.

### Impairment loss of goodwill

Determining whether goodwill needs impairment requires an estimation of the value is use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flow are less than expected, a material impairment loss may arise.

As at 31 December 2009, the carrying amount of goodwill is HK$31,506,000 (2008: HK$326,115,000) after an impairment loss of HK$326,115,000 (2008: HK$321,483,000) was recognised during 2009. Details of the impairment loss calculation are disclosed in note 16 to the financial statements.

## 6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors of the Company consider the cost of capital and the associated risks and take appropriate actions to adjust the Company's capital structure. The overall strategy of the Company remained unchanged during each of the two years ended 31 December 2009 and 2008.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. FINANCIAL INSTRUMENTS

### a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from minority shareholder of a subsidiary, bank balances and cash, trade and other payables, amounts due to directors, financial derivative, convertible loan notes and other loan. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

#### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group manages its exposure to credit risk through continual monitoring of the credit quality of its customers, taking into account their financial position, collection history, past experience and other relevant factors. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

#### Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### a. Financial risk management objectives and policies *(Continued)*

#### Currency risk

The Group has transactional currency exposures, primarily with respect to Renminbi ("RMB"), for the years 2009 and 2008. Such exposures arise from online professional training and multimedia education products in currencies other than the Group's functional currency (i.e. Hong Kong dollar). All of the Group's sales are denominated in RMB for the years 2009 and 2008.

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

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **US$ '000** | **RMB '000** | US$ '000 | RMB '000 |
| Trade and other receivables | — | **7,991** | 7 | 5,320 |
| Bank balances and cash | — | **12,504** | — | 296 |
| Trade and other payables | — | **(14,584)** | — | (2,340) |
| Overall net exposure | — | **5,911** | 7 | 3,276 |

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group conducts its business transactions principally in RMB. The exchange rate risk of the Group is not significant.

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### a. Financial risk management objectives and policies *(Continued)*

#### Liquidity risk

For the management of the Group's liquidity risk, the Group monitors and maintains a sufficient level of cash and cash equivalents considered adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

The following table details the contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

| | On demand or within one year HK$'000 | More than one year but less than two years HK$'000 | More than two years but less than five years HK$'000 | Total undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| **At 31 December 2009** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | **25,045** | — | — | **25,045** | **25,045** |
| Tax payable | **252** | — | — | **252** | **252** |
| Amounts due to directors | **116** | — | — | **116** | **116** |
| Other loan | — | **49,435** | — | **49,435** | **49,435** |
| Financial derivative | — | — | **1,640** | **1,640** | **1,640** |
| Convertible loan notes | — | — | **254,374** | **254,374** | **254,374** |
| | **25,413** | **49,435** | **256,014** | **330,862** | **330,862** |
| At 31 December 2008 | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | 3,568 | — | — | 3,568 | 3,568 |
| Amounts due to directors | 251 | — | — | 251 | 251 |
| Other loan | — | 49,435 | — | 49,435 | 49,435 |
| Convertible loan notes | — | — | 341,070 | 341,070 | 341,070 |
| | 3,819 | 49,435 | 341,070 | 394,324 | 394,324 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### b. Fair value

The directors consider that the fair value of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to the corresponding carrying amounts due to their short-term maturities.

### c. Categories of financial instruments

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | | |
| Financial derivative | **316** | 64,455 |
| Trade and other receivables (excluding prepayments) | **12,348** | 11,184 |
| Amount due from minority shareholder of a subsidiary | **460** | — |
| Tax recoverable | **—** | 2,110 |
| Bank balances and cash | **37,218** | 2,636 |
| | **50,342** | 80,385 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | | |
| Trade and other payables (excluding receipts in advance and trade deposit received) | **23,895** | 3,518 |
| Amounts due to directors | **116** | 251 |
| Other loan | **49,435** | 49,435 |
| Financial derivative | **1,640** | — |
| Convertible loan notes | **254,374** | 341,070 |
| | **329,460** | 394,274 |

## 8. TURNOVER

An analysis of the Group's turnover for the years is as follows:

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| Tuition fee revenue | **23,239** | 26,615 |
| Sales of educational products | **14** | — |
| Operational software application products | **—** | 77 |
| | **23,253** | 26,692 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 8. TURNOVER *(Continued)*

### Business segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from the provision of occupational education, industry certification course, skills training and education consultation, no detailed analysis of the Group's operating segments is disclosed.

### Geographical segments

The Group's operations are situated in the People's Republic of China (the "PRC") in which its revenue was derived principally therefrom. Accordingly, no geographical segments are presented.

## 9. OTHER INCOME

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| Exchange gain | **65** | — |
| Interest income | **25** | 149 |
| Sundry income | **145** | 12 |
| Gain on redemption of convertible loan notes | **1,982** | — |
| Rental income | **975** | — |
| | **3,192** | 161 |

## 10. FINANCE COSTS, NET

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| Interest expenses on financial liabilities measured at amortised cost (note 31) | **35,220** | 31,686 |
| Fair value changes on financial derivative (note 31) | **42,839** | (19,097) |
| | **78,059** | 12,589 |

## 11. LOSS BEFORE TAX

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Loss before tax has been arrived at after charging (crediting): | | |
| Staff costs (including directors' emoluments (note 12)) | | |
| — basic salaries and allowances | **8,904** | 8,226 |
| — contributions to defined contribution plans | **43** | 27 |
| — share-based payment expense (note 35) | **18,851** | 24,632 |
| — miscellaneous | **50** | 100 |
| Total staff costs | **27,848** | 32,985 |
| Auditors' remuneration | **300** | 300 |
| Depreciation of property, plant and equipment | | |
| — included in cost of sales | **1,002** | 487 |
| — included in selling expenses | **11** | 3 |
| — included in administrative expenses | **605** | 491 |
| | **1,618** | 981 |
| Amortisation of other intangible assets | **4,572** | 3,404 |
| Amortisation of owner-occupied leasehold interest in land | **45** | — |
| Impairment loss on goodwill | **326,115** | 321,483 |
| Impairment loss on other intangible assets | **33,060** | — |
| Impairment loss on inventories | **95** | 9 |
| Impairment loss on trade receivables | **916** | — |
| Impairment loss on other receivables | **757** | 468 |
| Loss on disposal of property, plant and equipment | **124** | — |
| Research and development costs | **—** | 18 |
| Operating leases charges In respect of: | | |
| — premises | **5,236** | 4,035 |
| — others | **167** | 69 |
| | **5,403** | 4,104 |
| Interest expenses on financial liabilities measured at amortised cost | **35,220** | 31,686 |
| Fair value changes on financial derivative | **42,839** | (19,097) |
| Exchange (gain) loss | **(65)** | 9 |
| Interest income | **(25)** | (149) |
| Gain on redemption of convertible loan notes | **(1,982)** | — |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### a. Directors' emoluments

Details of emoluments paid by the Group to the directors during the year are as follows:

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Retirement scheme contributions HK$'000 | Share-based payment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2009** | | | | | |
| **Executive Directors** | | | | | |
| Mr. Chen Hong | — | **1,065** | — | **1,279** | **2,344** |
| Ms. Liang Juan (note i) | — | **230** | — | **1,616** | **1,846** |
| Ms. Wang Hui | — | **800** | — | **1,347** | **2,147** |
| Ms. Wei Jianya | — | **300** | — | **404** | **704** |
| Mr. Li Xiangjun (note ii) | — | **133** | — | **1,750** | **1,883** |
| **Independent Non-Executive Directors** | | | | | |
| Ms. Chan Hoi Ling | **60** | — | — | — | **60** |
| Dr. Wong Yun Kuen | **60** | — | — | — | **60** |
| Dr. Huang Chung Hsing | **60** | — | — | — | **60** |
| | **180** | **2,528** | — | **6,396** | **9,104** |
| For the year ended 31 December 2008 | | | | | |
| **Executive Directors** | | | | | |
| Mr. Chen Hong (note iii) | — | 750 | — | 2,412 | 3,162 |
| Ms. Liang Juan (note i) | — | 450 | — | 508 | 958 |
| Ms. Wang Hui (note iv) | — | 378 | — | 2,285 | 2,663 |
| Ms. Wei Jianya (note v) | — | 83 | — | 1,016 | 1,099 |
| Mr. Li Xiangjun (note ii) | — | 83 | — | 1,777 | 1,860 |
| Ms. Tsang Wing Yee (note vi) | — | — | — | — | — |
| Ms. Chan Siu Mun (note vi) | — | — | — | — | — |
| Mr. Chan Chi Yuen (note vii) | 44 | — | — | — | 44 |
| **Independent Non-Executive Directors** | | | | | |
| Ms. Chan Hoi Ling | 60 | — | — | — | 60 |
| Dr. Wong Yun Kuen | 60 | — | — | — | 60 |
| Dr. Huang Chung Hsing (note viii) | 23 | — | — | — | 23 |
| | 187 | 1,744 | — | 7,998 | 9,929 |

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

### a. Directors' emoluments *(Continued)*

Notes:

i) Ms. Liang Juan was appointed on 1 April 2008 and resigned on 18 May 2009.
ii) Mr. Li Xiangjun was appointed on 22 September 2008 and resigned on 11 June 2009.
iii) Mr. Chen Hong was appointed on 1 April 2008.
iv) Ms. Wang Hui was appointed on 10 July 2008.
v) Ms. Wei Jianya was appointed on 22 September 2008.
vi) The directors were resigned on 1 April 2008.
vii) Mr. Chan Chi Yuen was resigned on 22 September 2008.
viii) Dr. Huang Chung Hsing was appointed on 14 August 2008.

In 2009, the amounts of share-based payments were measured according to the Group's accounting policies for share-based payment transactions as set out in note 4 to the financial statements. Particulars of share options to the directors under the Company's share option scheme are set out in note 35 to the financial statements.

None of the directors of the Company waived or agreed to waive any emoluments paid by the Company and no incentive payment for joining the Company or compensation for loss of office was paid or payable to any director of the Company during the two years ended 31 December 2009 and 2008.

### b. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of the Company, whose emoluments are included in the disclosures in note a above. The emoluments of the remaining two (2008: two) individuals were as follows:

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **1,194** | 613 |
| Retirement scheme contributions | **24** | 16 |
| Share-based payment | **1,077** | 508 |
| | **2,295** | 1,137 |

Their emoluments were within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2009** | 2008 |
| HK$Nil to HK$1,000,000 | **—** | 2 |
| HK$1,000,001 to HK$1,500,000 | **2** | — |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 13. INCOME TAX (CREDIT) EXPENSE

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| Current taxation: | | |
| — The PRC | **252** | 1,459 |
| Over-provision in prior year: | | |
| — The PRC | **(510)** | — |
| Income tax (credit) expense | **(258)** | 1,459 |

No provision for Hong Kong profits tax has been made in the financial statements as the Group's income neither arose in, nor was derived from Hong Kong for the year (2008: Nil).

Taxation arising in the PRC is calculated at the rates prevailing in the relevant jurisdiction.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No.63 issued by the Tenth National Peoples Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the Enterprise Income Tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008.

For the year ended 31 December 2009, the domestic income tax rate of 25% represents the PRC Foreign Enterprise Income Tax of which the Group's operations are substantially based.

## 13. INCOME TAX (CREDIT) EXPENSE *(Continued)*

The income tax (credit) expense for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Loss before tax | **(475,636)** | (364,403) |
| Tax at respective applicable tax rates | **(82,110)** | (59,738) |
| Tax effect of expenses not deductible for tax purposes | **80,863** | 60,974 |
| Tax effect of income not taxable for tax purposes | **(1,200)** | (20) |
| Tax effect of tax losses not recognised | **3,332** | 242 |
| Tax effect of exemption granted to non-profit making institute | **(633)** | — |
| Over-provision in prior year | **(510)** | — |
| Tax effect of exemption granted to subsidiaries | **—** | 1 |
| Income tax (credit) expense for the year | **(258)** | 1,459 |

## 14. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

## 15. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to the owners of the Company of approximately HK$479,757,000 (2008: HK$365,862,000), and based on the weighted average number of shares in issue during the year of approximately 370,591,000 ordinary shares (2008: approximately 174,798,000 ordinary shares, restated as the share consolidation effective from 17 December 2009 set out in note 28(g) to the financial statements), as adjusted to reflect the issue of new shares and issue of shares by conversion of convertible loan notes during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 15. LOSS PER SHARE *(Continued)*

Weighted average number of ordinary shares for the purpose of basic loss per share:

| Number of shares | 2009 '000 | 2008 '000 (restated) |
|---|---|---|
| Issued ordinary shares at 1 January | **282,764** | 50,728 |
| Effect of issue of new shares (note 28) | **22,915** | 90,411 |
| Effect of exercise of share options (note 28) | **—** | 10 |
| Issue of share by conversion of convertible loan notes (note 28) | **64,912** | 33,649 |
| Weighted average number of ordinary shares | **370,591** | 174,798 |

The weighted average number of ordinary shares for the year ended 31 December 2008 was adjusted retrospectively due to share consolidation in 2009.

As the share options and conversion shares outstanding during the years 2009 and 2008 were anti-dilutive to the Group's loss per share, diluted loss per share were not adjusted in this respect for the years 2009 and 2008.

## 16. GOODWILL

| | The Group HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2008 | — |
| Acquisition of subsidiaries during the year | 647,598 |
| At 31 December 2008 and 1 January 2009 | 647,598 |
| Acquisition of subsidiaries during the year (note (a)) | 31,222 |
| Acquisition of non-controlling interests of a subsidiary during the year (note (b)) | 284 |
| At 31 December 2009 | 679,104 |
| **IMPAIRMENT** | |
| At 1 January 2008 | — |
| Impairment loss recognised during the year | (321,483) |
| At 31 December 2008 and 1 January 2009 | (321,483) |
| Impairment loss recognised during the year | (326,115) |
| At 31 December 2009 | (647,598) |
| **CARRYING VALUE** | |
| At 31 December 2009 | 31,506 |
| At 31 December 2008 | 326,115 |

Note:

(a) Goodwill arose on acquisition of subsidiaries, IIN Medical (BVI) Group Limited ("IIN Medical (BVI)") and its subsidiaries on 23 April 2009.

(b) Goodwill arose on acquisition of non-controlling interests of Hunan IIN Medical Network Technology Development Company Limited, a subsidiary of IIN Medical (BVI), in May 2009.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 16. GOODWILL *(Continued)*

### Impairment testing of goodwill

**a. Acquisition of New Beida Business StudyNet Group Limited ("New Beida")**

During the year ended 31 December 2009, the Group has performed an impairment testing of goodwill arose on acquisition of New Beida with reference to a valuation carried out by LCH (Asia-Pacific) Surveyors Limited ("LCH"), an independent qualified valuer. As New Beida sustained a negative cash flow for the year ended 31 December 2009 and such position is expected to continue in the foreseeable future, the directors of the Company are of the opinion that the income approach is inappropriate to reflect the value of New Beida as at 31 December 2009. The asset-based approach has been adopted for the valuation for the year ended 31 December 2009, as opposed to the valuation carried out by LCH for the year ended 31 December 2008 where the income approach was adopted. Based on the business valuation, the Group has recognised an impairment loss of HK$326,115,000 in relation to goodwill arose on acquisition of New Beida for the year ended 31 December 2009 (2008: HK$321,483,000). As a result, the goodwill arose on acquisition of New Beida was identified to be fully impaired.

**b. Acquisition of IIN Medical (BVI)**

During the year ended 31 December 2009, the Group has performed an impairment testing of goodwill arose on acquisition of IIN Medical (BVI) with reference to a valuation carried out by LCH, based on cash flow forecasts derived from the most recent financial budgets for the next five years with a discount rate of 16.25%, while the remaining forecast beyond that five-year period has been extrapolated with reference to an annual growth rate of 2.4%. In addition, the valuation has been performed on the basis that the directors of the Company expect that the Joint Construction Agreement will be renewed with terms and conditions no less favourable than those of the existing agreement. The directors of the Company are of the opinion, based on the business valuation, that there was no impairment on goodwill arose from the acquisition of IIN Medical (BVI) as at 31 December 2009.

The recoverable amount of the goodwill has been determined on the basis of value in use calculation. The key factors for the value in use calculation are discount rates, growth rates and expected changes in revenue and direct costs. Capital Asset Pricing Model has been adopted to estimate the discount rate by using market data of other companies with business similar to IIN Medical (BVI). The growth rate is based on the historical Consumer Price Index of the PRC. Changes in revenue and direct costs are based on past performance of IIN Medical (BVI) and management's expectation of the market development.

## 17. OTHER INTANGIBLE ASSETS

| | The Group HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2008 | — |
| Arising on acquisition of subsidiaries during the year | 37,480 |
| Exchange realignment | 2,975 |
| At 31 December 2008 and 1 January 2009 | 40,455 |
| Arising on acquisition of subsidiaries during the year | 4,537 |
| Exchange realignment | 512 |
| **At 31 December 2009** | **45,504** |
| **AMORTISATION AND IMPAIRMENT** | |
| At 1 January 2008 | — |
| Charge for the year | (3,404) |
| Exchange realignment | (144) |
| At 31 December 2008 and 1 January 2009 | (3,548) |
| Arising on acquisition of subsidiaries during the year | (4,008) |
| Charge for the year | (4,572) |
| Impairment loss recognised during the year | (33,060) |
| Exchange realignment | (51) |
| **At 31 December 2009** | **(45,239)** |
| **CARRYING VALUE** | |
| At 31 December 2009 | 265 |
| At 31 December 2008 | 36,907 |

The amortisation expense has been included in the administrative expenses in the consolidated income statement.

The above other intangible assets have definite useful lives. Such other intangible assets are amortised on a straight-line basis over ten years.

## 18. OWNER-OCCUPIED LEASEHOLD INTEREST IN LAND

The Group's owner-occupied leasehold interest in land comprises:

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| Medium-term leasehold land in PRC | **1,079** | — |
| Analysed for reporting purpose as: | | |
| — current assets | **40** | — |
| — non-current assets | **1,039** | — |
| | **1,079** | — |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 19. PROPERTY, PLANT AND EQUIPMENT

### a. THE GROUP

| | Leasehold improvements HK$'000 | Building HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| At 1 January 2008 | — | — | — | 101 | — | — | 101 |
| Additions | 1,460 | — | 796 | 403 | 489 | — | 3,148 |
| Acquired on acquisition of subsidiaries | — | — | 1,867 | 583 | — | 1,757 | 4,207 |
| Transfers | — | — | 1,757 | — | — | (1,757) | — |
| Exchange realignment | 43 | — | 321 | 50 | — | — | 414 |
| At 31 December 2008 and 1 January 2009 | 1,503 | — | 4,741 | 1,137 | 489 | — | 7,870 |
| Additions | 1,560 | — | — | 105 | — | — | 1,665 |
| Acquired on acquisition of subsidiaries | — | 1,427 | 5,228 | 2,467 | — | — | 9,122 |
| Disposal | — | — | — | — | (489) | — | (489) |
| Exchange realignment | 14 | 1 | 62 | 10 | — | — | 87 |
| **At 31 December 2009** | **3,077** | **1,428** | **10,031** | **3,719** | **—** | **—** | **18,255** |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | | |
| At 1 January 2008 | — | — | — | 55 | — | — | 55 |
| Charge for the year | 286 | — | 478 | 143 | 74 | — | 981 |
| Acquired on acquisition of subsidiaries | — | — | — | 49 | — | — | 49 |
| Exchange realignment | 8 | — | 20 | 6 | — | — | 34 |
| At 31 December 2008 and 1 January 2009 | 294 | — | 498 | 253 | 74 | — | 1,119 |
| Charge for the year | 324 | 45 | 863 | 345 | 41 | — | 1,,618 |
| Acquired on acquisition of subsidiaries | — | 303 | 4,705 | 1,878 | — | — | 6,886 |
| Disposal | — | — | — | — | (115) | — | (115) |
| Exchange realignment | 2 | 1 | 9 | 3 | — | — | 15 |
| **At 31 December 2009** | **620** | **349** | **6,075** | **2,479** | **—** | **—** | **9,523** |
| **CARRYING VALUE** | | | | | | | |
| **At 31 December 2009** | **2,457** | **1,079** | **3,956** | **1,240** | **—** | **—** | **8,732** |
| At 31 December 2008 | 1,209 | — | 4,243 | 884 | 415 | — | 6,751 |

## 19. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### b. THE COMPANY

| | Furniture, fixtures and office equipment HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2008 | — |
| Additions | 8 |
| At 31 December 2008 and 1 January 2009 | 8 |
| Additions | 3 |
| At 31 December 2009 | 11 |
| **DEPRECIATION AND IMPAIRMENT** | |
| At 1 January 2008 | — |
| Charge for the year | 1 |
| At 31 December 2008 and 1 January 2009 | 1 |
| Charge for the year | 2 |
| At 31 December 2009 | 3 |
| **CARRYING VALUE** | |
| At 31 December 2009 | 8 |
| At 31 December 2008 | 7 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 20. INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **800,012** | 800,012 |
| Less: impairment loss on investment costs | **(800,011)** | (473,885) |
| | **1** | 326,127 |
| Amounts due from subsidiaries | **117,458** | 81,657 |
| Amounts due to subsidiaries | **82,326** | 80,098 |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amount due from/to subsidiaries approximate to their fair value.

Details of the subsidiaries held by the Company as at 31 December 2009 are as follows:

| Name of company | Place of incorporation/ registration/ operations | Issue and fully paid up share capital /registered capital | Proportion ownership interest held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| iEngines Limited (note a) | Hong Kong | Ordinary shares HK$5,000,000 | 100% | — | Inactive |
| HIS Photonic Systems Limited (note a) | Hong Kong | Ordinary shares HK$1 | 100% | — | Inactive |
| Up High Investments Limited | British Virgin Islands ("BVI") | Ordinary shares US$1 | 100% | — | Inactive |
| Wise Gate Investments Limited | BVI | Ordinary shares US$1 | — | 100% | Investment holding |
| China E-Learning (Hong Kong) Limited | Hong Kong | Ordinary shares HK$1 | 100% | — | Provision of management services to group companies |
| Happy Victory Investments Limited (note b) | BVI | Ordinary shares US$10 | 100% | — | Dormant |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 20. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ registration/ operations | Issue and fully paid up share capital /registered capital | Proportion ownership interest held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| New Beida Business StudyNet Group Limited | BVI | Ordinary shares US$10,000 | 100% | — | Investment holding |
| Best Boom Enterprises Limited | BVI | Ordinary shares US$10 | — | 100% | Investment holding |
| Beijing Hua Tuo Education Technology Company Limited (note c) | PRC | Registered capital HK$40,000,000 | — | 100% | Provision of occupational education, industry certification course, skills training and education consultation |
| Beijing Ke Xiong Education Company Limited (note c) | PRC | Registered capital RMB5,000,000 | — | 100% | Provision of occupational education, industry certification course, skills training and education consultation |
| Beijing Yi You Xing Service and Technology Development Company Limited (note c) | PRC | Registered capital RMB2,000,000 | — | 100% | Provision of occupational education, industry certification course, skills training and education consultation |
| IIN Medical (BVI) Group Limited | BVI | Ordinary shares HK$13,677,288 | — | 100% | Investment holding |
| IIN Medical Group Limited | Hong Kong | Ordinary shares HK$3,000,000 | — | 100% | Investment holding |
| Hunan IIN Medical Network Technology Development Company Limited (note c) | PRC | Registered capital RMB14,530,808 | — | 100% | Investment holding |
| Distance Education College of Beijing University of Chinese Medicine | PRC | Registered capital RMB900,000 | — | 60% | Provision of distance learning program in Chinese medicine |

Notes:

a. These subsidiaries were deregistered on 5 February 2010.

b. This subsidiary was established by the Group during the year.

c. These are wholly-foreign owned enterprises established in the PRC.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 21. INVENTORIES

| | The Group | |
|---|---|---|
| | **2009** **HK$'000** | 2008 HK$'000 |
| Inventories, at cost | **236** | 34 |
| Less: impairment loss | **(104)** | (9) |
| | **132** | 25 |

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

## 22. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** **HK$'000** | 2008 HK$'000 | **2009** **HK$'000** | 2008 HK$'000 |
| Trade receivables | **916** | 585 | **—** | — |
| Less: impairment loss on trade receivables | **(916)** | — | **—** | — |
| | **—** | 585 | **—** | — |
| Deposits and other receivables | **13,524** | 11,067 | **1** | — |
| Less: impairment loss on other receivables | **(1,176)** | (468) | **—** | — |
| Prepayments | **2,500** | 1,294 | **1,138** | 931 |
| | **14,848** | 12,478 | **1,139** | 931 |

## 22. TRADE AND OTHER RECEIVABLES *(Continued)*

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within 30 days | **—** | 6 | **—** | — |
| 31 to 60 days | **—** | — | **—** | — |
| 61 to 90 days | **—** | 14 | **—** | — |
| Over 90 days | **—** | 565 | **—** | — |
| | **—** | 585 | **—** | — |

General credit term that the Group offers to customers is 30 days from billing.

At the end of each reporting period, the Group's trade and other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of customers, such as financial difficulties or default in payments, and current market conditions. The Group does not hold any collateral over these balances.

The Group's movement for provision of impairment of trade receivables is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At 1 January | **—** | — | **—** | — |
| Impairment of trade receivables | **916** | — | **—** | — |
| At 31 December | **916** | — | **—** | — |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 22. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group's movement for provision of impairment of other receivables is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| At 1 January | **468** | — | **—** | — |
| Impairment of other receivables | **757** | 468 | **—** | — |
| Amount written-back | **(70)** | — | **—** | — |
| Exchange realignment | **21** | — | **—** | — |
| At 31 December | **1,176** | 468 | **—** | — |

Included in the trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| United States dollars (US$'000) | **—** | 7 | **—** | — |
| Renminbi (RMB'000) | **7,991** | 5,320 | **—** | — |

## 23. AMOUNT DUE FROM MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the fair value of the amount due from minority shareholder of a subsidiary approximates to its corresponding carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 24. BANK BALANCES AND CASH

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| Bank balances | **37,189** | 2,587 | **22,995** | — |
| Cash balances | **29** | 49 | **5** | 18 |
| Cash and cash equivalents in the consolidated statement of cash flow | **37,218** | 2,636 | **23,000** | 18 |

Included in the cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Renminbi (RMB'000) | **12,504** | 296 | **—** | — |

## 25. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| Trade payables | **1,179** | 1,109 | **—** | — |
| Other payables | **20,666** | 1,203 | **100** | — |
| Trade deposit received | **—** | 50 | **—** | — |
| Receipt in advance | **1,150** | — | **—** | — |
| Accrued charges | **2,050** | 1,206 | **902** | 776 |
| | **25,045** | 3,568 | **1,002** | 776 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 25. TRADE AND OTHER PAYABLES *(Continued)*

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within 30 days | **—** | 447 | **—** | — |
| 31 to 60 days | **—** | 488 | **—** | — |
| 61 to 90 days | **—** | 152 | **—** | — |
| Over 90 days | **1,179** | 22 | **—** | — |
| | **1,179** | 1,109 | **—** | — |

Included in the trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Renminbi (RMB'000) | **14,584** | 2,340 | **—** | — |

## 26. AMOUNTS DUE TO DIRECTORS

### The Group and the Company

The amounts are unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the fair value of the amounts due to directors approximates to its corresponding carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 27. DEFERRED TAXATION

### (a) The Group

The components of deferred tax (assets) liabilities recognised in the consolidated statement of financial position and the movements during the years are as follows:

| | Accelerated tax depreciation HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009 | 8 | (8) | — |

At the end of the reporting date, the Group had estimated the unused tax losses of approximately HK$76,221,000 (2008: HK$50,017,000) available for offset against future profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

### (b) The Company

At the end of the reporting date, the Company had unused tax losses of approximately HK$73,856,000 (2008: HK$47,657,000) available for offset against future profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 28. SHARE CAPITAL

### The Group and the Company

| | Notes | Number of shares | Share capital HK$'000 |
|---|---|---|---|
| **Authorised:** | | | |
| Ordinary shares of HK$0.1 each at 1 January 2008 | | 800,000,000 | 80,000 |
| Increase in authorised share capital | a | 9,200,000,000 | 920,000 |
| At 31 December 2008 and 1 January 2009 | | 10,000,000,000 | 1,000,000 |
| Share consolidation | g | (8,000,000,000) | — |
| **Ordinary shares of HK$0.5 each at 31 December 2009** | | **2,000,000,000** | **1,000,000** |
| **Issued and fully paid:** | | | |
| Ordinary shares of HK$0.1 each at 1 January 2008 | | 253,641,850 | 25,364 |
| Issue of shares by placement | b | 500,000,000 | 50,000 |
| Issue of shares by exercise of share options | c | 177,625 | 18 |
| Issue of shares by conversion of convertible loan notes | d | 660,000,000 | 66,000 |
| Ordinary shares of HK$0.1 each at 31 December 2008 and 1 January 2009 | | 1,413,819,475 | 141,382 |
| Issue of new shares by top-up placement | e | 280,000,000 | 28,000 |
| Issue of shares by conversion of convertible loan notes | f | 669,000,000 | 66,900 |
| Ordinary shares of HK$0.1 each | | 2,362,819,475 | 236,282 |
| Share consolidation | g | (1,890,255,580) | — |
| **Ordinary shares of HK$0.5 each at 31 December 2009** | | **472,563,895** | **236,282** |

Notes:

(a) Pursuant to the extraordinary general meeting held on 14 February 2008, the authorised share capital of the Company was increased from HK$80,000,000 divided into 800,000,000 shares to HK$1,000,000,000 divided into 10,000,000,000 shares by the creation of additional 9,200,000,000 shares.

# 28. SHARE CAPITAL *(Continued)*

## The Group and the Company *(Continued)*

Notes: *(Continued)*

(b) On 5 February 2008, the placing of new shares was completed and 500,000,000 new shares were issued and allotted at placing price of HK$0.15 per share. The gross proceeds from placing of new shares before issue expenses amounted to approximately HK$73 million. Details of the placing are set out in the Company's announcement and circular dated 24 October 2007 and 1 November 2007 respectively.

(c) On 22 September 2008, share options were exercised to subscribe for 177,625 ordinary shares of the Company at a total consideration of approximately HK$31,000 of which approximately HK$18,000 were credited to share capital, approximately HK$5,000 were debited to share-based payment reserve and the balance of approximately HK$18,000 were credited to the share premium account.

(d) During the year ended 31 December 2008, convertible loan notes in the principal amount of HK$132,000,000 were converted by holders to subscribe for 660,000,000 shares at a conversion price of HK$0.2 per share..

(e) On 20 July 2009, pursuant to the top-up placing and subscription agreement, 280,000,000 new shares were issued at the subscription price of HK$0.18 per share. The gross proceeds from placing of new shares before issue expenses amounted to approximately HK$50,400,000. Details of the placing are set out in the Company's announcements dated 3 August 2009 and 5 August 2009.

(f) During the year ended 31 December 2009, convertible loan notes in the principal amount of HK$133,800,000 were converted by holders to subscribe for 669,000,000 shares at a conversion price of HK$0.2 per share.

(g) Pursuant to a resolution passed on 16 December 2009, with effect from 17 December 2009, every five issued and unissued shares HK$0.10 each in the share capital of the Company will be consolidated into one consolidated share of HK$0.50 each.

# 29. RESERVES

## (a) The Group

The amounts of the Group's reserves and movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 of the annual report.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 29. RESERVES *(Continued)*

### (b) The Company

| | Notes | Share premium HK$'000 | Share-based payment reserve HK$'000 | Conversion note equity reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2008 | | 41,562 | 5 | — | (45,456) | (3,889) |
| Total comprehensive loss for the year | | — | — | — | (368,486) | (368,486) |
| Issue of shares by placement | 28 | 25,025 | — | — | — | 25,025 |
| Issue of shares by conversion of convertible loan notes | 31 | 66,000 | — | — | — | 66,000 |
| Share issue expenses | | (2,000) | — | — | — | (2,000) |
| Issue of shares by exercise of share options | 35 | 18 | (5) | — | — | 13 |
| Employee share option benefits | 35 | — | 24,632 | — | — | 24,632 |
| Equity component of convertible loan notes | 31 | — | — | 285,987 | — | 285,987 |
| Cancellation of convertible loan notes, at fair value | 31 | — | — | (59,580) | — | (59,580) |
| Conversion of convertible loan notes | 31 | — | — | (52,433) | — | (52,433) |
| **At 31 December 2008 and 1 January 2009** | | **130,605** | **24,632** | **173,974** | **(413,942)** | **(84,731)** |
| Total comprehensive loss for the year | | **—** | **—** | **—** | **(430,467)** | **(430,467)** |
| Issue of new shares by top-up placement | 28 | **22,400** | **—** | **—** | **—** | **22,400** |
| Issue of shares by conversion of convertible loan notes | 31 | **77,320** | **—** | **(53,145)** | **—** | **24,175** |
| Share issue expenses | | **(1,181)** | **—** | **—** | **—** | **(1,181)** |
| Employee share option benefits | 35 | **—** | **18,851** | **—** | **—** | **18,851** |
| Equity component of convertible loan notes | 31 | **—** | **—** | **25,079** | **—** | **25,079** |
| Redemption of convertible loan notes | 31 | **—** | **—** | **(7,944)** | **—** | **(7,944)** |
| **At 31 December 2009** | | **229,144** | **43,483** | **137,964** | **(844,409)** | **(433,818)** |

## 29. RESERVES *(Continued)*

### (b) The Company *(Continued)*

The capital reserve of the Group represents the excess of the nominal value of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Pursuant to the Companies Law of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business. At 31 December 2009, in the opinion of the directors of the Company, the Company did not have any reserve available for distribution to shareholders (2008: Nil).

The share-based payment reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 35 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

## 30. OTHER LOAN

The amount represents an amount due to the former shareholder of New Beida which is unsecured, interest-free and is repayable on 30 June 2012. In the opinion of the directors of the Company, the fair value of other loan approximates to its carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 31. CONVERTIBLE LOAN NOTES

### The Group and the Company

#### Acquisition of 100% interest in New Beida

On 27 February 2008, pursuant to the acquisition of 100% interest in New Beida from Sino Tactic Group Limited (the "Vendor"), the Company issued zero coupon convertible loan notes (the "Convertible Loan Notes 2008") as partial settlement of the acquisition consideration.

The principal terms of the Convertible Loan Notes 2008 are as follows:

| | |
|---|---|
| Date of issue | 27 February 2008 |
| Aggregate principal amount | HK$720,000,000 |
| Denomination in multiple of | HK$20,000,000 |
| Interest rate | Nil |
| Adjusted conversion price (previously reported) | HK$0.98 (HK$0.20) |
| Maturity date | 36 months from the date of issue |

**(a) Conversion period**

Apart from the portion of Restricted Convertible Notes (as described below), the holders of the Convertible Loan Notes 2008 shall have the rights at any time and from time to time, following the date of issue of the Convertible Loan Notes 2008, to convert the whole or any part of the outstanding principal amount into new ordinary shares in the Company. The shares to be issued and allotted upon conversion shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue.

**(b) Restricted convertible loan notes**

Part of the Convertible Loan Notes 2008 in principal amount of HK$150 million (the "Restricted Convertible Notes") was under security to the Company for the purpose of ensuring that the Profit Guarantee (as described below) is fulfilled.

# 31. CONVERTIBLE LOAN NOTES *(Continued)*

## The Group and the Company *(Continued)*

### (c) Issuer early redemption option

The Company shall have the right to redeem any portion of the Convertible Loan Notes 2008 outstanding at an amount equals to the principal amount of the Convertible Loan Notes 2008 in its sole and absolute discretion at any time prior to the maturity date.

The Convertible Loan Notes 2008 contain liability component, equity component and early redemption option derivatives. The issuer early redemption option derivative is not closely related to the host contract as the early redemption amount is not close to the amortised cost of the liability on the redemption date. Issuer early redemption option derivative are measured at fair value with change in fair value recognised in consolidated income statement.

### (d) Profit guarantee

The Vendor undertakes to the Company that the aggregate profits after tax shown in the audited consolidated accounts of New Beida prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the financial year ended 31 December 2008 shall not be less than HK$150 million and will compensate the Company for any shortfall between the guaranteed profits and the actual aggregate profits after tax shown in the audited consolidated accounts of New Beida prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the financial year ended 31 December 2008.

The Restricted Convertible Notes will be stake held by the Company for the purpose of ensuring the Profit Guarantee requirement is fulfilled according to the acquisition agreement entered into by the Company and the Vendor on 16 October 2007 while the Vendor undertakes not to exercise the conversion rights attaching on the Restricted Convertible Notes during the Profit Guarantee Period and up to 31 March 2009. In the event that the Restricted Convertible Notes under security to the Company is not sufficient to cover the compensation amount due to the shortfall from the Profit Guarantee, the Vendor will be liable to pay the Company in cash for any outstanding compensation amount on a dollar for dollar basis after off-setting the amount represented by the Restricted Convertible Notes.

Based on the 2008 audited financial results of New Beida, the profit guarantee requirement was not fulfilled and the Group had set off the amount of the shortfall as calculated in accordance with the acquisition agreement dated 16 October 2007 against the principal amount of the Restricted Convertible Notes, with the remaining balance of approximately HK$565,000 against the other loan as at 31 December 2008.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 31. CONVERTIBLE LOAN NOTES *(Continued)*

### The Group and the Company *(Continued)*

The directors of the Company have assessed the fair value of the Convertible Loan Notes 2008 with embedded derivative. At 31 December 2009, the liability component of the Convertible Loan Notes is approximately HK$248,058,000 which is stated at amortised cost using the effective interest method and the fair value of the derivative component of the Convertible Loan Notes 2008 is approximately HK$316,000 (2008: HK$64,455,000). The effective interest expense of Convertible Loan Notes 2008 and change in fair value of the embedded derivatives amounting to approximately HK$34,734,000 and HK$41,506,000, respectively, have been recognised in the consolidated income statement for the year ended 31 December 2009.

The methods and assumptions applied for the valuation of the Convertible Loan Notes 2008 are as follows:

*Valuation of liability component*

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the initial recognition contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component is 12.29%.

*Valuation of issuer early redemption option derivative*

Bionomial model is used for valuation of issuer early redemption option derivative. The inputs into the model were as follows:

| | 27 February 2008 | 31 December 2008 | 31 December 2009 |
|---|---|---|---|
| Stock price | HK$0.93 | HK$0.50 | HK$0.30 |
| Exercise price | HK$0.20 | HK$0.20 | HK$0.98 (adjusted due to the placing of shares and share consolidation) |
| Volatility | 57.77% | 67.15% | 50.67% |
| Option life | 36 months | 26 months | 14 months |
| Risk free rate | 2.009% | 0.567% | 0.27% |

## 31. CONVERTIBLE LOAN NOTES *(Continued)*

### The Group and the Company *(Continued)*

#### Acquisition of 100% interest in IIN Medical (BVI)

On 23 April 2009, pursuant to the acquisition of 61.27% interest in IIN Medical (BVI) from Multico Holdings Limited ("Vendor A") and 38.73% from a group of minority shareholders ("Vendor B"), the Company issued convertible loan notes (the "Convertible Loan Notes 2009") as partial settlement of the acquisition consideration.

The principal terms of the Convertible Loan Notes 2009 are as follows:

| | |
|---|---|
| Date of issue | 23 April 2009 |
| Aggregate principal amount | HK$32,770,000 |
| Denomination in multiple of | HK$200,000 |
| Interest rate | Nil |
| Adjusted conversion price (previously reported) | HK$1.57 (HK$0.32) |
| Maturity dates | Principal amount approximately HK$20,150,000 matured in 48 months from the date of issue and the remaining principal amount of approximately HK$12,620,000 matured in 24 months from the date of issue |

**(a) Conversion period**

The holders of the Convertible Loan Notes 2009 shall have the rights to convert the whole or any part of the outstanding principal amount into new ordinary shares in the Company. The commencement dates of conversion fall within the period from 31 December 2009 to 30 June 2012. The shares to be issued and allotted upon conversion shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue.

**(b) Redemption option**

The holders of Convertible Loan Notes 2009 shall have the rights to redeem up to 25% of the principal amount of the Convertible Loan Notes 2009 outstanding at an amount equals to the principal amount of the Convertible Loan Notes 2009. The commencement dates of redemption fall within the period from 31 December 2009 to 30 June 2012. The Company is not required, at the maturity of the Convertible Loan Notes 2009, to redeem or pay any amount of the Convertible Loan Notes 2009.

The Convertible Loan Notes 2009 contains liability component, equity component and redemption option derivatives. The holders redemption option derivative is not closely related to the host contract as the redemption amount is not close to the amortised cost of the liability on the redemption date. Holders redemption option derivative is measured at fair value with change in fair value recognised in consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 31. CONVERTIBLE LOAN NOTES *(Continued)*

### The Group and the Company *(Continued)*

#### (c) Profit guarantee

Certain members of Vendor B undertake to the Group that the profits after tax shown in the audited consolidated financial statements of Hunan IIN Medical, prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the year ending 31 December 2009 should not be less than RMB8.5 million and will compensate the Group for any shortfall, in proportion of their respective shareholding in IIN Medical (BVI) to the extent of an aggregate 17.31% thereof, between the guaranteed profit and the actual profit.

Based on the audited financial results of Hunan IIN Medical, the profit guarantee requirement is fulfilled.

The directors of the Company have assessed the fair value of the Convertible Loan Notes 2009 with embedded derivative. At 31 December 2009, the liability component of the Convertible Loan Notes 2009 is approximately HK$6,316,000 which is stated at amortised cost using the effective interest method and the fair value of the derivative component of the Convertible Loan Notes 2009 is approximately HK$1,640,000. The effective interest expense of Convertible Loan Notes 2009 amounting to approximately HK$486,000 and the change in fair value of the embedded derivatives amounting to approximately HK$1,333,000 have been recognised in the consolidated income statement for the year ended 31 December 2009.

The methods and assumptions applied for the valuation of the Convertible Loan Notes 2009 are as follows:

*Valuation of liability component*

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the initial recognition contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component is ranged from 10.70% to 11.55%.

## 31. CONVERTIBLE LOAN NOTES *(Continued)*

### The Group and the Company *(Continued)*

*Valuation of holder redemption option derivative*

Bionomial model is used for valuation of holder redemption option derivative. The inputs into the model were as follows:

| | 23 April 2009 | 31 December 2009 |
|---|---|---|
| Stock price | HK$0.30 | HK$0.30 |
| Exercise price | HK$0.32 | HK$1.57 (adjusted after the placing of shares and share consolidation) |
| Option life | 48 months | 40 months |
| Risk free rate | 0.70%-1.55% | 0.32%-1.25% |

The movement of the liability component of the convertible loan notes for the year is set out below:

| | Liability component HK$'000 | Equity component HK$'000 | Financial derivative-asset HK$'000 | Financial derivative-liability HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Issue of Convertible Loan Notes 2008 | 508,575 | 285,987 | (74,562) | — | 720,000 |
| Cancellation of Convertible Loan Notes 2008, at fair value | (105,954) | (59,580) | 15,534 | — | (150,000) |
| Conversion of Convertible Loan Notes 2008 | (93,237) | (52,433) | 13,670 | — | (132,000) |
| Change in fair value | — | — | (19,097) | — | (19,097) |
| Effective interest expenses | 31,686 | — | — | — | 31,686 |
| Carrying amount at 31 December 2008 | 341,070 | 173,974 | (64,455) | — | 450,589 |
| Conversion of Convertible Loan Notes 2008 (Note a) | (110,765) | (53,145) | 19,690 | — | (144,220) |
| Issue of Convertible Loan Notes 2009 (Note b) | 5,830 | 25,079 | — | 307 | 31,216 |
| Redemption of Convertible Loan Notes 2008 (Note c) | (16,981) | (7,944) | 2,943 | — | (21,982) |
| Change in fair value | — | — | 41,506 | 1,333 | 42,839 |
| Effective interest expenses | 35,220 | — | — | — | 35,220 |
| Carrying amount at 31 December 2009 | 254,374 | 137,964 | (316) | 1,640 | 393,662 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 31. CONVERTIBLE LOAN NOTES *(Continued)*

### The Group and the Company *(Continued)*

*Valuation of holder redemption option derivative*

Notes:

(a) Set out below are details of conversion of the Convertible Loan Notes 2008 during the year:

| Date of conversion | Principal amount of the convertible notes HK$ | Number of ordinary shares issued (adjusted due to share consolidation) |
|---|---|---|
| 10 June 2009 | 49,000,000 | 49,000,000 |
| 18 June 2009 | 44,000,000 | 44,000,000 |
| 29 June 2009 | 13,600,000 | 13,600,000 |
| 10 September 2009 | 13,600,000 | 13,600,000 |
| 16 October 2009 | 13,600,000 | 13,600,000 |

(b) The Company issued convertible loan notes on 23 April 2009 as partial consideration for the acquisition of 100% interest in IIN Medical (BVI) and its subsidiaries.

(c) On 5 October 2009, Convertible Loan Notes 2008 in the principal amount of HK$20,000,000 were redeemed.

The Group's convertible loan notes were valued by Malcolm & Associate Appraisal Limited, a qualified valuer not connected with the Group, for each of the years ended 31 December 2009 and 2008.

## 32. OPERATING LEASE COMMITMENTS

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Minimum lease payments under operating leases during the year: | | |
| — premises | **5,236** | 4,035 |
| — others | **167** | 69 |
| | **5,403** | 4,104 |

At the end of the reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and other asset, which fall due as follows:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **3,993** | 5,071 |
| In the second to fifth years inclusive | **5,156** | 12,080 |
| Over five years | **1,000** | 1,000 |
| | **10,149** | 18,151 |

Leases are negotiated and rentals are fixed for terms of 1 to 12 years (2008: 3 to 12 years).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 33. ACQUISITION OF SUBSIDIARIES

On 23 April 2009, the Group completed the acquisition of 100% interest in IIN Medical (BVI), of which 61.27% from Vendor A and 38.73% from Vendor B.

Details of the net assets acquired in respect of the acquisition of IIN Medical (BVI) and its subsidiaries during the year ended 31 December 2009 are summarised below:

| | Fair value of assets and liabilities acquired HK$'000 |
|---|---|
| NET ASSETS ACQUIRED | |
| Property, plant and equipment | 3,360 |
| Other intangible assets | 529 |
| Inventories | 81 |
| Trade and other receivables | 12,622 |
| Amount due from minority shareholder of a subsidiary | 615 |
| Bank balances and cash | 10,903 |
| Trade and other payables | (7,944) |
| Deposit in advance | (140) |
| Dividend payable | (3,834) |
| Net assets acquired | 16,192 |
| Non-controlling interests | (3,768) |
| Goodwill | 31,222 |
| Adjusted consideration | 43,646 |
| Total consideration satisfied by: | |
| — Cash | 5,650 |
| — Other payable — Contingent convertible loan notes (note a) | 6,780 |
| — Convertible loan notes, at fair value (note b) | 31,216 |
| | 43,646 |
| Net cash inflow arising on acquisition: | |
| Cash paid | (5,650) |
| Bank balances and cash acquired | 10,903 |
| | 5,253 |

## 33. ACQUISITION OF SUBSIDIARIES *(Continued)*

The goodwill arising on the acquisition of IIN Medical (BVI) during the year ended 31 December 2009 was attributable to the anticipated future operating synergies from the combination of the existing distribution networks of the Group.

The subsidiaries acquired contributed approximately HK$22,305,000 to the Group's revenue and profit of approximately HK$3,405,000 to the Group's results for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2009, total contribution to the Group's revenue for the year ended 31 December 2009 would have been approximately HK$34,307,000, and profit for the year ended 31 December 2009 would have been HK$10,670,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group for the year ended 31 December 2009 that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

Note:

(a) In accordance with the acquisition agreements entered into with Vendor A and Vendor B, upon the renewal of the Joint Construction Agreement with profit sharing percentage no less than 51% and other terms and conditions under the renewed agreement no less favourable than those under the existing agreement, the contingent consideration of HK$6,780,000 will be satisfied by issue of additional Convertible Loan Notes 2009 in the principal amount of HK$6,780,000.

(b) The consideration of approximately HK$32,770,000 was satisfied by issue of the convertible loan notes with a conversion price of HK$0.32 per conversion share to the Vendor A and Vendor B. Further details of the convertible notes payable are set out in note 31 to the financial statements.

## 34. OTHER COMMITMENT

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Expenditure contracted for but not provide in the consolidated financial statement in respect of: | | |
| — Consultancy service | **1,000** | 210 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 35. SHARE-BASED EMPLOYEE COMPENSATION

### Pre-IPO Share Option Scheme

The Company adopted a Pre-IPO Share Option Scheme on 24 November 2001, pursuant to which, the Board might during the period commencing on the adoption date of the Pre-IPO Share Option Scheme and ending on the day immediately prior to the day when bulk printing of the prospectus for listing of shares of the Company took place grant options to any employee of the Group or any other persons who, in the sole discretion of he Board, have contributed or would contributed to the Group to subscribe for shares of the Company at HK$0.12 per share, representing a discount of approximately 64% of the placing price when the shares of the Company were first listed on GEM of the Stock Exchange on 5 December 2001. The exercise price was subsequently adjusted to HK$0.9796 per share after adjustment for the open offer of the Company effected during the year and the share consolidation effected in the year 2006.

On 27 November 2001, options to subscribe for a total of 44,000,000 shares of the Company were granted to a director and an employee at a total consideration of HK$2. The options granted may be exercised at any time during the period from 5 December 2001 to 4 December 2011. No options were granted under the Pre-IPO Share Option Scheme after the listing of the shares of the Company. The option for subscribing 40,000,000 shares of the Company was lapsed and an option to subscribe for 490,000 shares (after adjustment for the open offer of the Company effected during the year and the share consolidation effected in the year 2006) was outstanding as at 31 December 2009. No options granted under Pre-IPO Share Option Scheme were exercised, cancelled or lapsed during the year.

### Share Option Scheme

The Company adopted a Share Option Scheme on 24 November 2001 for the purpose of providing incentives or rewards to selected persons for their contribution to the Group. The Share Option Scheme shall be valid and effective for 10 years with expiry date of 5 December 2011. Pursuant to the Share Option Scheme, the Board may grant options to any employee of the Group or any other persons who, in the sole discretion of the Board, have contributed or will contribute to the Group to subscribe for shares of the Company at a price determined by the Board and shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer of the option which must be a business day, (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of the options; and (iii) the nominal value of a share on the date of offer of the options.

The total number of securities which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 47,774,389 shares (equivalent to 238,871,947 shares before adjustment for the share consolidation of the Company effective 17 December 2009). The maximum entitlement of each participant under the Share Option Scheme in any 12-month period is 1 per cent of the shares in issue.

## 35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

### Share Option Scheme *(Continued)*

The grantees may accept the offer of options by paying HK$1 as the consideration of the grant to the Company within 28 days from the date of offer. Any offer which is not accepted within such period will be deemed to have been irrevocably declined. The options may be exercised at any time during a period of 10 years from the date of grant of the options and there is no lock-up period for exercise of the options.

The movements in the share options of the Company in year 2008 year are shown in the following table:

| Name of participant | Date of grant | Exercise period and vesting period | Exercise price per share HK$ | At 1 January 2008 | Granted for the year | Exercised during the year | Lapsed during the year | At 31 December 2008 |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Tsang Wing Yee | | | | | | | | |
| (resigned on 1 April 2008) | 10/11/2006 | 10/11/2006-09/11/2016 | 0.1729 | 177,625 | — | (177,625) | — | — |
| Chen Hong | 28/08/2008 | 28/08/2008-27/08/2018 | 0.43 | — | 9,500,000 | — | — | 9,500,000 |
| Liang Juan | 28/08/2008 | 28/08/2008-27/08/2018 | 0.43 | — | 2,000,000 | — | — | 2,000,000 |
| Wang Hui | 28/08/2008 | 28/08/2008-27/08/2018 | 0.43 | — | 9,000,000 | — | — | 9,000,000 |
| Wei Jianya | 28/08/2008 | 28/08/2008-27/08/2018 | 0.43 | — | 4,000,000 | — | — | 4,000,000 |
| Li Xiangjun | 28/08/2008 | 28/08/2008-27/08/2018 | 0.43 | — | 7,000,000 | — | — | 7,000,000 |
| Subtotal | | | | 177,625 | 31,500,000 | (177,625) | — | 31,500,000 |
| **Others** | | | | | | | | |
| In aggregate | 28/08/2008 | 28/08/2008-27/08/2018 | 0.43 | — | 65,500,000 | — | — | 65,500,000 |
| **Total** | | | | 177,625 | 97,000,000 | (177,625) | — | 97,000,000 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

### Share Option Scheme *(Continued)*

The movements in the share options of the Company during the year are shown in the following table:

| Name of participant | Date of grant | Exercise period and vesting period | Exercise price per share* HK$ | At 1 January 2009 | Number of share options adjusted due to share consolidation* | Granted during the year* | Exercised during the the year | Lapsed during the year | At 31 December 2009 |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| Chen Hong | 28/08/2008 | 28/08/2008— 27/08/2018 | 2.150 | 9,500,000 | (7,600,000 ) | — | — | — | 1,900,000 |
| | 09/07/2009 | 09/07/2009— 08/07/2019 | 1.095 | — | — | 1,900,000 | — | — | 1,900,000 |
| Liang Juan | 28/08/2008 | 28/08/2008— 27/08/2018 | 2.150 | 2,000,000 | (1,600,000 ) | — | — | — | 400,000 |
| | 09/07/2009 | 09/07/2009— 08/07/2019 | 1.095 | — | — | 2,400,000 | — | — | 2,400,000 |
| Wang Hui | 28/08/2008 | 28/08/2008— 27/08/2018 | 2.150 | 9,000,000 | (7,200,000 ) | — | — | — | 1,800,000 |
| | 09/07/2009 | 09/07/2009— 08/07/2019 | 1.095 | — | — | 2,000,000 | — | — | 2,000,000 |
| Wei Jianya | 28/08/2008 | 28/08/2008— 27/08/2018 | 2.150 | 4,000,000 | (3,200,000 ) | — | — | — | 800,000 |
| | 09/07/2009 | 09/07/2009— 08/07/2019 | 1.095 | — | — | 600,000 | — | — | 600,000 |
| Li Xiangjun | 28/08/2008 | 28/08/2008— 27/08/2018 | 2.150 | 7,000,000 | (5,600,000 ) | — | — | — | 1,400,000 |
| | 09/07/2009 | 09/07/2009— 08/07/2019 | 1.095 | — | — | 2,600,000 | — | — | 2,600,000 |
| Subtotal | | | | 31,500,000 | (25,200,000 ) | 9,500,000 | — | — | 15,800,000 |
| **Others** | | | | | | | | | |
| In aggregate | 28/08/2008 | 28/08/2008— 27/08/2018 | 2.150 | 65,500,000 | (52,400,000 ) | — | — | — | 13,100,000 |
| | 09/07/2009 | 09/07/2009— 08/07/2019 | 1.095 | — | — | 18,500,000 | — | — | 18,500,000 |
| *Total* | | | | 97,000,000 | (77,600,000 ) | 28,000,000 | — | — | 47,400,000 |

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital. Following the share consolidation effective on 17 December 2009, the total number of share options outstanding and the exercise price of the share options outstanding and the closing price of shares immediately before the date of grant had been adjusted accordingly. The closing price of the shares at the date of grant of the share options was HK$1.065 (adjusted after the share consolidation).

## 35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

### Share Option Scheme *(Continued)*

(a) During the year ended 31 December 2009, the number of share options granted was 140,000,000 (2008: 97,000,000). The fair value of options granted under the Share Option Scheme, amounted to approximately HK$18,851,000 (2008: HK$24,632,000) of HK$0.1346 each (before adjustment for share consolidation) (2008: HK$0.2539 each). The fair values of the outstanding options were derived from Black-Scholes option pricing model by applying the following bases and assumptions:

| Date of grant (dd-mm-yy) | Expected volatility | Expected life (in years) | Risk-free interest rate | Expected dividend yield |
|---|---|---|---|---|
| 09.07.2009 | 86.70% | 10 | 1.78% | Nil |
| 28.08.2008 | 79.60% | 10 | 2.76% | Nil |

The Group recognised the total expenses of approximately HK$18,851,000 (2008: HK$24,632,000) in relation to share options granted by the Company.

(i) the expected volatilities were generated from Bloomberg based on the Company's 1,250-day historical share prices before 9 July 2009 (last year: 999-day historical share prices before 28 August 2008);

(ii) the applicable risk-free rates were the yields of five years Hong Kong Monetary Authority exchange fund notes, matching the assumed life of the options, quoted on 9 July 2009 (last year: 28 August 2008); and

(iii) the expected dividend yields were estimated based on the historical dividend, which was zero.

(b) The values of the options are subject to the limitations of the Black-Scholes option pricing model and a number of assumptions which are subjective and difficult to ascertain. Changes in the subjective input assumptions could materially affect the fair value estimate.

(c) No share option was exercised during the year 2009. For the year 2008, the share price of the Company's shares immediately before the date on which the options were exercised and at the date of exercise of the share options are HK$0.37 and HK$0.37 respectively.

(d) The outstanding share options as at 31 December 2009 had a remaining contractual life of 9.95 years (31 December 2008: 9.65 years).

(e) If options are forfeited before expiration or lapsed, the related share-based payment reserve will be transferred directly to accumulated losses.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 36. RETIREMENT SCHEME

In compliance with the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), the Group have participated in the MPF scheme, a defined contribution scheme managed by an independent trustee, to provide retirement benefits to its Hong Kong employees. Contributions to the MPF scheme are made in accordance with the statutory limits prescribed by the MPF Ordinance (at 5% of the salaries and wages with a limit at 5% of HK$20,000).

The Group's contributions to the defined retirement contribution scheme for the year ended 31 December 2009 amounted to approximately HK$43,000 (2008: HK$27,000). The contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the group in an independently administered fund.

## 37. EVENT AFTER THE REPORTING PERIOD

(a) On 18 January 2010, Convertible Loan Notes 2009 in the principal amount of HK$1,250,000 were redeemed.

(b) On 18 January 2010, Convertible Loan Notes 2009 in the principal amount of HK$3,750,000 were converted by holders to subscribe for 2,388,535 shares at a conversion price of HK$1.57 per share.

(c) On 9 March 2010, Convertible Loan Notes 2008 in the principal amount of HK$150,000,000 were converted by holders to subscribe for 153,061,224 shares at a conversion price of HK$0.98 per share.

(d) On 11 March 2010, Convertible Loan Notes 2009 in the principal amount of HK$1,244,934 were redeemed.