ZHONGTIAN INTERNATIONAL LIMITED

中天國際控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2379

Annual Report 2007

* for identification purposes only

Contents

Corporate Information

Executive Directors

CHEN Jun
ZHAO Yun

Independent Non-executive Directors

HUNG, Randy King Kuen
CHEN Wen Ping
QI Fa Cheng

Company secretary

HUNG Man Yuk, DICSON

Qualified accountant

HUNG Man Yuk, DICSON

Audit committee

HUNG, Randy King Kuen
CHEN Wen Ping
QI Fa Cheng

Hong Kong legal adviser

Loong & Yeung Solicitors

Authorised representatives

ZHAO Yun
HUNG Man Yuk, DICSON

Stock code

2379

Company's website

www.irasia.com/listco/hk/zhongtian

Principal place of business in Hong Kong

Suites 2201-2203
22nd Floor, Jardine House
1 Connaught Place, Central, Hong Kong

Auditors

CCIF CPA Limited

Principal bankers

Hua Xia Bank, Nanjing Road
Sub-branch, Qingdao
The Hongkong and Shanghai Banking
Corporation

Hong Kong branch share registrar and transfer office

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

Principal share registrar and transfer office

Butterfield Fund Services (Cayman) Limited
P.O. Box 705, Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Registered office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business

21st Floor
Huaren International Mansion
No. 2 Shandong Road
Shinan District
Qingdao City
Shandong Province
The People's Republic of China (the "PRC")

Mitigating the Risk of Relying on a Single Market and Turning a New Page by Proactively Developing New Business

On behalf of the board of directors (the "Board") of Zhongtian International Limited (the "Group") and its subsidiaries (collectively the "Group"), I present the annual results and the audited financial statements of the Group for the year ended 31 December 2007.

The Group faced arduous business environment in 2007. During the year, the provision of electronic network services for RCCs has been the major source of income of the Group, representing approximately over 80% of the Group's total turnover. However, as most of the RCCs electronic network construction projects have been upgraded from a municipal or local level to a provincial level and the projects which are in local level have been under a process of revision currently, the major source of income has been significantly affected. The turnover for the year ended 31 December 2007 was approximately RMB6,966,000, representing a significant decrease of 70.3% as compared with the corresponding period last year.

Although the Group has already realized the risk of relying on a single market and committed to proactively develop non-RCCs banking and finance sector to reduce its reliance on RCCs business and diversify its income stream, the Group is still negotiating with its potential customers from this sector and has not entered into any material contract during the year under review. As a result, the contribution from non-RCCs banking and finance sector was unsatisfactory. The Group is also under negotiations with its potential customers from non-banking and finance sector and the contribution from this sector was less than remarkable during the year under review.

The Group's management believes that diversifying its business can help mitigating the risk derived from its only reliance on electronic network construction for RCCs related or non-RCCs related or banking and finance sector. In addition to its information technology business, the Group is proactively developing other markets. The Group has been proactively exploring to develop the property development and investment market. During the year, the Group has invested considerable resources in developing a piece of commercial land in Laoshan District, Qingdao City which was obtained through the acquisition of 100% interest in 青島中天軟件園有限公司 (Qingdao Zhongtian Software Park Company Limited) ("Zhongtian Software") at the end of 2006. The Group intended to utilize part of the land for the development of its R&D centre and the remaining for long term property investment or for sale. Through the development of the abovementioned land, the Group aims to start another new business to reduce the risks derived from its heavy reliance on a single market and diversify its business. During the reporting year, there was no contribution to the Group's turnover and result from this new segment as it is still at the construction stage.

In retrospect, the Group has consolidated its leading position and gained excellent reputation and solid goodwill in the financial institute application software market with the continuous support from its dedicated employees and team efforts. Looking ahead, the Group's management believes that the Group will turn a new page on a path adhering to its traditions, at the same time, developing new business and making more returns to its shareholders.

Zhongtian International Limited
Chen Jun
Chairman

OVERVIEW

During the reporting year, the Group was principally engaged in two major business segments, which were information technology and property development and investment respectively.

Information Technology

The Group's Information Technology segment is devided into four operating devisions, including (i) provision of system integration services; (ii) research and development of customized software products; (iii) sale of software and hardware products; and (iv) provision of maintenance and other services. During the reporting year, the main customers of the Group are Rural Credit Co-operatives ("RCCs") in the PRC.

The provision of electronic network services for RCCs was still the major source of income of the Group, representing approximately 81.4% of the Group's total turnover in 2007. Most of the RCCs electronic network construction projects have been upgraded from a municipal or local level to a provincial level and the projects which are in local level have been under a process of revision currently. At the beginning of the year, RCCs adhered to the adjustments of the provincial policies and therefore newly or already signed software projects have been suspended or shelved and pending further instructions. As a result, the Group has responded to the requests from RCCs and shelved the operation of software projects such as system integration. Most of the projects under the new software contracts entered into by the RCCs and the Group have delayed. Such adjustments of the policies have directly led to a massive impact on the Group's operating income in the reporting year.

Property Development and Investment

Facing the difficult business environment and challenges under segment of Information Technology, the Group realised the risks of relying on a single market and has been proactively exploring to develop a new business to mitigate this risk. During the year, the Group had invested considerable resources in developing a piece of commercial land in Laoshan District, Qingdao City which was obtained through the acquisition of 100% interest in 青島中天軟件園有限公司 (Qingdao Zhongtian Software Park Company Limited) ("Zhongtian Software") at the end of 2006. The Group intended to utilize part of the land for the development of its R&D centre and the remaining for long term property investment or for sale. Through the development of the abovementioned land, the Group aims to start a new line of business to reduce the risks derived from its heavy reliance on a single market and diversify its business. During the reporting year, there was still no contribution to the Group's turnover and result from this project as it was still at the construction stage.

FINANCIAL REVIEW

Turnover and gross profit margin

For the year ended 31 December 2007, consolidated turnover and cost of sales of the Group was RMB6,966,000 representing a decrease of 70.3% from RMB23,466,000 in 2006 and RMB5,463,000 representing a decrease of 67.0% from RMB16,556,000 in 2006, respectively. The gross profits decreased by 78.2% to RMB1,503,000 from RMB6,910,000 in 2006 as a result of the reduction in the number of customers which led to a significant decline in turnover.

Selling and distribution costs

During the reporting year, the Group reduced the scale of marketing activities due to the lack of large-scale tender projects in the RCCs market, which led to a decrease of 61.5% in selling and distribution costs to RMB2,081,000 from RMB5,410,000 in 2006, representing 29.9% to the Group's turnover in 2007. The current decrease in selling and distribution expenses was mainly attributable to the decrease in turnover and the number and salaries of sales representatives during the year.

General and administrative expenses

Excluding the factor that a fair value of the share options of RMB8,216,000 granted to employees and consultants was recognised as an expense in 2007, the Group's administrative expenses for the year ended 31 December 2007 were approximately RMB11,026,000 (2006: approximately RMB15,978,000), representing a decrease of approximately 31.0% as compared to 2006.

Provision for impairment loss of loan receivables

As disclosed in the 2007 Interim Report of the Group, the Group has made a provision of RMB11,469,000 for impairment loss of loan receivables. The provision represented the non-repayment of the loans from two companies named 青島易貝科技有限公司 (Qingdao Yi Bei Technology Limited) and 青島銀通科技開發有限公司 (Qingdao Yin Tong Technology Development Limited) (collectively, the "Companies") (both are independent third parties) in the amount of RMB1,722,000 and RMB9,747,000 respectively since the Group has learnt that the Companies are under the process of liquidation. Despite repeated demands made by the Group, the Companies have failed to make full repayment.

The Group had initiated arbitration proceedings against the Companies respectively, and the Group has received favourable arbitration results from the relevant arbitration committees. The Group will explore all legal and practicable means in order to enforce the arbitration awards against the Companies for repayment.

However, as the Companies may not have substantial assets sufficient for repayment, the Group has adopted a prudent approach to make the full provision.

Except the above, there were no other loan receivables as at 31 December 2007.

Net loss

For the year ended 31 December 2007, the Group recorded a net loss of approximately RMB33,004,000 as compared with the net loss of approximately RMB16,192,000 for the previous year. The loss was further increased mainly due to a decline in demands of RCCs market which led to a substantial decrease in income for the period. Basic loss per share in 2007 was RMB8.25 Cents as compared with basic loss per share in 2006 of RMB4.05 Cents.

BUSINESS REVIEW

Analysis by business segment

The following is an analysis of the Group's turnover for the year ended 31 December 2007 by business segment:

	For the year ended 31 December			
	2007		2006	
	RMB'000	**%**	RMB'000	%
Provision of system integration services	**2,150**	**30.9**	8,670	36.9
Development of customised software products	**516**	**7.4**	3,310	14.1
Sale of software and hardware products	**2,977**	**42.7**	7,904	33.7
Provision of maintenance and other services	**1,323**	**19.0**	3,582	15.3
Total	**6,966**	**100**	23,466	100

During the year, the Group's principal source of income was derived from the sale of software and hardware products and the provision of system integration services, which accounted for approximately 42.7% and 30.9% respectively of the total turnover of the Group, while incomes from the development of customised software products and the provision of maintenance and other services took up approximately 7.4% and 19.0% of the total turnover respectively.

Due to the rapid diminishing demand of RCCs market, the incomes from provision of system integration services and provision of maintenance and other services have experienced serious decline. The income from the provision of system integration services accounted for RMB2,150,000, representing a decrease of 75.2% from RMB8,670,000 in 2006, while income from the provision of maintenance and other services recorded a decrease of 63.1% to RMB1,323,000 as compared with RMB3,582,000 in 2006.

Despite the aforementioned, given that the Group has comprehensive products of RCCs information network system in store and no significant investment for business development is required, it is believed that the Group's turnover and profits will improve when the RCCs market recovers in the near term by the Group's effort in seizing every business opportunities, meeting the demand of RCCs market and accelerating the construction progress of information networks.

Similar to the year 2006, most of the Group's income was derived from Shandong Province in 2007, which accounted for over 56.1% of the Group's total turnover (2006: 74.4%). Contribution from Hubei Province and Guangdong Province increased to 14.6% and 15.4% respectively as compared to 12.1% and 7.1% in the previous year. The contribution from other provinces in the total turnover increased from 6.4% in the previous year to currently 13.9%.

As the Group will continuously expand its market share in the RCCs information network development in the PRC, the Group anticipates that income from other provinces will continue to increase.

Analysis of turnover by customer type

The following is an analysis of the Group's turnover for the year ended 31 December 2007 by customer type:

	For the year ended 31 December			
	2007		2006	
	RMB'000	**%**	RMB'000	%
Banking and finance sector				
– RCCs	**5,669**	**81.4**	19,570	83.4
– non-RCCs	**–**	**–**	845	3.6
Non-banking and finance sector	**1,297**	**18.6**	3,051	13.0
Total	**6,966**	**100**	23,466	100

During the year under review, the Group's source of income remained mainly from the provision of services to RCCs, which accounted for approximately 81.4% of the Group's total turnover as compared with 83.4% for the previous year.

PROPERTY UNDER DEVELOPMENT

Reference is made to the acquisition of 100% interest in 青島中天軟件園有限公司 (Qingdao Zhongtian Software Park Company Limited) ("Zhongtian Software") at the end of 2006. Zhongtian Software owns a land which is located at South of Wanjie Hospital, Laoshan District, Qingdao City, Shandong Province, the PRC with a site area of approximately 10,000 sq.m. where the Group plans to construct a commercial building to accommodate its expanding R&D activities and existing office requirement, and the remaining for long term property investment or for sale.

The land use right has a term of 40 years expiring on 6 September 2045. The location of the land is with close proximity to certain landmark buildings in Laoshan District. Currently, construction works are in progress and the expected completion date is estimated in March, 2010.

Through the development of the abovementioned land, the Group aims to start a new line of business to reduce the risks derived from its heavy reliance on a single market and diversify its business. During the reporting year, there was still no contribution to the Group's turnover and result from this project as it was still at the construction stage.

FUTURE OUTLOOK

In order to mitigate the risks of relying on a single market, the Group will continue to explore the market for financial institute application software in addition to the RCCs segment, including state-owned banks that are undergoing radical reforms and other leading commercial banks in the PRC.

It is believed that the Group will explore potential market in the non-finance sector by leveraging on its experiences gained from the provision of RCCs services, its leading position in the industry and its own strengths. Meanwhile, the Group is proactively exploring to develop other markets, in particular, the property development and investment market in addition to its information technology business to diversify its income stream.

INTEREST-BEARING BANK BORROWINGS

During the period under review, the Group has interest-bearing bank borrowings of RMB30,000,000 with interest at rate of 8.217% per annum (2006: NIL).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, the Group obtained a one-year fixed rate term loan facility of RMB30 million from a bank, which is designated for financing the property project in Laoshan District (the "Project"). The bank loan facility is secured by the Project's land use rights. At 31 December 2007, the available credit facility from a bank amounted to RMB120 million (2006: Nil) for financing the Project.

As at 31 December 2007, the Group had cash of approximately RMB28,354,000 (31 December 2006: approximately RMB29,173,000). The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 25.7% (31 December 2006: 0%).

During the year ended 31 December 2007, the Group did not employ any material financial instrument for hedging purposes.

FOREIGN EXCHANGE

Since most of the revenue generated from the sale of products by the Group and the payment for purchases of materials, components and equipment are in RMB, the Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year ended 31 December 2007.

SUBSTANTIAL INVESTMENT AND ACQUISITION

During the reporting year, the Group did not have any substantial investment and acquisition.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2007.

DIRECTORS

Executive Directors

CHEN Jun（陳軍）, Chairman of the Board, aged 35, appointed as an executive Director on 6 March 2007 and as the Chairman of the Board on 27 March 2007, is currently a director and legal representative of 青島中天信息技術有限公司 (Qingdao Zhongtian Information Technology Company Limited), 青島中天軟件園有限公司 (Qingdao Zhongtian Software Park Company Limited), 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Company Limited) and is a director of Success Advantage Limited（成益有限公司）, all are wholly owned subsidiaries of the Group.

Mr. Chen graduated from 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Chen has over 11 years of experience in corporate planning and management. Mr. Chen is a director and the sole beneficial owner of the entire issued share capital of Fine Mean Investments Limited, being the controlling shareholder of the Group, holding 49.46% interest in the Group alone and together with parties acting in concert with it holding approximately 52.7% interest in the Group as at the date of this report.

ZHAO Yun（趙贇）, Chief Executive Officer of the Group, aged 35, appointed as an executive Director on 6 March 2007, is currently a director of Success Advantage Limited（成益有限公司）and a supervisor of 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Company Limited), all are wholly owned subsidiaries of the Group. Prior to joining the Group, he was an investment manager of 青島海逸投資諮詢有限公司 (Qingdao Sealand Investment Consultation Co., Ltd.). Mr. Zhao Yun graduated from 南開大學(Nankai University) and 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Zhao Yun has over 6 years of experience in corporate investment.

Independent non-executive Directors

HUNG, Randy King Kuen（孔敬權）, aged 42, is an independent non-executive Director and joined the Group in July 2004. Mr. Hung is a Fellow Certified Public Accountant of Hong Kong and a Certified Public Accountant of the United States. He holds a bachelor's degree of science in accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung is currently an executive director of China Shineway Pharmaceutical Group Limited (stock code: 2877), an independent non-executive director of Zhongyu Gas Holding Limited (stock code: 8070) and was also an independent non-executive director of ZZNode Holding Company Limited (stock code: 2371). Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, deputy chairman of training committee of the Hong Kong Institute of Directors and a member of the Hong Kong Securities Institutes.

CHEN Wen Ping（陳文平）, aged 34, is an independent non-executive Director and graduated from 山東經濟學院 (Shandong Economic University), majoring in finance in 1998 and had been qualified as a PRC lawyer in 2001. Mr. Chen has extensive experience in accounting and financial management. He had worked for 山東匯德會計師事務所有限公司 (Shandong Huide Accounting Firm Co., Ltd.) for 3 years as a practicing accountant and valuer. He is currently the department head of the finance department of 青島高校軟控股份有限公司 (Qingdao Mesnac Co., Ltd.), which is a PRC listed company.

QI Fa Cheng (亓發成), aged 58, is an independent non-executive Director and graduated from 山東大學 (Shandong University), majoring in chemistry in 1974. Mr. Qi has extensive experience in chemical engineering and foreign trading. He had been appointed as the head of the foreign trading department and deputy chief engineer of 青島市橡膠工業公司 (Qingdao Plastics Industry Company) respectively in 1987 and 1993. Currently, Mr. Qi is the deputy dean of 青島社會主義學院 (Qingdao Academy of Communism).

SENIOR MANAGEMENT

WANG Yan Pei (王艷培), aged 46, is a deputy general manager of the Group. Miss Wang graduated from 中國人民大學 (Renmin University of China) with master degree in real estate economics and has over 10 years of experience in real estate development. Prior to joining the Group, Miss Wang was a deputy general manager of 青島海逸豪園度假城有限公司 and responsible for the operation and management of the project "海逸豪園" with a site area of 270,000 square meter.

DING Xiao Ming (丁小明), aged 46, is a deputy general manager and project engineer of the Group. Mr. Ding has over 8 years of experience in real estate development and specializes in land acquisition, planning, demonstration, construction management, interior decoration and overall procedures in the preliminary stage of projects. He has extensive expertise and practical experience in real estate development, particularly in the field of construction management. He has been a deputy general manager of 青島中天軟件園有限公司 (Qingdao Zhongtian Software Park Company Limited) since March 2007.

FENG Peng (馮鵬), aged 40, a project research and development manager of the Group, joined the Group in 2006. Mr. Feng graduated from the Navy Engineering College in July 1990 majoring in shipbuilding specialty. Prior to joining the Group in 2006, Mr. Feng worked in 青島泰閣數字系統有限公司 (Qingdao TaiGe Digital System Limited) as a deputy general manager, in charge of the overall design of the company's system integration project and the product research and development. He has also involved in the development of software system of material management and demand planning for Hisense. Prior to joining the Group, Mr. Feng was a manager of project research and development department and successfully implemented various reformation projects for 紅盾網 of the State Administration For Industry & Commerce under his leadership.

HUNG Man Yuk, DICSON (洪旻旭), aged 32, is a qualified accountant and company secretary of the Group. Mr. Hung graduated from Curtin University of Technology in Australia with master degree in finance. Mr. Hung is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of United Kingdom. Mr. Hung has several years of experience in corporate finance and accounting management, especially in real estate investment and project management in the PRC.

The Board presents their report together with the audited financial statements of the Group and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement. The Board does not recommend the payment of any final dividend for the year ended 31 December 2007.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Group are set out in note 30 to the financial statements.

RESERVES

As at 31 December 2007, details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

The Group's reserves available for distribution to shareholders amounted to approximately RMB44,295,000 (2006: approximately RMB58,236,000).

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 84 of this annual report.

DIRECTORS

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

Executive Directors

Mr. Chen Jun (Appointed on 6 March 2007)
Mr. Zhao Yun (Appointed on 6 March 2007)
Mr. Sun Lianggui (Resigned on 27 March 2007)
Mr. Zhou Zhongdong (Resigned on 27 March 2007)

Independent non-executive Directors

Mr. Hung, Randy King Kuen
Mr. Qi Fa Cheng (Appointed on 29 May 2007)
Mr. Chen Wen Ping (Appointed on 29 May 2007)
Mr. Wang Yuechao (Resigned on 29 May 2007)
Mr. Wei Zhiqiang (Resigned on 29 May 2007)

All the executive Directors and independent non-executive Directors will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election in accordance with Article 87 of the Articles of Association. The Group has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and the Group considers the independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Group and the senior management of the Group are set out on pages 11 to 12 of this annual report.

DIRECTORS' SERVICE CONTRACT

Each of the current executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 6 March 2007 unless terminated by not less than three months' notice in writing served by either party on the other. The basic annual salaries of the executive Directors are as follows:

Mr. Chen Jun	RMB500,000.00
Mr. Zhao Yun	RMB250,000.00

One of the independent non-executive Directors, Mr. Hung, Randy King Kuen has entered into a service agreement with the Company for a term of three years commencing on 27 July 2007 unless terminated by not less than one month's notice in writing served by either party on the other. The other two independent non-executive Directors namely, Mr. Chen Wen Ping and Mr. Qi Fa Cheng have respectively entered into a service contract with the Company for a term of one year commencing on 29 May 2007 and ending at the forthcoming annual general meeting.

All the five Directors will retire from office as Director at the forthcoming annual general meeting. All of them, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles of Association.

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are as follows:

Long Positions in Ordinary Shares of the Company

Name of Directors	Capacity	Number of shares held	Approximate Shareholding percentage
Mr. Chen Jun *(Note)*	Interest of a controlled corporation	197,834,637	49.46%

Note:

Mr. Chen Jun is the beneficial owner of 100% of the issued shares in Fine Mean Investments Limited, and therefore, Mr. Chen Jun is deemed, or taken to be, interested in the shares of the Company which are beneficially owned by Fine Mean Investments Limited for the purposes of the SFO.

Save as disclosed above, as at 31 December 2007, none of the Directors nor chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDER

As at 31 December 2007, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Group which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long Positions in Ordinary Shares of the Company

Name	Capacity/Nature	Number of shares held	Approximate shareholding percentage
Substantial Shareholder			
Fine Mean Investments Limited *(Note 1)*	Beneficial owner	197,834,637	49.46%
Ms. Su Haiqing *(Note 2)*	Interest of spouse	197,834,637	49.46%

Notes:

1. Fine Mean Investments Limited is wholly owned by Mr. Chen Jun. Mr. Chen Jun is a director of Fine Mean Investments Limited.

2. Ms. Su Haiqing is the spouse of Mr. Chen Jun. Under the SFO, Ms. Su Haiqing is deemed to be interested in all the shares of the Company in which Mr. Chen Jun is interested.

Save as disclosed above, as at 31 December 2007, the Company had not been notified of any substantial shareholders of the Company (other than a Director or chief executive) who had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept by the Group pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Directors' and chief executives' interests in shares and underlying shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Group granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Group and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

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

	2007	2006
	%	%
Percentage of purchases:		
From the largest supplier	**57%**	18%
From the five largest suppliers	**36%**	65%
Percentage of turnover:		
From the largest customer	**46%**	21%
From the five largest customers	**91%**	60%

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2007, the Group had 28 employees (2006: 32), substantially all of whom are based in the head office of the Group in Qingdao City of Shandong Province in the PRC. The number of workers employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the year ended 31 December 2007 was RMB2,896,000 (2006: RMB10,030,000).

RETIREMENT BENEFIT PLANS

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

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

The total cost charged to income statement of approximately RMB331,000 (2006: RMB1,635,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

SHARE OPTION SCHEME

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

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

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

An option may be exercised at any time during a period which shall not exceed ten years from the date of grant subject to the provisions of early termination under the Scheme.

The status of the share options granted up to 31 December 2007 is as follows:

Category of participants	As at 1 January 2007	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 31 December 2007	Date of grant of share option	Exercise period of share options	Exercise price of share options *HK$*	Share price of the Company as at the date of grant of share option** *HK$*
Employee*	–	40,000,000	–	–	40,000,000	11 May 2007	10 years from the date of grant	0.55	0.55

* There was a total of 10 employees of the Group being granted options under the Scheme during the period, all of whom are not Directors, chief executive or substantial shareholders of the Group or their respective associates.

** The closing price of the Shares immediately before the date on which the options were granted was HK$0.46.

The details of the model and significant assumptions used to estimate the fair value of the share options granted by the Group to the eligible participants during the period are set out under Note 32 to condensed financial statements of this report.

Apart from the foregoing, at no time during the period prior to the date of this report was the Group, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in or debentures of the Group or any other body corporate.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

During the year ended 31 December 2007, neither the Group nor any of its subsidiaries has purchased, sold or redeemed any of the Group's listed securities.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2007, the Directors were not aware of any business or interest of the Directors or any management shareholder (as defined under the Main Board Listing Rules) of the Group and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with such code of conduct during the year ended 31 December 2007.

PUBLIC FLOAT

From information publicly available to the Group and within the knowledge of the Directors, at least 25% of the Group's total issued share capital are held by the public at all times from 1 January 2007 up to the date of this report.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Group's corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

The Group's compliance with the code provisions is set out in the Corporate Governance Report from page 21 to page 25 of this annual report.

POST BALANCE SHEET EVENTS

There have not been any significant events occurred after the balance sheet date.

AUDITORS

Deloitte Touche Tohmatsu ("Deloitte") has acted as auditors of the Company for the years ended 31 December 2004 and 31 December 2005. On 15 March 2007, Deloitte resigned as auditors of the Company and CCIF CPA Limited was appointed as the new auditors of the Company and the appointment was confimed by the shareholders in an extraordinary general meeting on 10 April 2007.

CCIF CPA Limited shall retire in the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF CPA Limited as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chen Jun
Chairman

Hong Kong, 25 April 2008

The Group's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

The Board recognises the importance of good corporate governance practices and for the year ended 31 December 2007, the Group has complied with the Code Provisions save for the deviation from Code Provision A 2.1. Such deviation has been rectified with the appointment of Mr. Chen Jun as the Chairman of the Board on 27 March 2007 and Mr. Zhao Yun as the Chief Executive Officer of the Company on 27 March 2007 with a clear division of responsibilities.

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

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

Board of Directors

Composition

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

Executive Directors

Chen Jun *(Chairman)*	(Appointed as Director on 6 March 2007 and Chairman on 27 March 2007)
Zhao Yun *(Chief Executive Officer)*	(Appointed as Director on 6 March 2007 and Chief Executive Officer on 27 March 2007)
Sun Lianggui	(Resigned on 27 March 2007)
Zhou Zhongdong	(Resigned on 27 March 2007)

Independent Non-executive Directors

Hung, Randy King Kuen	
Qi Fa Cheng	(Appointed on 29 May 2007)
Chen Wen Ping	(Appointed on 29 May 2007)
Wang Yuechao	(Resigned on 29 May 2007)
Wei Zhiqiang	(Resigned on 29 May 2007)

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

There is no financial, business, family or other material/relevant relationship among the members of the Board, in particular, between the Chairman of the Board and the Chief Executive Officer. One of the independent non-executive Directors, Mr. Hung, Randy King Kuen has entered into a service agreement with the Company for a term of three years commencing on 27 July 2007 unless terminated by not less than one month's notice in writing served by either party on the other. The other two independent non-executive Directors namely, Mr. Chen Wen Ping and Mr. Qi Fa Cheng have respectively entered into a service contract with the Company for a term of one year commencing on 29 May 2007 and ending at the forthcoming annual general meeting. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association.

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

Board Meetings

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

A record of the directors' attendance at Board meetings is set out as follows:

		Attendance/ Number of Meetings
Executive Directors		
Chen Jun	(Appointed on 6 March 2007)	6/10
Zhao Yun	(Appointed on 6 March 2007)	6/10
Sun Lianggui	(Resigned on 27 March 2007)	4/10
Zhou Zhongdong	(Resigned on 27 March 2007)	4/10
Independent Non-executive Directors		
Hung, Randy King Kuen		10/10
Qi Fa Cheng	(Appointed on 29 May 2007)	6/10
Chen Wen Ping	(Appointed on 29 May 2007)	6/10
Wang Yuechao	(Resigned on 29 May 2007)	4/10
Wei Zhiqiang	(Resigned on 29 May 2007)	4/10

Board Responsibilities and Delegation

The Board is responsible to the shareholders for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the annual development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system and supervising and managing management's performance. The Board delegates the day-to-day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Group. The Board gives clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Group by the management.

Chairman and Chief Executive Officer

The Group understands that the role of Chairman of the Board and Chief Executive Officer shall have clear division of responsibilities. The Group has appointed a separate Chairman and Chief Executive Officer on 27 March 2007. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Chen Jun, the Chairman, is responsible for the operation of the Board and the formulation of the Group's strategies and policies. Mr. Zhao Yun, the Chief Executive Officer, with the assistance of other members of the Board and senior management, is responsible for the management of the Group's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and receive adequate, complete and reliable information in a timely manner.

Appointment, Re-election and Removal of Directors

The Group has not established a nomination committee and retained the functions to the Directors. The Directors from time to time identify individuals suitably qualified to become Board members and make recommendations to the Board. The main consideration in selecting candidates for directorships on the Board is whether their characters, qualifications and experience are appropriate for the businesses of the Group. During the year, the Board did not nominate any new Directors.

Newly appointed directors of the Group will receive induction and reference materials to enable him to familiarize with the Group's business operations and board policies. Each director is briefed and updated from time to time to ensure that he is fully aware of his responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group.

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

All the executive Directors and independent non-executive Directors will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election in accordance with Article 87 of the Articles of Association.

Directors' Securities Transactions

The Group has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with such code of conduct throughout the year ended 31 December 2007.

Directors' Responsibility for the Group's Financial Reporting

The Board acknowledges its responsibilities for preparing the financial statements which give a true and fair view of the state of affairs of the Group and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. In preparing the financial statements for the year ended 31 December 2007, the directors have selected suitable accounting policies and apply them consistently and made prudent and reasonable judgments and estimates.

Remuneration Committee

The Group established a remuneration committee ("Remuneration Committee") on 25 April 2005, which comprises three independent non-executive Directors and one executive Director.

Members of Remuneration Committee

Zhao Yun *(Chairman)*	(Appointed on 27 March 2007)
Sun Lianggui *(Chairman)*	(Resigned on 27 March 2007)
Hung, Randy King Kuen	
Qi Fa Cheng	
Chen Wen Ping	

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for the remuneration of Directors, reviewing and approving their specific remuneration package by reference to market conditions, performance of the Group and corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee held one meeting during the year ended 31 December 2007 to renew the Group's remuneration policy and approve the terms of executive directors' service contracts. During the year, the Board as a whole had determined the remuneration policy and packages of the directors. No individual director is allowed to participate in the procedures for deciding his individual remuneration package.

Internal Control

The Board is committed to managing business risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets. The Board, through the Audit Committee, has conducted annual reviews of the effectiveness of the Group's system of internal control covering all controls, including financial, operational and compliance controls, and risk management processes. The Board, through the review of the Audit Committee, is satisfied that the Group has fully complied with the Code Provisions on internal controls during the year ended 31 December 2007 as set forth in the CG Code.

Auditors' Remuneration

The remuneration paid or payable to the external auditors of the Group in 2007 comprised of fees for audit services of HKD400,000 and fees for non-audit services work of HKD60,000 being the fees for independent review on 2007 interim report.

Audit Committee

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

The Audit Committee comprises three independent non-executive Directors.

Members of Audit Committee		Attendance/ Number of Meetings
Hung, Randy King Kuen *(Chairman)*		2/2
Qi Fa Cheng	(Appointed on 29 May 2007)	1/2
Chen Wen Ping	(Appointed on 29 May 2007)	1/2
Wang Yuechao	(Resigned on 29 May 2007)	1/2
Wei Zhiqiang	(Resigned on 29 May 2007)	1/2

The Audit Committee held 2 meetings during the year ended 31 December 2007 to review the financial results and reports; financial controls; internal controls; and risk management systems; and the reappointment of the external auditors. The Group's annual report for the year ended 31 December 2007 have been reviewed by the Audit Committee. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF ZHONGTIAN INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Zhongtian International Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 28 to 83, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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 consolidated 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 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 consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong
25 April 2008

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	5	**6,966**	23,466
Cost of sales		**(5,463)**	(16,556)
Gross profit		**1,503**	6,910
Other income	6	**1,173**	5,381
Distribution costs		**(2,081)**	(5,410)
General and administrative expenses		**(19,242)**	(15,978)
Impairment loss of trade receivables	20b	**(1,674)**	(3,970)
Impairment loss of other receivables	23	**(820)**	(569)
Impairment loss of loans receivable	21	**(11,469)**	–
Impairment loss of development costs	15	**(280)**	(4,589)
(Loss)/gain on disposal of property, plant and equipment		**(104)**	2,110
Loss from operation		**(32,994)**	(16,115)
Share of result of an associate		**–**	(81)
Finance costs		**(10)**	–
Loss before income tax	7	**(33,004)**	(16,196)
Income tax	10	**–**	–
Loss for the year		**(33,004)**	(16,196)
Attributable to:			
Equity holders of the Company	11	**(33,004)**	(16,192)
Minority interests		**–**	(4)
		(33,004)	(16,196)
Dividends	12	**–**	3,074
Loss per share	13		
– Basic		**(8.25 Cents)**	(4.05 Cents)
– Diluted		**N/A**	N/A

The notes on pages 34 to 83 form an integral part of these financial statements.

At 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,753**	1,808
Development costs	15	**–**	490
Land use rights	16	**63,654**	65,778
Property held for development	18	**41,315**	1,762
		106,722	69,838
Current assets			
Inventories	19	**–**	3,389
Trade receivables	20	**–**	4,667
Loans receivable	21	**–**	30,869
Securities held for trading	22	**6,180**	–
Deposits, prepayments and other receivables	23	**2,838**	3,255
Land use rights	16	**1,746**	1,746
Amount due from a director	24	**–**	118
Cash and bank balances	25	**28,354**	29,173
		39,118	73,217
Total assets		**145,840**	143,055
Current liabilities			
Interest-bearing bank borrowings	26	**30,000**	–
Trade, bills and other payables	27	**3,435**	5,515
Obligations under finance leases	28	**100**	–
Amounts due to directors	29	**427**	422
Income tax payable		**1,100**	1,100
		35,062	7,037
Net current assets		**4,056**	66,180
Total assets less current liabilities		**110,778**	136,018
Non-current liabilities			
Obligations under finance leases	28	**259**	–
Net assets		**110,519**	136,018
Capital and reserves			
Issued capital	30	**42,428**	42,428
Reserves	31	**68,091**	93,589
Equity attributable to equity holders of the Company		**110,519**	136,017
Minority interests		**–**	1
Total equity		**110,519**	136,018

The financial statements on pages 28 to 83 were approved and authorised for issue by the board of directors on 25 April 2008 and are signed on its behalf by:

Chen Jun
Director

Zhao Yun
Director

The notes on pages 34 to 83 form an integral part of these financial statements.

Balance Sheet

At 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14	**438**	–
Investments in subsidiaries	17	**79,635**	85,549
		80,073	85,549
Current assets			
Deposits, prepayments and other receivables	23	**1**	181
Cash and bank balances	25	**4,777**	8,515
		4,778	8,696
Total assets		**84,851**	94,245
Current liabilities			
Other payables	27	**529**	407
Obligations under finance leases	28	**100**	–
Amount due to a director	29	**77**	–
		706	407
Net current assets		**4,072**	8,289
Total assets less current liabilities		**84,145**	93,838
Non-current liabilities	28		
Obligations under finance leases		**259**	–
Net assets		**83,886**	93,838
Capital and reserves			
Issued capital	30	**42,428**	42,428
Reserves	31	**41,458**	51,410
Total equity		**83,886**	93,838

The notes on pages 34 to 83 form an integral part of these financial statements.

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 1)*	Translation reserve RMB'000	Statutory surplus reserve RMB'000	Public welfare fund RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	42,428	47,246	20,001	(724)	11,415	5,004	–	30,295	155,665	5	155,670
Exchange differences on translation of foreign subsidiaries	–	–	–	(382)	–	–	–	–	(382)	–	(382)
Loss for the year	–	–	–	–	–	–	–	(16,192)	(16,192)	(4)	(16,196)
Transfer *(Note 2)*	–	–	–	–	650	327	–	(977)	–	–	–
Transfer	–	–	(13,261)	–	–	–	–	13,261	–	–	–
Dividend paid – 2005	–	–	–	–	–	–	–	(3,074)	(3,074)	–	(3,074)
At 31 December 2006	42,428	47,246	6,740	(1,106)	12,065	5,331	–	23,313	136,017	1	136,018
At 31 December 2006 and at 1 January 2007	42,428	47,246	6,740	(1,106)	12,065	5,331	–	23,313	136,017	1	136,018
Exchange differences on translation of foreign subsidiaries	–	–	–	(710)	–	–	–	–	(710)	–	(710)
Loss for the year	–	–	–	–	–	–	–	(33,004)	(33,004)	–	(33,004)
Recognition of equity compensation benefits	–	–	–	–	–	–	8,216	–	8,216	–	8,216
Dissolution of a subsidiary	–	–	–	–	–	–	–	–	–	(1)	(1)
At 31 December 2007	**42,428**	**47,246**	**6,740**	**(1,816)**	**12,065**	**5,331**	**8,216**	**(9,691)**	**110,519**	**–**	**110,519**

Notes:

1. The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of Reorganization prior to the listing of the Company's shares.

2. Articles of Association of the Company's PRC subsidiaries require the appropriation of certain percentage of their profit after income tax each year to the statutory surplus reserve fund until the balance reaches 50% of the registered capital. In normal circumstances, the statutory surplus reserve fund shall only be used for making up losses, capitalization into registered capital and expansion of the subsidiaries' production and operation. For the capitalization of statutory surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

   Pursuant to their Articles of Association, the Company's PRC subsidiaries shall make allocation from their profit after taxation at the rate of 5% to 10% to the public welfare fund. The public welfare fund can only be utilized on capital items for employees collective welfare. The public welfare fund forms part of the shareholders' equity but it is not distributable other than in liquidation. With effect on 1 January 2006, the appropriation is not a statutory requirement in accordance with the PRC Company Law (2006 Amendment). The appropriation is subject to the shareholders' approval in the annual shareholders meeting of the Company. The Directors considered that this appropriation should be made in current year.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES			
Loss before income tax		**(33,004)**	(16,196)
Adjustments for:			
Interest income		**(613)**	(1,347)
Interest expenses		**10**	–
Share of result of an associate		**–**	81
Amortization of development costs		**210**	1,661
Depreciation of property, plant and equipment		**884**	1,827
Impairment loss of development costs		**280**	4,589
Impairment loss of trade receivables		**1,674**	3,970
Impairment loss of other receivables		**820**	569
Impairment loss of loans receivable		**11,469**	–
Loss/(gain) on disposal of property, plant and equipment		**104**	(2,110)
Loss on dissolution of a subsidiary	*33*	**(1)**	–
Gain on disposal of an associate		**–**	(13)
Negative goodwill recognized	*34*	**–**	(88)
Equity compensation benefits	*32*	**8,216**	–
Operating cash flows before movements in working capital		**(9,951)**	(7,057)
Decrease/(increase) in inventories		**3,389**	(2,582)
Decrease in trade receivables		**2,993**	23,751
Decrease/(increase) in loans receivable, interest-free		**7,400**	(18,869)
Increase in deposits, prepayments and other receivables		**(403)**	(711)
Decrease/(increase) in amount due from a director		**118**	(118)
Decrease in trade and bills and other payables		**(2,080)**	(42,354)
Decrease in amounts due to directors		**5**	(858)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**1,471**	(48,798)
INVESTING ACTIVITIES			
Interest received		**613**	1,347
Advance of loans receivable		**–**	(12,000)
Repayment of loans receivable		**12,000**	10,000
Purchase of property, plant and equipment		**(932)**	(39)
Payment for property held for development		**(37,429)**	–
Purchase of securities held for trading		**(6,180)**	–
Proceeds from disposal of property, plant and equipment		**–**	10,721
Acquisition of a subsidiary	*34*	**–**	(39,817)
NET CASH USED IN INVESTING ACTIVITIES		**(31,928)**	(29,788)

	Notes	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES			
Proceeds from interest-bearing bank borrowings	26	**30,000**	–
Proceeds from finance leases		**416**	–
Capital element of finance lease rentals paid		**(43)**	–
Interest element of finance lease rentals paid		**(10)**	–
Dividend paid		**–**	(3,074)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**30,363**	(3,074)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(94)**	(81,660)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**29,173**	111,215
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(725)**	(382)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	25	**28,354**	29,173

The notes on pages 34 to 83 form an integral part of these financial statements.

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Group has incurred a loss of RMB33,004,000 for the year ended 31 December 2007 and as at 31 December 2007, there are outstanding capital commitments of RMB227,730,000 in relation to the property held for development ("Project"). After having taken into account of the future cash projection for the Project, the available credit facility of RMB120,000,000 granted by a bank and the financial support letter from Mr. Chen Jun, the controlling beneficial owner of the Company, the directors of the Company are of the opinions that the Group would have sufficient working capital to meet its obligations as and when they fall due and to carry on its business for the foreseeable future. Consequently, the directors of the Company have prepared the financial statements on a going concern basis.

(b) Statement of compliance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of presentation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

In the current year, the Group adopted the new/revised standards and interpretations to the published standards below, which are relevant to its operation.

HKFRS 7	Financial Instrument: Disclosures
HKAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new/revised standards and interpretations did not result in any substantial changes to the Group's accounting policies, except for disclosures relating to financial instruments made in the financial statements.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of consolidation

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries.

Subsidiaries

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

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

Minority interests represent the portion of the net asset of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sales).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associate

An associate is an entity in which the Group and the Company has significant influence, but not control or joint control, over its management, including participation in the consolidated financial statements.

An investment in associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. The consolidation income statement of the Group includes its share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from the Group's transactions with the associate are eliminated to the extent of the Group's relevant interests in the associate, except where the losses provide evidence of an impairment of the asset transferred in which case losses are recognised immediately for the impairment.

(f) Other investments in debt and equity securities

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

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the consolidated income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement does not include any dividends or interest earned on these investments as these are recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other investments in debt and equity securities (Continued)

Debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities, At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in the consolidated income statement and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the consolidated income statement. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the consolidated income statement.

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

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings are self-use buildings.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts less their residual values over their estimated useful lives as follows:

Land and buildings	Over the lease term
Leasehold improvements	Over the unexpected term of the lease
Motor vehicles	20%
Furniture, fixtures and equipment	20%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

The asset's residue values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

(h) Property held for development

When the leasehold land and buildings are in the course of development for production, rental, for administrative purposes or for sale, the leasehold land component is classified as a land use rights and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use.

(i) Leased assets

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

(i) Classification of assets leased to the Group

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Leased assets (Continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(j) Impairment of assets

(i) Impairment of investment in debt and equity securities and trade and other receivables

Investment in debt and equity securities (other than investments in subsidiaries and associates) and trade and other receivables are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– significant financial difficulty of the debtor;

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(i) Impairment of investment in debt and equity securities and trade and other receivables (Continued)

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

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

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

– For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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

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

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(i) Impairment of investment in debt and equity securities and trade and other receivables (Continued)

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

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- property held for development;
- prepaid interests in land use rights;
- investments in subsidiaries and associates;
- development costs.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

- Calculation of recoverable amount

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(k) Inventories

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

Cost is calculated using the first in, first out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the future cash flows is discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost without any difference between cost and redemption value being recognised in the consolidated income statement over the period of borrowings using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measures in accordance, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

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

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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

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

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

  – the same taxable entity; or

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

(q) Provisions and contingent liabilities

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

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

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Foreign currency transactions

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at year-end exchange rates of monetary assets and liabilities, denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sales financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all group entities that have functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of gain or loss on sale.

(s) Employees benefits

(i) Retirement benefits scheme

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employees benefits (Continued)

(ii) Share-based compensation

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

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

(t) Revenue recognition

Provided it is probable that the economics benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sales of goods

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Sales of services

Services income are recognised when the related services are rendered.

Revenue from systems installation contracts, which includes the procurement of hardware on behalf of customers, system design, planning, consulting, systems integration services, software implementation and maintenance is recognised based on the percentage of completion method by reference to the value of work carried out during the period. When the outcome of the contract cannot be estimated reliably, the costs incurred are recognised as an expense and the revenue is recognised only to the extent of contracts incurred that it is probable will be recoverable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Revenue recognition (Continued)

(iii) Interest income

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

(iv) Government grants

Unconditional government grants are recognised as revenue according to the grant period.

(u) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads and amortised from the point at which the asset is ready for use on a straight-line basis over their estimate useful lives, not exceeding five years. Other development expenditure is recognised as an expense in the period in which it is incurred.

(v) Related parties

Parties are 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 excise 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 the key management personnel of the Group or its 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 member of the family of any individual 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

(x) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between gropu entities within a single segment. Inter-segment pricing is based on similar terms as those avaiable other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(y) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognized as revenue in profit or loss on a systematic basis. Grants that compensate the group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

3. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments, comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables which arises directly from its operations.

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

(a) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(i) Trade and other receivables and loans receivable

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 to 180 days from the date of billing. Debtors with balances that are more than three months from the date of billing are requested to settle all outstanding balances before any further credit is granted.

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables and loans receivable (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or the counterparties. The default risk of the industry and country in which customers or the counterparties operate also has an influence on credit risk but to a lesser extent. Further quantitative analysis in respect of the Group's exposure to credit risk arising from trade and other receivables and loans receivable are set out in notes 20, 23 and 21 respectively.

At the balance sheet date, the Group has a certain concentration of credit risk as nil (2006: 41%) and nil (2006: 69%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2007, respectively.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

The Group will rely to a greater extent on available credit facilities and proceeds received from pre-sale of property units (sold in advance of the completion of the real estate projects) to fund its development and construction of real estate projects. As there is no assurance that proceeds received from future pre-sales of the Group's current real estate projects will be sufficient to meet the Group's needs, the Group's operating plan requires it to raise additional funds to finance the development and construction of its current real estate projects. If the Group is unable to raise additional equity or debt financing, the Group's expansion plans and operations might need to be curtailed.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The following table shows that time periods after the balance sheet date during which contractual payments, presented on an undiscounted basis, are due to be made. These payments include, among others, interest payments computed using contractual rates (or fixed rate instruments) under the Group's non-derivative financial liabilities which are due to be paid.

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Group

	2007				2006			
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	After 1 year but within 5 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or ondemand RMB'000	After 1 year but within 5 years RMB'000
Interest-bearing bank borrowings	30,000	32,465	32,465	-	–	–	–	–
Trade, bills and other payables	3,435	3,435	3,435	-	5,515	5,515	5,515	–
Amounts due to directors	427	427	427	-	422	422	422	–
Obligations under finance leases	359	442	123	319	–	–	–	–
Income tax payable	1,100	1,100	1,100	-	1,100	1,100	1,100	–
	35,321	37,869	37,550	319	7,037	7,037	7,037	–

Company

	2007				2006			
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	After 1 year but within 5 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	After 1 year but within 5 years RMB'000
Other payables	529	529	529	-	407	407	407	–
Amount due to a director	77	77	77	-	–	–	–	–
Obligations under finance leases	359	442	123	319	–	–	–	–
	965	1,048	729	319	407	407	407	–

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Since the Group mainly entered into fixed interest rate loans with short-term maturities, there are no significant cash flow interest rate risk and fair value interest rate risk at 31 December 2007. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2007, it is estimated that a general increase/decrease 100 basis points in interest rates, with all other variable held constant, would increase/decrease the Group's loss after tax and accumulated losses for the year approximately RMB16,000 (2006: RMB292,000). Other components of equity would not be affected (2006: nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Commodity price risk

The major raw material used in the production of the Group's products included computer hardwares, softwares and related parts. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(e) Business risk

The Group's sales are primarily made to several major customers. The Group has a certain concentration of business risk as 85% (2006: 77%) of the total sales were made from the Group's five largest customers. In the event that these customers ceased to purchase from the Group and the Group could not secure orders from other customers, the Group's turnover and profitability would be adversely affected.

The Group's purchases of raw materials are primarily from several major suppliers. Although the Group has entered into co-operative agreement with these major suppliers, there can be no assurance that they will continue to supply the Group as and when needed. The Group has a certain concentration of business risk as 86% (2006: 78%) of the total purchases were from the Group's five largest suppliers. If the Group could not purchase adequate quantities of materials from these suppliers and failed to identify alternative sources, the Group's turnover and profitability could be adversely affected.

3. FINANCIAL RISK MANAGEMENT (Continued)

(f) Foreign currency risk

The Group is exposed to currency risk primarily through bank deposits that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US dollars and Hong Kong dollars.

(i) Exposure to currency risk

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

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**5**	22	**5**	8

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's loss after tax (and accumulated losses) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes bank deposits where the denomination of the balances is in a currency other than the functional currency.

	2007			2006		
	Increase/ (decrease) in foreign exchange rates	**Effect on loss after tax and accumulated losses**	**Effect on other components of equity**	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and accumulated losses	Effect on other components of equity
		RMB'000	**RMB'000**		RMB'000	RMB'000
US dollars	**5%**	**–**	**–**	5%	–	–
HK dollors	**(5%)**	**–**	**–**	(5%)	1	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

3. FINANCIAL RISK MANAGEMENT (Continued)

(g) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

Consistent with the industry practice, the Group monitors its capital structure on the basis of net debt-to-capital ratio, which is calculated as the Group's total borrowings as shown in consolidated balance sheet less cash and cash equivalents. Total capital is defined as shareholders' equity over the Group's total debts.

The net debt-to-capital ratio as at 31 December 2007 and 2006 were as follows:

The Group

	2007	2006
	RMB'000	RMB'000
Interest-bearing bank borrowings	**30,000**	–
Trade, bills and other payables	**3,435**	5,515
Amounts due to directors	**427**	422
Obligations under finance leases	**359**	–
Tax payable	**1,100**	1,100
Total debts	**35,321**	7,037
Less: Cash and bank balances	**(28,354)**	(29,173)
Adjusted net debts/(net cash postion)	**6,967**	22,136
Shareholders' equity	**110,519**	136,017
Net debt-to-capital ratio	**6.3%**	N/A

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(h) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(i) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(ii) Liquid or/and short-term assets and liabilities

For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate their fair values. The assumption is applied to trade, other and loans receivables, trade and other payables, cash and cash equivalents without a specific maturity and variable rate financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Useful lives and residual values of property, plant and equipment

Useful lives of the Group's property, plant and equipment are defined as the period over which they are expected to be available for use by the Group. This estimate is base on the historical experience of the actual useful lives of property, plant and equipment or similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciation lives and residual lives and therefore depreciable expense in future periods.

(b) Impairment of property, plant and equipment and property held for development

Property, plant and equipment and property held for development are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or market valuations. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which requires significant judgement relating to such items such as level of turnover and amount of operating costs. No impairment was provided during the year.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Impairment of trade and other receivables and loans receivables

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

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are made with reference to age analysis of inventories, projection of expected sale volume and management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts to inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Estimate of fair value of financial instruments

The best evidence of fair value is current prices in an active market for listed equity securities and investment fund. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates.

(f) Income taxes

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

5. TURNOVER AND SEGMENTS INFORMATION

Business segments

The Group is organised into 2 main categories of business segments:

(i) *Information technology*

This business segment is currently organised into four operating divisions – system integration, customised software products, sale of hardware and software products and maintenance and other services.

(ii) *Property development and investment*

This segment is newly engaged by the Group. No turnover and profit were contributed by this new segment in current year as the project is still at early stage of development.

Business segments for the year are as follows:

GROUP

2007

	Information technology						Property development and investment	Inter-segment elimination	Unallocated	Group
	System integration RMB'000	Customised software products RMB'000	Sale of hardware & software products RMB'000	Maintenance & other services RMB'000	Inter-division elimination RMB'000	Sub total RMB'000	Sales of properties RMB'000	RMB'000	RMB'000	RMB'000
Turnover – external	2,150	516	2,977	1,323	-	6,966	-	-	-	6,966
Turnover – inter-segment	-	-	-	-	-	-	-	-	-	-
	2,150	516	2,977	1,323	-	6,966	-	-	-	6,966
Segment results	945	33	236	289		1,503	-		-	1,503
Unallocated other income						1,173	-		-	1,173
Impairment loss of development costs						(280)	-		-	(280)
Impairment loss of trade receivables						(1,674)	-		-	(1,674)
Impairment loss of other receivables						(820)	-		-	(820)
Impairment loss of loans receivable						-	-		(11,469)	(11,469)
Loss on disposal of property, plant and equipment						(104)	-		-	(104)
Unallocated expenses						-	-		(21,323)	(21,323)
Loss from operation										(32,994)
Share of result of an associate						-	-		-	-
Finance costs						(10)	-		-	(10)
Loss before income tax										(33,004)
Income tax						-	-		-	-
Loss for the year										(33,004)

5. TURNOVER AND SEGMENTS INFORMATION (Continued)

Business segments (Continued)

2006

	Information technology						Property development and investment	Inter-segment elimination	Unallocated	Group
	System integration RMB'000	Customised software products RMB'000	Sale of hardware & software products RMB'000	Maintenance & other services RMB'000	Inter-division elimination RMB'000	Sub total RMB'000	Sales of properties RMB'000	RMB'000	RMB'000	RMB'000
Turnover – external	8,670	3,310	7,904	3,582	–	23,466	–	–	–	23,466
Turnover – inter-segment	–	–	–	–	–	–	–	–	–	–
	8,670	3,310	7,904	3,582	–	23,466	–	–	–	23,466
Segment results	4,155	401	1,485	869		6,910	–		–	6,910
Unallocated other income						5,381	–		–	5,381
Impairment loss of development costs						(4,589)	–		–	(4,589)
Impairment loss of trade receivables						(3,970)	–		–	(3,970)
Impairment loss of other receivables						(569)	–		–	(569)
Impairment loss of loans receivable						–	–		–	–
Gain on disposal of property, plant and equipment						2,110	–		–	2,110
Unallocated expenses						–	–		(21,388)	(21,388)
Loss from operation										(16,115)
Share of result of an associate						–	–		(81)	(81)
Finance costs						–	–		–	–
Loss before income tax										(16,196)
Income tax						–	–		–	–
Loss for the year										(16,196)

	Information technology		Property development		Group	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Assets						
Segment assets	**3,853**	12,800	**107,453**	70,095	**111,306**	82,895
Loans receivable					**–**	30,869
Securities held for trading					**6,180**	–
Unallocated assets					**28,354**	29,291
Total assets					**145,840**	143,055
Liabilities						
Segment liabilities	**3,350**	5,450	**30,085**	65	**33,435**	5,515
Unallocated liabilities					**1,886**	1,522
Total liabilities					**35,321**	7,037

5. TURNOVER AND SEGMENTS INFORMATION (Continued)

Other information

	Information technology		Property development and investment		Unallocated		Group	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Capital expenditure	**932**	39	**39,553**	70,095	**–**	–	**40,485**	70,134
Depreciation	**884**	1,827	**–**	–	**–**	–	**884**	1,827
Amortisation	**210**	1,661	**–**	–	**–**	–	**210**	1,661
Cost of inventories recognised as expense	**5,463**	16,556	**–**	–	**–**	–	**5,463**	16,556

Geographical segments

No geographical segment information of the Group is shown as the Group's operations, sales by geographical market and assets are substantially located in the PRC.

6. OTHER INCOME

	2007	2006
	RMB'000	RMB'000
Refund of value added tax *(note a)*	**–**	2,374
Government subsidy *(note 27a)*	**320**	1,272
Interest income on bank deposits	**192**	950
Interest income on loans receivable	**421**	397
Gain on disposal of an associate	**–**	13
Negative goodwill recognised *(note 33)*	**–**	88
Others	**240**	287
	1,173	5,381

Note:

(a) Value added tax is paid at 17%. Pursuant to an approval by the Shinan Sub-Bureau of the Qingdao Local Tax Bureau in February 2003 and January 2004, Qingdao Zhongtian Information Technology Co., Ltd. 青島中天信息技術有限公司 ("Zhongtian Information"), a subsidiary of the Company, is entitled to refund of value added tax on sales of qualified software products as Zhongtian Information is ranked as a software enterprise. Duriing the year, Zhongtian Information did not have sale of the qualified software products and thus, no refund of valued added tax was received.

7. LOSS BEFORE INCOME TAX

	2007 **RMB'000**	2006 RMB'000
Loss before income tax has been arrived at after charging:		
Auditors' remuneration		
– audit service	**447**	410
– non-audit services	**–**	387
Amortisation of development costs	**210**	1,661
Cost of inventories recognised as expense	**5,463**	16,556
Depreciation of property, plant and equipment	**884**	1,827
Equity compensation benefits to consultants *(note 32)*	**3,286**	–
Interest on finance leases	**10**	–
Operating lease rentals on rented premises	**885**	199
Staff costs:		
Directors' emoluments *(note 8)*	**766**	2,348
Equity compensation benefits *(note 32)*	**4,930**	–
Other staff costs	**1,821**	6,083
Retirement benefits scheme contribution	**309**	1,599

8. DIRECTORS' EMOLUMENTS

Year ended 31 December 2007:

	Fees RMB'000	**Salaries and other benefits RMB'000**	**Retirement benefit scheme contributions RMB'000**	**Total emoluments RMB'000**
Sun Lianggui	**–**	**–**	**–**	**–**
Chen Jun	**–**	**434**	**12**	**446**
Zhao Yun	**–**	**216**	**10**	**226**
Zhou Zhongdong	**–**	**–**	**–**	**–**
Hung Randy King Kuen	**58**	**–**	**–**	**58**
Wang Yuechao	**–**	**–**	**–**	**–**
Wei Zhiqiang	**–**	**–**	**–**	**–**
Qi Facheng	**18**	**–**	**–**	**18**
Chen Wenping	**18**	**–**	**–**	**18**
	94	**650**	**22**	**766**

8. DIRECTORS' EMOLUMENTS (Continued)

Year ended 31 December 2006:

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Sun Lianggui	–	645	9	654
Wang Zhaobo	–	450	9	459
Sun Xianfang	–	422	9	431
Wang Jiaqing	–	404	9	413
Zhou Zhongdong	–	271	–	271
Hung Randy King Kuen	60	–	–	60
Wang Yuechao	30	–	–	30
Wei Zhiqiang	30	–	–	30
	120	2,192	36	2,348

No emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for both years.

None of the directors waived their emoluments for both years.

9. EMPLOYEE'S EMOLUMENTS

The five highest paid employees during the year include none director (2006: five). Details of the remuneration of the five (2006: none) non-director and highest paid employee is as follows:

	2007 RMB'000	2006 RMB'000
Salaries, allowances and benefits in kind	**224**	–
Equity compensation benefits	**4,108**	–
Pension contributions	**36**	–
	4,368	–

The remuneration of above five (2006: Nil) non-director and highest paid employee fell within the following bands:

	Number of employees	
	2007	2006
Nil – HK$1,000,000 (equivalent to Nil – RMB972,000)	**5**	–

10. INCOME TAX

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC enterprise income tax of the Group's subsidiaries is 30% and the local income tax at 3%. Zhongtian Information is granted certain tax relief, under which they are exempted from the PRC enterprise income tax for the first two profit making years and entitled to an income tax reduction of 15% for the next three years with full exemption from local income tax. As the first profit making of Zhongtian Information was 2004, it was entitled to 50% exemption from the PRC enterprise income tax and full exemption of local income tax during the year ended 31 December 2007 and 2006.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2007		2006	
	RMB'000	**%**	RMB'000	%
Loss before income tax	**(33,004)**		(16,196)	
Tax at domestic income tax rate	**(10,891)**	**(33.0)**	(5,345)	(33.0)
Tax effect of income that are not taxable under tax holidays	**(5,101)**	**(15.5)**	(4,987)	(30.8)
Tax effect of expenses that are not deductible in determining taxable profit	**13,960**	**42.3**	2,573	15.9
Tax effect on unrecognised tax loss	**2,032**	**6.2**	7,759	47.9
Tax expense and effective tax rate for the year	**–**	**–**	–	–

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which will be effective from 1 January 2008. According to the new CIT Law, the PRC income tax for both domestic and foreign investment enterprises will be unified at 25% effective from 1 January 2008. There will be a transition period for enterprises that currently receive preferential tax treatments granted by relevant tax authorities. Enterprises that are subject to a PRC income tax rate lower than 25% may continue to enjoy the lower PRC income tax rate and gradually transfer to the new PRC income tax rate within five years after the effective date of the new CIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

No deferred tax assets have been recognised at 31 December 2007 and 2006 in respect of the tax losses due to unpredictability of future profit streams.

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of RMB11,612,000 (2006: RMB44,342,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

	2007	2006
	RMB'000	RMB'000
Final dividends paid in respect of 2005 *(note (b))*	**–**	3,074

Notes:

(a) The Board of Directors of the Company does not recommend the payment of any dividend for the year ended 31 December 2007 and 2006.

(b) A final dividend in respect of 2005 at HK$0.0075 per share was paid during 2006.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year attributable to equity holders of the Company of RMB33,004,000 (2006: RMB16,192,000) and weighted average number of 400,000,000 (2006: 400,000,000) ordinary shares in issue.

Diluted loss per share for the year ended 31 December 2007 (2006: Nil) has not been presented as the effect of the potential ordinary shares under the outstanding granted share options would be anti-dilutive.

14. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicle RMB'000	Furniture, fixture and equipment RMB'000	Total RMB'000
COST					
At 1 January 2006	9,776	1,440	2,359	3,307	16,882
Additions	–	–	–	39	39
Acquisition of a subsidiary *(note 33)*	–	–	–	5	5
Disposals	(9,776)	(1,440)	–	(1,484)	(12,700)
At 31 December 2006 and 1 January 2007	–	–	2,359	1,867	4,226
Additions	–	–	828	104	932
Disposals	–	–	–	(536)	(536)
Exchange difference	–	–	1	–	1
At 31 December 2007	**–**	**–**	**3,188**	**1,435**	**4,623**
DEPRECIATION AND AMORTISATION					
At 1 January 2006	1,596	690	884	1,510	4,680
Provided for the year	582	138	508	599	1,827
Eliminated on disposals	(2,178)	(828)	–	(1,083)	(4,089)
At 31 December 2006 and 1 January 2007	–	–	1,392	1,026	2,418
Provided for the year	–	–	549	335	884
Eliminated on disposals	–	–	–	(432)	(432)
At 31 December 2007	**–**	**–**	**1,941**	**929**	**2,870**
NET BOOK VALUES					
At 31 December 2007	**–**	**–**	**1,247**	**506**	**1,753**
At 31 December 2006	–	–	967	841	1,808

Land and buildings were situated in the PRC and were held under long-term leases which were disposed in the prior year.

During the year, addition of one motor vehicle of the Group financed by new finance lease was RMB478,000 (2006: Nil). At the balance sheet date, the net book value of motor vehicle held under finance lease of the group and the company was RMB438,000 (2006: Nil).

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

COMPANY

	Motor vehicle RMB'000
COST	
At 1 January 2006, 31 December 2006 and 1 January 2007	–
Additions	478
Exchange difference	1
At 31 December 2007	479
DEPRECIATION AND AMORTISATION	
At 1 January 2006, 31 December 2006 and 1 January 2007	–
Provided for the year	41
At 31 December 2007	41
NET BOOK VALUE	
At 31 December 2007	**438**
At 31 December 2006	**–**

The motor vehicle was held under a finance lease are referred to note 28.

15. DEVELOPMENT COSTS

	GROUP RMB'000
COST	
At 1 January 2006, 31 December 2006 and 31 December 2007	8,429
AMORTISATION AND IMPAIRMENT LOSS	
At 1 January 2006	1,689
Provided for the year	1,661
Impairment loss	4,589
At 31 December 2006 and 1 January 2007	7,939
Provided for the year	210
Impairment loss	280
At 31 December 2007	**8,429**
NET BOOK VALUE	
At 31 December 2007	**–**
At 31 December 2006	490

16. LAND USE RIGHTS

	GROUP	
	2007	2006
	RMB'000	RMB'000
COST		
At 1 January	**67,524**	–
Acquisition of a subsidiary *(note 33)*	**–**	67,524
At 31 December	**67,524**	67,524
AMORTISATION		
At 1 January	**–**	–
Provided for the year *(note 18)*	**2,124**	–
At 31 December	**2,124**	–
NET BOOK VALUE		
At 31 December	**65,400**	67,524
Classified as non-current assets	**63,654**	65,778
Classified as current assets	**1,746**	1,746
	65,400	67,524

The leasehold land is situated in Qingdao, PRC and held under a medium term lease of 40 years.

At 31 December 2007, the carrying value of land use rights are pledged as security for the Group's borrowings amounted to RMB30,000,000 as referred to in note 26.

17. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**56,598**	60,780
Due from subsidiary	**61,756**	66,349
Due to subsidiary	**(744)**	(799)
	117,610	126,330
Provision for impairment loss	**(37,975)**	(40,781)
	79,635	85,549

17. INVESTMENTS IN SUBSIDIARIES (Continued)

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

Decrease in investment cost and provision for impairment loss were the change in exchange rate at 31 December 2007.

Details of the Company's subsidiaries as at 31 December 2007 are as follows:

Name	Form of business structure	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered capital	Interest held directly	Interest held indirectly	Principal activities
Success Advantage Limited ("Success Advantage")	Limited liability company	British Virgin Islands	US$100	100%	–	Investment holding and trading of hardware and software products
Qingdao Zhongtian Information Technology Co., Ltd. ("Zhongtian Information") 青島中天信息技術有限公司	Wholly foreign-owned enterprise	PRC	RMB20,000,000 (note (a))	–	100%	Provision of system integration, applications and maintenance services and sale of hardware and software products
Qingdao Zhongtian Software Park Co., Ltd. 青島中天軟件園有限公司	Limited liability company	PRC	RMB10,000,000	–	100%	Property development and provision of software training services
Qingdao Zhongtian Enterprise Development Co., Ltd. ("Zhongtian Enterprise") 青島中天企業發展有限公司	Wholly foreign-owned enterprise	PRC	RMB70,000,000 (note (a))	–	100%	Provision of service related to consultancy and property development

Notes:

(a) Pursuant to the split of Zhongtian Information into two companies approved by the 青島市對外貿易經濟合作局 dated 6 December 2006, the registered capital in Zhongtian Information was decreased from RMB90,000,000 to RMB20,000,000 and Zhongtian Enterprise was newly incorporated with registered capital of RMB70,000,000.

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

18. PROPERTY HELD FOR DEVELOPMENT

	GROUP	
	2007	2006
	RMB'000	RMB'000
At 1 January	**1,762**	–
Acquisition of a subsidiary *(note 33)*	**–**	1,762
Construction costs to main constructor	**37,050**	–
Amortisation of land use rights	**2,124**	–
Other direct costs	**379**	–
	41,315	1,762

The property under development is located in Qingdao, PRC under a medium term lease as referred to note 16 to the financial statements.

19. INVENTORIES

	GROUP	
	2007	2006
	RMB'000	RMB'000
At cost:		
Raw material and parts	**–**	3,389

20. TRADE RECEIVABLES

(a) Ageing analysis

The Group normally grants a credit period of 90 to 180 days to its customers.

Ageing analysis of trade receivables as of the balance sheet date was as follows:

	GROUP	
	2007	2006
	RMB'000	RMB'000
Current to 90 days	**–**	4,544
91 to 180 days	**1,987**	1,683
181 to 365 days	**1,770**	2,561
More than 365 days	**2,591**	553
	6,348	9,341
Less: Allowance for doubtful debts	**(6,348)**	(4,674)
	–	4,667

20. TRADE RECEIVABLES (Continued)

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for doubtful debts during the year are as follows:

	GROUP	
	2007	2006
	RMB'000	RMB'000
At 1 January	**4,674**	704
Addition	**4,570**	4,674
Reversal	**(2,896)**	(704)
Net impairment recognised for the year	**1,674**	3,970
At 31 December	**6,348**	4,674

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	GROUP	
	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired		
Current to 90 days	**–**	2,270
91 to 180 days	**–**	1,653
181 to 365 days	**–**	461
Over 365 days	**–**	283
	–	4,667

Receivables that were neither past due or impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21. LOANS RECEIVABLE

	GROUP	
	2007	2006
	RMB'000	RMB'000
Loans receivable – interest-bearing at 4.5% per month	**–**	12,000
Less: Provision for impairment	**–**	–
At 31 December	**–**	12,000
Loans receivable – interest-free and overdue	**11,469**	18,869
Less: Provision for impairment	**(11,469)**	–
At 31 December	**–**	18,869
Total	**–**	30,869

The loans are advanced to certain independent third parties, which are unsecured and repayable within a year. There are no collaterals held for these loans receivable. At 31 December 2007, the loans are receivable from 青島易貝科技有限公司 and 青島銀通科技開發有限公司. Legal actions were taken by the Group to receive the two loans during the year.

Impairment of loans receivable

At 31 December 2007, the two borrowers were under the process of liquidation, full provision on impairment was made.

Impairment losses in respect of loans receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against loans receivable directly.

The movements in the allowance for doubtful debts during the year are as follows:

	GROUP	
	2007	2006
	RMB'000	RMB'000
At 1 January	**–**	–
Impairment loss recognised for the year	**11,469**	–
At 31 December	**11,469**	–

22. SECURITIES HELD FOR TRADING

	GROUP	
	2007	2006
	RMB'000	RMB'000
At fair value:		
Investment fund outside Hong Kong	**500**	–
Listed securities outside Hong Kong	**5,680**	–
	6,180	–
Market value of listed securities	**5,680**	–

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits	**–**	200	**–**	–
Prepayments	**830**	873	**–**	181
Other receivables	**7,679**	7,410	**1**	–
Value-added tax refundable	**962**	585	**–**	–
	9,471	9,068	**1**	181
Less: Allowance for doubtful debts	**(6,633)**	(5,813)	**–**	–
	2,838	3,255	**1**	181

The financial assets in the above balances related to receivables for which there was no recent history of default.

Impairment of other receivables

Impairment losses in respect of other receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against loans receivable directly.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

The movements in the allowance for doubtful debts during the year are as follows:

	GROUP	
	2007	2006
	RMB'000	RMB'000
At 1 January	**5,813**	5,244
Impairment recognised for the year	**820**	569
At 31 December	**6,633**	5,813

24. AMOUNT DUE FROM A DIRECTOR

	GROUP	
	2007	2006
	RMB'000	RMB'000
Balance at 31 December	**–**	118
Maximum balance during the year	**118**	160

The amount due from a director of the Company, Chen Jun, is unsecured, interest free and repayable on demand.

25. CASH AND BANK BALANCES

	GROUP		COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**28,354**	29,173	**4,777**	8,515

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

	GROUP		COMPANY	
	2007	2006	**2007**	2006
Hong Kong Dollars	**4,835**	21,448	**4,739**	8,122
United States Dollars	**45**	50	**45**	44

The bank balances are deposited with creditworthy banks with high credit rating.

26. INTEREST-BEARING BANK BORROWINGS

	GROUP	
	2007	2006
	RMB'000	RMB'000
Bank loans repayable within one year:		
– Secured	**30,000**	–

The Group's interest-bearing bank borrowings bear interest at rate 8.217% (2006: Nil) per annum.

As at 31 December 2007, interest-bearing bank borrowings of RMB30,000,000 (2006: Nil) were secured on the Group's land use rights as referred to in note 16.

All of the Group's interest-bearing bank borrowings are denominated in Renminbi.

The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values.

The Group has the following undrawn borrowing facilities:

	2007	2006
	RMB'000	RMB'000
Fixed rate		
– expiring beyond one year	**120,000**	-

The facilities expiring beyond one year are granted by a bank to finance the property under development.

27. TRADE, BILLS AND OTHER PAYABLES

	GROUP		COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills payables	**656**	1,696	**–**	–
Other payables				
– Accruals	**531**	412	**529**	407
– Receipts in advance	**166**	762	**–**	–
– Deferred grant income *(note a)*	**1,068**	1,468	**–**	–
– Others	**1,014**	1,177	**–**	–
	2,779	3,819	–	–
	3,435	5,515	**529**	407

27. TRADE, BILLS AND OTHER PAYABLES (Continued)

Note:

(a) The amount represents subsidy from the Qingdao Municipal Science and Technology Commission Shinan Sub Bureau 青島市市南區科技局, Qingdao Municipal Science and Technology Commission 青島市科技局, Qingdao Shinan Software Park 青島市市南區軟件園 and South Qingdao Regional People's Government 青島市市南區人民政府 for the purpose of giving financial support to the Group's development activity under the period of grant.

The ageing analysis of the Group's trade, bills and other payables, based on payment due date, is as follows:

	GROUP		COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to 90 days	**1,747**	2,193	**–**	–
91 to 180 days	**659**	848	**529**	407
181 to 365 days	**241**	840	**–**	–
Over 365 days	**788**	1,634	**–**	–
	3,435	5,515	**529**	407

The carrying amounts of trade, bills and other payables approximate their fair values at the balance sheet date.

28. OBLIGATIONS UNDER FINANCE LEASES – GROUP AND COMPANY

Obligations under finance leases are analysed as follows:

	GROUP AND COMPANY	
	2007	2006
	RMB'000	RMB'000
Total minimum lease payments under financial leases:		
– not later than one year	**123**	–
– later than one year and not later than five years	**319**	–
– later than five years	**–**	–
	442	–
Less: Future finance charges	**(83)**	–
Present value of minimum obligations	**359**	–
Representing obligations under finance leases		
– current liabilities	**100**	–
– non-current liabilities	**259**	–
The present value of obligations under finance leases		
– not later than one year	**100**	–
– later than one year and not later than five years	**259**	–
– later than five years	**–**	–
	359	–
Less: Portion classified as current liabilities	**(100)**	–
Portion Classified as non-current liabillties	**259**	–

Obligations under finance lease was related to the leasing of motor vehicle.

For the year ended 31 December 2007, interest rates of obligations under finance leases approximately 6% (2006: Nil) per annum.

The carrying amounts of obligations under finance leases approximated their fair values as at balance sheet date.

29. AMOUNTS DUE TO DIRECTORS

The amounts due to directors represented director's emoluments payable, are unsecured, interest free and repayable on demand.

30. SHARE CAPITAL

	COMPANY			
	Number of shares		Share capital	
	2007	2006	**2007**	2006
			HK$'000	HK$'000
Ordinary shares of HK$0.10 each				
Authorized:				
At 1 January and 31 December	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and fully paid:				
At 1 January and 31 December	**400,000,000**	400,000,000	**40,000**	40,000
Equivalent to RMB'000			**42,428**	42,428

There were no movements in the issued share capital of the Company for both years.

31. RESERVES

GROUP

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

COMPANY

	Share premium RMB'000	Special reserve RMB'000 (note (a))	Translation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2006	47,253	64,098	(2,895)	–	(5,699)	102,757
Exchange differences on translation	–	–	(3,931)	–	–	(3,931)
Transfer *(note (b))*	–	(13,261)	–	–	13,261	–
Loss for the year	–	–	–	–	(44,342)	(44,342)
Dividend paid – 2005	–	–	–	–	(3,074)	(3,074)
At 31 December 2006 and 1 January 2007	47,253	50,837	(6,826)	–	(39,854)	51,410
Exchange differences on translation	–	–	(6,556)	–	–	(6,556)
Loss for the year	–	–	–	–	(11,612)	(11,612)
Recognition of equity compensation benefits	–	–	–	8,216	–	8,216
At 31 December 2007	47,253	50,837	(13,382)	8,216	(51,466)	41,458

Notes:

(a) The special reserve represented the difference between the nominal value of the shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying assets of the subsidiaries pursuant to the Group Reorganization on 6 January 2004.

(b) Subject to the Companies Law of the Cayman Islands and the Article of Association of the Company, the share premium and special reserve are distributable to the shareholders of the Company.

32. SHARE OPTION SCHEME

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

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

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

The following table shows the movement of the Company's share options during the years ended 31 December 2007.

Employees and consultants (see below)

Date of share options granted	Outstanding at the beginning of the year	Granted during the year	Exercise during the year	Outstanding at the end of the year	Subscription price	Exercise period
11 May 2007	–	40,000,000	–	40,000,000	HK$ 0.55	11 May 2007 – 10 May 2017

In assessing the theoretical aggregate value of the share options granted and fully accepted during the year, the Binomial option pricing model has been used. In current year, an amount of share option expense of RMB8,216,000 (2006: Nil) has been recognised.

32. SHARE OPTION SCHEME (Continued)

Share options granted and fully accepted during the year ended 31 December 2007:

Date of Grant:	11 May 2007
Vesting Period:	11 May 2007
Exercise Period:	11 May 2007 – 10 May 2017
Exercise Price:	HK$0.55 per share

	Grant date	Number of share options granted at 11/5/2007	Share options value at 11/5/2007 (note b) RMB	Number of share options at 31/12/2007
Grantees:				
Employees	11 May 2007	24,000,000	4,930,000	24,000,000
Consultants	11 May 2007	16,000,000	3,286,000	16,000,000
		40,000,000	8,216,000	40,000,000

Notes:

(a) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK$0.46.

(b) According to the Binomial model, the theoretical aggregate value of the options was estimated at RMB8,216,000 as at 11 May 2007 (when the options were granted) with the following variables and assumptions:

Risk Free Rate:	4.235%, being the approximate yield of Exchange Fund Bills & Notes issued by Hong Kong government for the time to maturity of the option as at the valuation date quoted by Hong Kong Monetary Authority
Expected Volatility:	41.83%, being the average annualised standard deviations of the continuously compounded rates of return on the share prices of two other comparable companies with similar business operations
Expected Life of the Options:	10 years from the date of granting

(c) The fair value of each option at the grant date was estimated to be approximately RMB0.205 each.

Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of ordinary shares available to be issued under the relevant share option scheme.

33. DISPOSAL OF A SUBSIDIARY

On 26 September 2007, the directors approved to dissolve its subsidiary, Qingdao Software Park Overseas Service Centre Co., Limited, the disregistration of which was approved by the 青島市工商行政管理局 on 2 January 2008. As the dissolution was commenced since 26 September 2007, the investment cost of this subsidiary was de-recognised in the consolidated financial statements for the year ended 31 December 2007. Qingdao Software Park Overseas Service Centre Co., Limited had no asset and liability upon dissolution.

	RMB'000
Minority interest	(1)
Loss on disposal	1

34. ACQUISITION OF A SUBSIDIARY

On 31 December 2006, the Group acquired 100 per cent of the issued share capital of Qingdao Zhongtian Software Park Co. Ltd. for consideration of approximately RMB39,942,000 as referred to note 38 below. This transaction has been accounted for by the purchase method of accounting. The fair value of the net assets acquired in the transaction are as follows:

	2006
	RMB'000
Property, plant and equipment	5
Land use rights	67,524
Construction in progress	1,762
Deposits, prepayment and other receivables	679
Cash and cash equivalents	125
Trade and other payables	(30,065)
Net assets acquired	40,030
Negative goodwill	(88)
Cash consideration	39,942
Net cash outflow arising on acquisition:	
Cash consideration paid	39,942
Cash and cash equivalents acquired	(125)
	39,817

If the acquisition had been completed on 1 January 2006, the Group's revenue for the year ended 31 December 2006 would have been RMB31,663,000, and its loss for the year ended 31 December 2006 would have been RMB16,171,000.

35. BANKING FACILITIES AND CHARGES OF ASSETS

At 31 December 2007, the Group had been given a credit facility by a bank of RMB150,000,000 (2006: Nil) of which, RMB30,000,000 (2006: Nil) was drawn down by a subsidiary, Zhongtian Information. The land use rights, as referred to note (16), have been pledged to secure the banking facilities granted to the Group.

36. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

(a) Capital commitments

At 31 December 2007, the Group had capital commitments not provided for in the financial statements as follows:

	GROUP	
	2007	2006
	RMB'000	RMB'000
Authorized but not contract for	**–**	10,871
Contracted but not provided for	**227,730**	2,480
	227,730	13,351

The Company has no capital commitments at the balance sheet date (2006: Nil).

(b) Operating lease commitments

	GROUP		COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Minimum lease payments paid under operating leases	**239**	173	**173**	–

At the balance sheet date, the Group had commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	GROUP		COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**424**	519	**91**	–
Two to five years	**–**	–	**–**	–
	424	519	**91**	–

Operating lease payments represent rentals payable by the Group and the Company for certain of its office premises.

37. RETIREMENT BENEFITS SCHEME

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

The total cost charged to income statement of approximately RMB331,000 (2006: RMB1,635,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

38. RELATED PARTY TRANSACTION

On 23 November 2006, sales and purchase agreement was entered into with Chen De Zhao and Wang Gui Ju, who are the parents of a director of the Company, Chen Jun, for the acquisition of all issued capital of Qingdao Zhongtian Software Park Company Limited, at a consideration of RMB70,000,000. The transaction was completed on 31 December 2006.

Details of this transaction are set out in the Company's circular dated 12 December 2006.

Financial Summary

	For the year ended 31 December				
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Results					
Turnover	109,395	114,956	103,303	23,466	**6,966**
Profit/(loss) from operations	54,319	34,871	10,296	(16,115)	**(32,994)**
Share of result of an associate	(598)	(52)	218	(81)	**–**
Finance costs	–	–	–	–	**(10)**
Profit/(loss) before income tax	53,721	34,819	10,514	(16,196)	**(33,004)**
Income tax	(7,550)	–	(1,100)	–	**–**
Profit/(loss) for the year	46,171	34,819	9,414	(16,196)	**(33,004)**
Attributable to:					
Equity holders of the Company	46,137	34,901	9,469	(16,192)	**(33,004)**
Minority interests	34	(82)	(55)	(4)	**–**
	46,171	34,819	9,414	(16,196)	**(33,004)**
Earnings/(loss) per share					
– Basic	16.76 Cents	11.21 Cents	2.37 Cents	(4.05 Cents)	**(8.25 Cents)**
– Diluted	N/A	10.67 Cents	N/A	N/A	**(N/A)**

	As at 31 December				
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Assets and liabilities					
Total assets	105,826	175,820	175,854	143,055	**145,840**
Total liabilities	(41,191)	(18,471)	(20,184)	(7,037)	**(35,321)**
	64,635	157,349	155,670	136,018	**110,519**
Equity attributable to equity holders of the Company	64,401	157,197	155,665	136,017	**110,519**
Minority interests	234	152	5	1	**–**
	64,635	157,349	155,670	136,018	**110,519**

The results for each of the two years ended 31 December 2003, which were extracted from the Company's prospectus dated 10 September 2004, have been prepared on a combined basis as if the Reorganization had been effective and the Group had been in existence throughout those years.